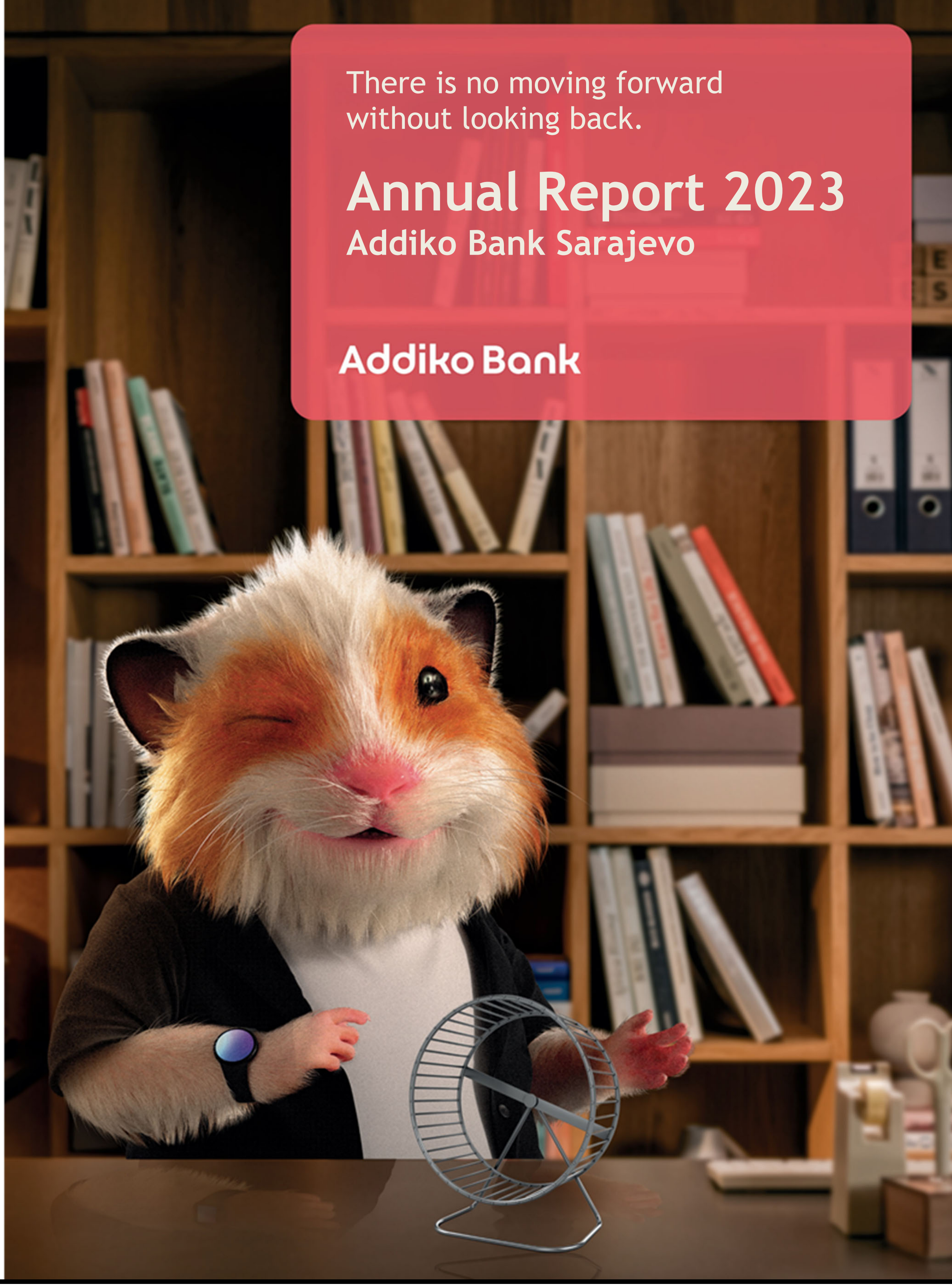
There is no moving forward
without looking back.

# Annual Report 2023
## Addiko Bank Sarajevo

Addiko Bank



This version of the Annual Report is translation from the original, which was prepared in the Bosnian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation, views or opinions, the original language version of the report takes precedence over this translation.

# Key data

| | | | In 000 BAM |
|---|---|---|---|
| **Selected items of the Profit or Loss statement** | **YE23** | **YE22** | **(%)** |
| Net banking income | 55,385 | 45,667 | 21.3% |
| Net interest income | 38,521 | 29,177 | 32.0% |
| Net fee and commission income | 16,864 | 16,490 | 2.3% |
| Net result on financial instruments | 122 | 144 | -15.3% |
| Other operating result | -313 | -1,825 | -82.8% |
| Operating expenses | -31,355 | -30,546 | -2.6% |
| **Operating result before impairments and provisions** | **23,839** | **13,440** | **77.4%** |
| Other result | -1,134 | 321 | <100% |
| Credit loss expenses on financial assets | -4,649 | 1,572 | <100% |
| Tax on income | -1,387 | -956 | -45.1% |
| **Result after tax** | **16,669** | **14,377** | **15.9%** |
| | | | |
| **Performance ratios** | **YE23** | **YE22** | **(pts)** |
| **annualised** | | | |
| Net interest income/total average assets | 3.6% | 3.0% | 0.6 |
| Return on average tangible equity | 9.5% | 7.9% | 1.6 |
| Cost/income ratio | 55.2% | 66.8% | -11.6 |
| Cost of risk ratio | 0.5% | 0.2% | 0.3 |
| Cost of risk ratio (net loans) | -0.8% | 0.3% | -1.1 |
| Earnings/loss per share (in BAM) | 31.30 | 27.00 | 4.3 |
| | | | |
| **Selected items of the Statement of financial position** | **Dec23** | **Dec22** | **(%)** |
| Loans and advances to customers | 544,586 | 504,770 | 7.9% |
| o/w gross performing loans | 556,839 | 514,732 | 8.2% |
| Deposits of customers | 896,136 | 808,982 | 10.8% |
| Equity | 186,766 | 173,936 | 7.4% |
| Total assets | 1,118,164 | 1,019,162 | 9.7% |
| Risk-weighted assets | 703,137 | 662,837 | 6.1% |
| | | | |
| **Balance sheet ratios** | **Dec23** | **Dec22** | **(pts)** |
| Loan to deposit ratio | 59.78% | 73,18% | 13.40 |
| NPE ratio | 3.2% | 5,4% | -2.2 |
| NPE Ratio (on balance loans) | 3.2% | 5,5% | -2.3 |
| NPE coverage ratio | 88.4% | 90,7% | -2.3 |
| Liquidity coverage ratio | 403.47% | 265,43% | 138,04 |
| Common equity tier 1 ratio | 22.81% | 22,75% | 0.06 |
| Total capital ratio | 22.81% | 22,75% | 0.02 |

# Letter from the CEO

Ladies and gentlemen, respected clients, valued shareholders and partners, dear colleagues!

The business year 2023 was a successful year for Addiko Bank dd Sarajevo. Growth has been recorded in all segments, including continuous increase in number of clients, sustainable income generation and effective cost management.

The Bank maintains a strong capital position accompanied by high liquidity indicators and sufficient potential for lending. In Retail segment throughout the year, the Bank has strengthened its market position, establishing itself as the best choice for consumer financing through innovative services that prioritize simplicity and speed.

In Corporate, with a special focus on SME clients, the Bank has implemented substantial enhancements through providing financial assistance to clients and leveraging advanced digital solutions that streamline the loan process, ensuring quick turnaround times.

The bank aligned policies and procedures, implementing them with modern professional standards and managing all forms of risk at all times. Consequently, the proportion of non-performing loans is consistently maintained at historically low level.

Innovations and the introduction of new digital services continued throughout 2023. The efforts put forth were also acknowledged by the market, as evidenced by the Bank being honored with the "Golden BAM" award for the best quality in digitizing banking service.

Through its ESG strategy, Addiko Bank Sarajevo undertook a series of activities to positively influence the sustainability of the community in which it operates. Along with all these activities, commitment to our employees is indispensable. We prioritize creating a positive and modern work environment that fosters employee growth and development, in line with our key strategic objectives.

We would especially like to thank the dedication of our employees, the unwavering support trust of our shareholders, business partners and our clients, who made 2023 a successful year for Addiko Bank Sarajevo.

Yours sincerely,

Jasmin Spahić
President of the Management Board

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SARAJEVO

# Annual Report 2023



### Financial statements are the integral part of annual report

# Addiko Bank Sarajevo Board


From left to right side: Mario Ivanković, Board member; Jasmin Spahić, CEO; Enver Lemeš, Board member

# Management Report

## 1. Overview of Addiko Bank

Addiko Bank Sarajevo ("the Bank"), member of Addiko Group, is a Consumer and small and medium-sized enterprises (SME) specialist bank in Bosnia and Herzegovina. Addiko Group consists of Addiko Bank AG, the listed fully-licensed Austrian parent bank registered in Vienna, Austria, and regulated by the Austrian Financial Markets Authority and by the European Central Bank, as well as six subsidiary banks, registered, licensed and operating in five CSEE countries: Croatia, Slovenia, Bosnia & Herzegovina (where it operates via two banks), Serbia and Montenegro. The Bank services as of 31 December 2023 approximately 124 thousand customers, using a well-dispersed network of 28 branches and modern digital banking channels.

Based on its strategy, Addiko Bank strives to position itself as a modern and digitally advanced organization that offers new user experiences to its clients through simple solutions. In the retail segment, in addition to traditional sales channels, the Bank is focused on the development of new consumer lending programs in cooperation with selected partners. The bank places an equal focus on the development of corporate banking, especially in the segment of SME clients.

Addiko Bank delivers a modern customer experience in line with its strategy. Banking products and services have been standardized, especially in the Consumer and the SME segment, to improve efficiency, manage risks and maintain asset quality.

Addiko Bank AG became a listed company on the Vienna Stock Exchange in 2019. Around 57% of the bank's shares are in free float, the rest of the shareholder base is well diversified with a broad geographic spread and different investment strategies. The institutional investors are primarily from Western Europe and North America.

On December 18, 2023, Fitch upgraded the rating of Addiko Bank AG to BB with a stable outlook.

Addiko Group's Investor relations website [https://www.addiko.com/investor-relations/](https://www.addiko.com/investor-relations/) contains further information.

## 2. Business updates

### 2.1. Marketing activities in 2023

In 2023, Marketing played a key role, not only in the acquisition of new clients, but also in strengthening the image and brand awareness of Addiko Bank, as a bank specializing in quick loans, available to clients anytime and anywhere.

Considering the importance of online presence, our communication strategy incorporated ongoing digital advertising across various digital platforms.

Throughout the marketing campaigns of 2023, Addiko Bank delivered transparent and concise information about its products across all media channels
The "I don't have time!" image campaign creatively and humorously reinforced Addiko Bank's reputation as a provider of swift and straightforward solutions.
Through our cash loan marketing campaigns, we empowered clients to secure a loan in amount of 50.000 KM in just 50 minutes, with the assurance that if there was a delay in response, we would refund the first installment of the loan.

Other products and services in the focus of communication:

- Addiko shopping weekend - discounts of up to 20% on purchases with any Addiko Mastercard card every Saturday and Sunday in partner stores;
- Peugeot financing – partnership with Blok Sarajevo and AC Grand Auto Tuzla for the purchase of new Peugeot vehicles;

- New functionalities in the Addiko Mobile application for individual persons: mTransfer (transfer of money via the phone book), Top-up (Top-up of prepaid accounts in cooperation with the BH Telecom operator) and mQR pay (Payment by phone in Bingo stores);
- Addiko Business Mobile application for legal entities;
- eTranches and eGuarantees in the electronic banking application for legal entities;

Focused on a high level of client satisfaction, as one of Addiko Bank's business priorities, we strived to create new, innovative solutions that will result in the highest possible level of satisfaction.

# 3. Corporate Governance

## 3.1. Statement on the application of the corporate governance code

In accordance with the Law on Companies, the Law on Banks of FBiH, and licenses from the Banking Agency of FBiH from 17.01.2000., the Bank has acquired the status of a legal entity and is authorized to perform banking activities in accordance with the Banking Law. The basic principles of the Bank's work are determined by the Articles of Association and the Founding act. The basic concept of corporate governance is established by the Law on Banks, which the Bank implements and whose implementation is supervised by the FBiH Banking Agency.

In accordance with the Law on Banks and the Law on Companies, the corporate bodies of the Bank are the Assembly, the Supervisory Board and the Management Board.
Internal reporting is used by the Bank's Supervisory Board and management as a means of monitoring the Bank's operations as a whole, and employees use the information they receive from internal reports to perform their work duties.
We believe that the Bank has a corporate structure that is transparent and organized so as to promote and demonstrate effective management of the Bank. We also believe that the organizational structure of the Bank is clear and transparent for the Bank's employees as well as for the relevant competent authorities.

Corporate governance is established in the following ways:

- In all segments of corporate governance, the legal framework of the FBiH and good business practices, regulations and guidelines of the FBiH Banking Agency are respected;
- Within this framework, principles are set that are flexible and give space to the Supervisory Board and the Management Board of the Bank to manage the Bank and achieve the set goals, as well as to report it to the Assembly;
- That all mutual relations of interested parties in the functioning of the Bank are clearly differentiated, that there are no overlaps or gaps in responsibilities and competencies, and that a balance of responsibilities and obligations, ie rights and competencies, is established between all interested parties;
- To set the relations between all interested parties in such a way that the common interest prevails in all of them, ie the interest of the Bank in relation to their individual interests;
- To fully, efficiently and effectively perform all functions of management and governance of the Bank, ie to manage the Bank in a way that leads to the achievement of set goals and objectives.
- The above regulations have been implemented in the application of corporate governance rules, as well as other internal acts of the Bank, and there are no deviations in their application.

## 3.2. Rules for the appointment of the Bank's management and supervisory bodies

The directly applicable provisions of the Law on Banks regulate the manner of election of members of the Supervisory Board and Management Board of the Bank, as well as the conditions they must meet to obtain the consent of the FBiH Banking Agency, which are prerequisites for appointment.

The Law on Banks stipulates that the bank's supervisory board consists of at least five members and thereof two of them must be independent members.
Only a person who has obtained prior approval from the Agency to perform the function of asupervisory board member may be appointed to the bank's supervisory board.
Such a person may be a member of the supervisory board who meets the following requirements at all times: a) they shall have a good reputation; b) they shall have relevant professional qualifications, abilities and experience required for the discharge of duties falling within their competence; c) they shall not be in a conflict of interest in respect of the bank, shareholders, members of the supervisory board, holders of critical functions and the bank's management,

and other stakeholders (creditors, depositors, governments, etc.) as well; d) they shall be willing and able to devote sufficient time to the performance of the duties and responsibilities falling within the purview of the supervisory board; and e) they may be a member of the supervisory board under the regulation on the Companies law.

At least one member of the supervisory board shall be fluent in one of the languages in official use in BiH and have permanent residence in the territory of BiH. The members of the bank's supervisory board as a whole shall possess necessary professional knowledge, abilities and experience for independent and autonomous supervising of the bank's operations and performance of the bank's management, and at least half of the candidates for supervisory board members shall have the required knowledge and experience in the fields necessary for successful operation of a bank (work experience in the banking industry, financial organisations, etc.).
A member of the supervisory board may not be an employee or a procurator of that bank, or any other bank in BiH. A member of the supervisory board may not be an elected official on state, entity, cantonal, or municipal levels. An individual or authorised representative of a legal person may not be the chairperson or a member of the supervisory board in several banks at the same time unless such individual or legal person holds more than 50 percent of shares in each of the banks. The same person may not serve as chairperson or member of the supervisory board in more than two banks in BiH. A person serving on supervisory boards or management in more than five business companies may not be a member of the supervisory board.

The Agency shall revoke a decision granting approval to perform the function of a member of the bank's supervisory board if: a) the supervisory board member has obtained the approval based on the provision of false or inaccurate documentation or inaccurately presented information that is essential for the performance of the function of the supervisory board member; b) the supervisory board member no longer fulfils the requirements for membership in the bank's supervisory board referred to in Article 48 of the Law; c) the supervisory board member violates the duties and responsibilities of the supervisory board referred to in Articles 55 and 56 of the Law; d) a candidate who has obtained the approval of the Agency, within six months from the issue of the approval does not take up the position to which the approval relates to; e) the Agency appoints an external or special administrator; f) the supervisory board member becomes an employee of the bank during his term of office. Revocation of the Agency's approval means termination of the function as member of the supervisory board.

The management of a bank shall comprise of the president and members of management. At least one member of the bank's management shall fluent in one of the languages in official use in BiH and have permanent residence in the territory of BiH. Such a person may only be appointed as president ie a member of management of a bank who has obtained prior approval of the Agency to perform the function of a bank's president ie member of the management board.

Such a person may be a member of the bank's management who meets the following requirements at all times: a) they shall have a good reputation; b) they shall have a university degree - qualification level VII, i.e., higher education of the 1st cycle (worth 240 ECTS credits) or education of the 2nd or 3rd cycle of the Bologna Framework; c) they shall have the required educational level and profile, as well as training and relevant practical experience necessary to run the bank's business; d) they shall not be in a conflict of interest in respect of the bank, the bank's shareholders, supervisory board members, holders of critical functions and management; e) they shall have track record on the basis of which it may be reasonably concluded that they shall perform the tasks of a member of the bank's management honestly and with due diligence; f) they shall also meet other requirements for a management member under the provisions of the legislation on business companies.

Such a person may not be a bank's management member who: a) is a member of the supervisory board of another bank in BiH, unless that bank is a related person of the bank in which they are a member of the management in accordance with Article 49, paragraph (3) of the Banking Law, b) is a person that may not be a member of the bank's management under the provisions of other laws; c) has been convicted of a criminal offence to unconditional imprisonment or been convicted of a crime that makes him unsuitable to perform this function d) who serves or has served as the Agency's director or deputy director for the past two years; e) has been subject to a measure involving a ban on their performance of profession, activities, duties, as well as been issued three times with a warning pursuant to Article 155 of the Banking Law, within the past four years.

The Agency shall revoke a decision granting approval to perform the function of a chairman or a member of the bank's management board if: a) if the management board chairman or member no longer fulfils the requirements for membership in the bank's management board defined in the Law, Decision on the internal governance system in banksand the Decision on Suitability Assessment of the Bank's Managing Bodies; b) if the third reminder has been issued to the

Chairman or a member of the bank's management board over the past four years; c) if the Agency appoints an external or special administrator, or initiates a bank liquidation procedure.
The decision granting previous approval for appointment of the chairman or member of the bank's management board shall be terminated if: a) the appointment or entry into office has not been made within six months since the date of the previous approval of appointment of the chairman or a member of the management board; b) the employment agreement with the chairman or the member of the management board expired on the very expiration date of the agreement.

According to the article 45 of the Banking law, Assembly decides on The formation of the bank's core capital by way of issuing shares or increasing ordinary shares, and issuance or increasing of preference shares and decide on an issue, withdrawal or cancelation of shares and other transactions with securities, in accordance with law and the bank's statute; any capital increase or decrease, and/or investment of capital in another bank or other legal persons.

A bank may not hold, directly or indirectly, without prior written approval of the Agency: a) significant ownership interest in a legal person, or indirectly in a subsidiary of that legal person, which exceeds 5 percent of the regulatory capital of the bank or b) the total net value of all ownership holdings of the bank in other legal persons and in subsidiaries of those legal persons in excess of 20 percent of the bank's regulatory capital. A bank may not, directly or indirectly, have an ownership holding in a legal person that exceeds 15 percent of its regulatory capital, while an ownership holding in a non- financial sector person may not exceed 10 percent of its regulatory capital, nor may an ownership holding exceed 49 percent of ownership of non-financial sector legal person. The total participation of a bank in a non-financial sector person may not be higher than 25 percent of the bank's eligible capital, and the total participation of a bank in persons in the financial sector may not exceed 50 percent of its eligible capital.

Where a bank has a qualifying participation in another legal person, that legal person may not acquire a qualifying participation in that bank. Where a legal person has a qualifying participation in a bank, that bank may not acquire a qualifying participation in that legal person.

A bank may not acquire own shares without prior approval of the Agency. Any acquisition of own shares without prior approval of the Agency shall be considered null and void. A bank shall sell the acquired own shares within a period of one year from the date of their acquisition.

For information on financial instruments, see Chapter V. Financial statements with notes below.

### 3.3. The Board and Supervisory board changes

Selma Omić, left position of member of Management board on February 28th 2023. Enver Lemeš was appointed as a new member of the Management Board, with the beginning date on March 1, 2023.

The mandate of members of the Supervisory Board has been extended as of 31st of December 2023 for the next four years.

### 3.4. Branches

At year end 2023 Addiko Bank operated a total of 28 branches. This physical distribution is continuously reviewed to enable the delivery of Addiko Bank's Consumer and SME focused strategy, in the context of the increasing customers' preference for digital channels.

## 4. Addiko's ESG framework

Addiko Bank endorses the growing importance and relevance of environmental, social and governance ("ESG") issues, specifically that of climate change to its business and operating environment. Therefore, Addiko Bank started its path on sustainability in 2021, till when it conducted for the first time a detailed ESG assessment on Group level. In 2022, a formal ESG working group was established on Group level, with representatives from risk, governance and compliance streams, with the aim to implement ESG reporting requirements and steer the process of sustainable development within Addiko Bank.

Addiko Bank's ESG framework consists of 4 strategic pillars:

### 4.1. ESG Strategy

As a major milestone on its path to sustainability, Addiko Bank formulated an ESG strategy, which was developed during the reporting period and approved by of the Supervisory Board during 2023. This ESG strategy is closely linked to Addiko Group's business and risk strategy, seeking to provide an organized approach to ESG and sustainability. The ESG strategy provides support for the inclusion of ESG considerations in management processes, credit approval, risk management, financing decisions and reporting within the Group and the Bank. Furthermore, it
also determines which C&E risks may affect the business strategy and how these risks will be reflected in the implementation of the strategy.
As part of the ESG strategy, Addiko Bank also defines specific sustainable development goals and commits to meeting these goals through the implementation of initiatives that promote ESG awareness.

### 4.2. ESG Governance

In addition, a strong corporate governance framework is in place to ensure that strategic objectives are holistically promoted across the institution. A special ESG working group was established at the level of the Bank with the aim of integrating ESG into the business lines and key processes of Addiko Bank and regularly monitoring ESG risk management efforts.

### 4.3. ESG Risk Management and Compliance

Another important element of the ESG framework is the integration of ESG into the risk management and compliance framework. From a risk management perspective, Addiko continues to identify ESG risk factors (primarily climate and environmental risks), assessing their materiality and incorporating them into existing risk types.
From a compliance perspective, the dynamic development of regulatory requirements on ESG standards is duly monitored to ensure that all mandatory ESG-related disclosure requirements are met.

### 4.4. ESG Assessment and reporting

ESG Assessment and Reporting ensures that ESG risk that may affect Addiko Bank is regularly assessed and that ESG reporting requirements are met.

Currently, Addiko Bank publishes non-financial information at the Group level, in accordance with the Non-Financial Reporting Directive and fulfills the requirements for the publication of the green asset ratio as prescribed by the EU Taxonomy Regulation.

## 5. Briefly about the profit structure

In 2023, Addiko Bank reported a stable operating result before impairment and provisions of 23,839 thousand BAM compared to 13,440 thousand BAM in the same period last year, which shows the strength and resilience of its sustainable business model. The result after taxation of 16,669 thousand BAM represents almost the same achievement as last year (2022: 14,377 thousand BAM).

The loan portfolio in the focus segments is stable, with households and small and medium-sized enterprises representing 94.18% of the portfolio of "good loans" (2022: 92.5%). Addiko has improved its customer relations by intensifying daily customer contacts and ensuring quick reactions to maintain a high quality portfolio with a very limited number of "bad loans".

The NPE ratio 3.22% according EBA definition (in 2022 5.46%) as well as NPE coverage ratio 88.40% reflect the effectiveness of the established underwriting policies, the tight monitoring of risk as well as the successful collection of receivables.

# 6. Financial development of the Bank

## 6.1. Detailed analysis of the reported result

(000 BAM)

| | 01.01. - 31.12.2023 | 01.01. - 31.12.2022 | (abs) | (%) |
|---|---|---|---|---|
| Net banking income | 55,385 | 45,667 | 9,718 | 21.3% |
| Net interest income | 38,521 | 29,177 | 9,344 | 32.0% |
| Net fee and commission income | 16,864 | 16,490 | 374 | 2.3% |
| Net result on financial instruments | 122 | 144 | -22 | -15.3% |
| Other operating result | -313 | -1,825 | 1,512 | 82.8% |
| **Operating income** | **55,194** | **43,986** | **11,208** | **25.5%** |
| **General administrative expenses** | **-31,355** | **-30,546** | **-809** | **-2.6%** |
| **Operating result before impairments and provisions** | **23,839** | **13,440** | **10,399** | **77.4%** |
| Other result | -1,134 | 321 | -1,455 | <100.0% |
| Expected credit loss expenses on financial assets | -4,649 | 1,572 | -6,221 | <100.0% |
| **Result before tax** | **18,056** | **15,333** | **2,723** | **17.8%** |
| Tax on income | -1,387 | **-956** | -431 | -45.1% |
| **Result after tax** | **16,669** | **14,377** | **2,292** | **15.9%** |

**Net banking income** improved by 9,718 thousand KM to 55,385 thousand KM at year end 2023.

**Net interest income** increased significantly, from 29,177 thousand KM in 2022, by 9,344 thousand KM, or 32% to 38,521 thousand KM in 2023. Main generator of mentioned increase is due to the increase in interest income by 9,595 thousand KM from 31,571 thousand KM in 2022 to 41,165 thousand KM in 2023 is the result of much better placements compared to last year, due to more intense credit activities, attracting new customers, maintaining stable customer base and achieving higher income in Treasury business. Additionally, interest expense has remained similar to the previous year, as a result of maintaining stable deposit base as well.

**The net interest margin** consequently increased to 364bp in 2023, compared to 299bp in 2022.

**Net income from fees and commission** increased to the amount of 16,864 thousand KM (2022: 16,490 thousand KM) as a result of a net increase in income from fees and commissions from 21,419 thousand KM to 22,689 thousand KM, and expenses from fees and commission from -4,929 thousand KM in 2022 to -5,825 thousand KM. The increase in net income from fees and commissions reflected the acceleration of economic activity in post-pandemic period, an increase in credit activity, arrival of tourists, travel and money exchange and an increase in the volume of transactions, but influenced also by VAT on card business in 2023.

**Net result on financial instruments** amounted to 122 thousand KM in 2023, resulting from FX and related trading activities, compared to 144 thousand KM in 2022.

No income from the disposal of debt instruments measured at FVTOCI was recorded, in line with the new treasury strategy implemented in 2022 to invest excess liquidity in long-term and high-quality government bonds with the intention of holding them until maturity for the purpose of yield enhancement.

**Other operating result** which is the sum of other operating income and other operating expense decreased from -1,825 thousand KM in 2022, by 1,512 thousand KM, to -313 thousand KM in 2023. This position includes the following significant items:

- Deposit guarantee expenses of BAM -1,978 thousand (YE22: BAM -1,753 thousand).
- Bank levies at BAM 698 thousand (YE22: BAM 638 thousand).
- Gains from the sale of non-financial assets resulting from the disposal of investment property increased to BAM 1,340 thousand (YE22: BAM 9,3 thousand).

**General administrative expenses** increased from BAM 30,546 thousand BAM at YE22 to BAM 31,355 at YE23:

- Personnel expenses decreased by BAM 252 thousand to BAM 14,923 thousand.
- Other administrative costs increased by 450 thousand BAM to 13,392 thousand BAM due to inflation-related adjustments to the cost base.
- Depreciation and amortization increased by BAM 106 thousand to BAM -3,040 thousand at YE23.

**The other result** BAM -1,134 thousand (YE22: BAM 321 thousand) was mainly impacted by VAT audit in 2023, which focussed on the treatment of card transactions and all related services provided by VISA/MasterCard/American Express. Since the Law on VAT in Bosnia & Herzegovina was passed in 2006, the common understanding was that card business transactions were to be treated as financial services and were therefore exempt from VAT charges (a stance which had also been accepted by the local tax authority). As a result of the latest audits, the tax authority has adopted a different stance, claiming that such services are now subject to VAT. Addiko, among other banks, initiated a legal dispute against the tax authority.

**Expected credit loss expenses on financial assets** totaled BAM -4,649 thousand at year end 2023, an increase of BAM -6,221 thousand compared to YE22 (BAM 1,572). The entry of a certain number of clients into STAGE 3 and the application of the internal methodology for the calculation of provisions which means the implementation of models in the calculation of provisions, as well as the application of regulatory temporary measures (decisions on temporary measures to limit the growth of interest rates with application on November of 30th 2023) affected the additional booking of provisions at the end of 2023.

**Taxes on income** increased to BAM -1,387 thousand compared to BAM -956 thousand at YE22. The development mainly reflects the higher Result before tax in YE23 compared to YE22.

## 6.2. Detailed analysis of the statement of financial position

| | 31.12.2023 | 31.12.2022 | (abs) | (%) |
|---|---|---|---|---|
| Cash and cash equivalents | 321,149 | 265,443 | 55,706 | 21.0% |
| Loans and advances | 545,654 | 504,798 | 40,856 | 8.1% |
| Loans and advances to credit institutions | 1,068 | 28 | 1,040 | >100% |
| Loans and advances to customers | 544,586 | 504,770 | 39,816 | 7.9% |
| Investment securities | 220,861 | 213,715 | 7,146 | 3.3% |
| Tangible assets | 17,066 | 18,346 | -1,280 | -7.0% |
| Intangible assets | 5,407 | 5,628 | -221 | -3.9% |
| Tax assets | 4,427 | 6,938 | -2,511 | -36.2% |
| Current tax assets | 102 | 1,418 | -1,316 | -92.8% |
| Deferred tax assets | 4,325 | 5,520 | -1,195 | -21.6% |
| Other assets | 1,415 | 1,888 | -473 | -25.1% |
| Non-current assets held for sale | 2,185 | 2,406 | -221 | -9.2% |
| **Total assets** | **1,118,164** | **1,019,162** | **99,002** | **9.7%** |

The statement of financial position of Addiko Bank continues to evidence a simple and solid interest-bearing asset structure: 49.9% of the assets are represented by customer loans, predominantly concentrated in the focus area. In addition, a substantial part of the residual assets consisted of cash reserves and high rated debt securities.

**Cash and cash equivalents** increased to BAM 321,149 thousand at year end 2023 (YE22: BAM 265,443 thousand). This reflects the strong liquidity position of the Bank.

**Loans and advances to credit institutions** (net) increased by BAM 1,040 thousand to BAM 1,068 thousand (YE22: BAM 28 thousand).

**Loans and advances** to customers (net) increased by BAM 39,816 to BAM 544,586 thousand (YE22: BAM 504,770 thousand BAM). The change was mainly in living loans in both focus and non-focus area. The living loans in non-focus segments (Mortgage Business and Large Corporate and Public Finance) decreasing from BAM 37,692 thousand at year end 2022 to BAM 31,442 thousand at YE 2023. The focus segments Consumer and SME living loans increased to BAM 510,388 thousand BAM (YE22: BAM 462,778 thousand).

The **investment securities** increased from BAM 213,715 thousand at YE22 to BAM 220,861 thousand at YE23. The investments are predominantly in high-rated and investment grade government bonds. All investments are standard investments without any embedded options or other structured features In line with the new treasury strategy implemented during 2Q22, change in the all new investments in debt securities were classified as follows:

• new long-term investments in government bonds were classified under the "held to collect (HTC)" business model, with the aim of holding financial assets in order to collect contracted cash flows,

• other investments in securities for the purpose of managing short-term liquidity were classified in the "held to collect and sale (eng. HTCS)" business model, the aim of which is to hold financial assets for the purpose of collecting contracted cash flows and selling.

**Tax assets** decreased to BAM 4,427 thousand (YE22: BAM 6,938 thousand). The decrease principally reflects the deferred tax assets recognised on the back of the fair value development of investment securities measured at fair value through other comprehensive income (FVTOCI).

**Other assets** decreased to BAM 1,415 thousand (YE22: BAM 1,888 thousand). This position includes prepaid expenses and accruals as well as other receivables. The change was caused by the sale of repossessed assets during the reporting period.

(000) BAM

| | 31.12.2023 | 31.12.2022 | (abs) | (%) |
|---|---|---|---|---|
| Financial liabilities measured at amortised cost | 916,475 | 828,479 | 87,996 | 10.6% |
| Deposits of credit institutions | 7,410 | 10,765 | -3,355 | -31.2% |
| Deposits of customers | 896,136 | 808,982 | 87,154 | 10.8% |
| Borrowings from banks | 2,934 | 0 | 2,934 | 100% |
| Other financial liabilities | 9,995 | 8,732 | 1,263 | 14.5% |
| Provisions | 7,598 | 8,752 | -1,154 | -13.2% |
| Other liabilities | 7,325 | 7,995 | -670 | -8.4% |
| Equity | 186,766 | 173,936 | 12,830 | 7.4% |
| **Total equity and liabilities** | **1,118,164** | 1,019,162 | **99,002** | **9.7%** |

On the liabilities' side, **financial liabilities measured at amortized cost** increased to BAM 916,475 thousand compared to BAM 828,479 thousand at year end 2022:

- Deposits of credit institutions decreased from BAM 10,765 thousand at YE22 to BAM 7,410 thousand as of YE23.
- Deposits of customers increased to BAM 896,136 thousand (YE22: BAM 808,982 thousand). The solid funding profile is one of the strengths of the Bank, which drives low dependence on market funding. Around 25% of the deposits are term deposits, mainly Euro denominated, followed by Bosnia-Herzegovina Convertible Mark (BAM).
- Borrowings from banks increased to BAM 2,934 thousand (YE22: BAM 0) representing credit line.
- Other financial liabilities increased from BAM 8,732 thousand at YE22 to BAM 9,995thousand at YE23.

**Provisions** decreased from BAM 8,752 thousand at YE22 to BAM 7,598 thousand at YE23. The development was primarily influenced by off - court settlement for legal cases. Obligations for variable performance – based payments are now presented under the line item "Other liabilities". The comparative figures of the previous period have been amended accordingly.

**Other liabilities** decreased from BAM 7,995 thousand at YE22 to BAM 7,325 thousand in YE23 and mainly include accruals for services received but not yet invoiced (YE23: BAM 1,557 thousand, YE22: BAM 2,086 thousand) as well as liabilities for salaries and salary compensations not yet paid, including obligations for variable performance – based payments.

**Equity** rose from BAM 173,936 thousand to 186,766 thousand driven by the year end result as well as the positive development in the other comprehensive income (BAM: 10,538 thousand) which mainly reflects the recovery of market values and the related fair value measurement of debt instruments measured at FVTOCI.

### 6.3. Capital and liquidity requirement

The Overall Capital Requirement (OCR) was 15.50% for the Bank, consisting of:
- 14.5% TSCR (12.0% capital requirement and 2.5% protective layer). In addition to the capital requirement, the SREP for 2023 is set at 1.0% and should be comprised entirely of CET1 capital. The regulator therefore expects Bank to maintain a CET1 ratio of 10.25%.

The **capital base** of the Bank is solely made up of CET1 at 22.81% (YE22: 22.75%) well above the Overall Capital Requirements of 15.5% and is based on the currently valid Banking Agency decision.
In addition, Bank's regulatory capital ratios were reflecting the increase in RWAs, which was driven by the increase in credit risk (BAM 28,255 thousand) and by the increase in market risk (BAM 9,916 thousand).

Addiko’s leverage ratio is sound at 13.5 % at the end of 2023 (YE22: 13.8%).

The **liquidity position** of the Bank remains strong, with LCR ratio of 400,28% (YE22: 265,43%) and LTD ratio of 59.8% (YE22: 73.2%), thus meeting the liquidity indicators high above the regulatory requirements.

### 6.4. Segment Reporting

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

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

**Business Segmentation**
The segment reporting presents the results of the operating business segments of Addiko Bank, prepared on the basis of the internal reports used by Management to assess performance of the segments and used as a source for decision making. The business segmentation is subdivided into high value adding Consumer and SME Business, which are the focus segments and into non-focus segments, which are Large Corporates, Public Finance and Mortgages.

**Consumer strategy**
Addiko Bank’s strategy is to offer modern banking, focusing on products for the essential needs of customers unsecured loans and payments, delivered efficiently and communicated in a simple and transparent manner. The Consumer segment focuses on unsecured lending, followed by account packages and deposit products, regular transactions and cards. Addiko also dedicates substantial efforts to continuously improve its digital capabilities and is recognized in its markets as a digital challenger with digital products and services such as Webloans, mLoans and online account opening capabilities and doing its business through the network of 28 branches.

**SME Finance Strategy**
SME business is a main strategic focus segment of Addiko Bank serving its products to around 3 thousand clients within this segment, in which the Bank is targeting the “real economy” with working capital loans, investment loans and a strong focus on trade finance products. Addiko's strategy in SME business is to achieve primary bank status by providing services based on convenience, developing flexible solutions and products which are digitalized and the related competitive advantage. Addiko Bank constantly builds up digital platform to cater to the needs of modern Small and Medium-sized customers by providing primarily simple loan financing with market leader delivery times. With it, Addiko Bank also plans to continue to digitally

serve the untapped potential of standard and small legal entities and consequently increasing the loan volumes and related commission income.

000 BAM

| 31.12.2023. | Focus segments | | Non-focus segments | | | Corporate Center | Total |
|---|---|---|---|---|---|---|---|
| | Consumer | SME Business | Mortgage | Large Corporates | Public Finance | | |
| Net banking income | 32,007 | 14,840 | 931 | 973 | 236 | 6,398 | 55,385 |
| Net interest income | 19,718 | 10,233 | 931 | 522 | 97 | 7,020 | 38,521 |
| o/w regular interest income | 20,535 | 9,924 | 887 | 752 | 245 | 0 | 32,343 |
| Net fee and commission income | 12,289 | 4,607 | 0 | 451 | 139 | -622 | 16,864 |
| Net result from financial instruments | 0 | 0 | 0 | 0 | 0 | 122 | 122 |
| Other operating result | 0 | 0 | 0 | 0 | 0 | -313 | -313 |
| **Operating income** | **32,007** | **14,840** | **931** | **973** | **236** | **6,207** | **55,194** |
| **Operating expenses** | **-19,295** | **-4,698** | **-13** | **-619** | **-142** | **-6,588** | **-31,355** |
| **Operating result** | **12,712** | **10,142** | **918** | **354** | **94** | **-381** | **23,839** |
| Other result | 0 | 0 | 0 | 0 | 0 | -1,134 | -1,134 |
| Credit loss expenses on financial assets | 1,245 | -6,242 | 1,415 | 185 | -350 | -902 | -4,649 |
| **Operating result before tax** | **13,957** | **3,900** | **2,333** | **539** | **-256** | **-2,417** | **18,056** |
| | | | | | | | |
| **Business volume** | | | | | | | |
| Net loans and receivables | 309,282 | 201,106 | 11,409 | 14,181 | 5,852 | 3,824 | 545,654 |
| Financial liabilities at AC [1] | 571,172 | 146,217 | 0 | 100,436 | 78,312 | 20,338 | 916,475 |

000 BAM

| 31.12.2022. | Focus segments | | Non-focus segments | | | Corporate Center | Total |
|---|---|---|---|---|---|---|---|
| | Consumer | SME Business | Mortgage | Large Corporates | Public Finance | | |
| Net banking income | 29,583 | 10,651 | 1,063 | 1,918 | 424 | 2,028 | 45,667 |
| Net interest income | 18,250 | 6,347 | 1,063 | 1,264 | 165 | 2,088 | 29,177 |
| o/w regular interest income | 18,884 | 6,154 | 1,012 | 1,031 | 209 | 2,711 | 30,001 |
| Net fee and commission income | 11,333 | 4,304 | 0 | 654 | 259 | -60 | 16,490 |
| Net result from financial instruments | 0 | 0 | 0 | 0 | 0 | 144 | 144 |
| Other operating result | 0 | 0 | 0 | 0 | 0 | -1,825 | -1,825 |
| **Operating income** | **29,583** | **10,651** | **1,063** | **1,918** | **424** | **347** | **43,986** |
| **Operating expenses** | **-17,913** | **-4,261** | **-20** | **-683** | **-230** | **-7,439** | **-30,546** |
| **Operating result** | **11,670** | **6,390** | **1,043** | **1,235** | **194** | **-7,092** | **13,440** |
| Other result | 0 | 0 | 0 | 0 | 0 | 321 | 321 |
| Credit loss expenses on financial assets | -3,482 | 1,816 | 1,882 | 1,363 | 31 | -38 | 1,572 |
| **Operating result before tax** | **8,188** | **8,206** | **2,925** | **2,598** | **225** | **-6,809** | **15,333** |
| | | | | | | | |
| **Business volume** | | | | | | | |
| Net loans and receivables | 279,279 | 183,499 | 14,397 | 19,799 | 3,496 | 4,330 | 504,800 |
| Financial liabilities at AC [1] | 487,402 | 157,999 | 0 | 113,744 | 43,833 | 25,501 | 828,479 |

1 The Consumers segment in its entirety (100%) contributed to the net income from fees and commissions of the privat individual segment.

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

(000) BAM

| 31.12.2023. | Focus segments | | Non-focus segments | | Corporate Center | Total |
|---|---|---|---|---|---|---|
| | Consumer | SME Business | Large Corporates | Public Finance | | |
| Transactions | 1,821 | 2,160 | 225 | 102 | 0 | 4,308 |
| Accounts and Packages | 5,253 | 981 | 18 | 30 | 0 | 6,282 |
| Cards | 3,757 | 92 | 1 | 0 | 0 | 3,850 |
| FX & DCC | 3,826 | 231 | 2 | 0 | 0 | 4,059 |
| Securities | 0 | 0 | 0 | 0 | 0 | 0 |
| Bancassurance | 1,555 | 0 | 0 | 0 | 0 | 1,555 |
| Loans | 674 | 149 | 0 | 0 | 0 | 823 |
| Trade finance | 0 | 1,506 | 248 | 26 | 0 | 1,780 |
| Other | 15 | 14 | 3 | 0 | 0 | 32 |
| **Fee and commission income** | **16,901** | **5,133** | **497** | **158** | **0** | **22,689** |
| Cards | -3,535 | -90 | -1 | 0 | -502 | -4,128 |
| Transactions | -311 | -368 | -40 | -18 | 0 | -737 |
| Client incentives | -4 | 0 | 0 | 0 | 0 | -4 |
| Securities | 0 | 0 | 0 | 0 | -120 | -120 |
| Accounts and Packages | -559 | 0 | 0 | 0 | 0 | -559 |
| Bancassurance | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | -203 | -68 | -5 | -1 | 0 | -277 |
| **Fee and commission expenses** | **-4,612** | **-526** | **-46** | **-19** | **-622** | **-5,825** |
| **Net fee and commission income** | **12,289** | **4,607** | **451** | **139** | **-622** | **16,864** |

(000) BAM

| 31.12.2022. | Focus segments | | Non-focus segments | | Corporate Center | Total |
|---|---|---|---|---|---|---|
| | Consumer | SME Business | Large Corporates | Public Finance | | |
| Transactions | 1,668 | 2,085 | 277 | 102 | 0 | 4,132 |
| Accounts and Packages | 4,982 | 733 | 14 | 24 | 0 | 5,753 |
| Cards | 2,642 | 83 | 1 | 0 | 0 | 2,726 |
| FX & DCC | 4,399 | 326 | 7 | 33 | 0 | 4,765 |
| Securities | 0 | 0 | 0 | 0 | 0 | 0 |
| Bancassurance | 1,371 | 0 | 0 | 0 | 0 | 1,371 |
| Loans | 539 | 182 | 3 | 0 | 0 | 724 |
| Trade finance | 0 | 1,332 | 340 | 4 | 0 | 1,676 |
| Other | 36 | 64 | 57 | 115 | 0 | 272 |
| **Fee and commission income** | **15,637** | **4,805** | **699** | **278** | **0** | **21,419** |
| Cards | -3,318 | -107 | -1 | -1 | 0 | -3,427 |
| Transactions | -262 | -322 | -43 | -16 | 0 | -643 |
| Client incentives | -32 | 0 | 0 | 0 | 0 | -32 |
| Securities | 0 | 0 | 0 | 0 | -59 | -59 |
| Accounts and Packages | -529 | 0 | 0 | 0 | 0 | -529 |
| Bancassurance | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | -165 | -71 | -1 | -2 | 0 | -239 |
| **Fee and commission expenses** | **-4,306** | **-500** | **-45** | **-19** | **-59** | **-4,929** |
| **Net fee and commission income** | **11,331** | **4,305** | **654** | **259** | **-59** | **16,490** |

## 7. Internal Control System for accounting procedures

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

The aim of the internal control system of Addiko Bank is to ensure effective and efficient operations, adequate identification, measurement and mitigation of risks, prudent conduct of business, reliability of financial and non-financial information reported, both internally and externally, and compliance with laws, regulations, supervisory requirements and the institution’s internal rules and decisions.

The internal control system consists of a set of rules, procedures and organizational structures which aim to:
- ensure that corporate strategy is implemented,
- achieve effective and efficient corporate processes,
- safeguard the value of corporate assets,
- ensure the reliability and integrity of accounting and management data,
- ensure that operations comply with all relevant rules and regulations.

The particular objectives with regard to Addiko Bank accounting procedures are that the ICS ensures that all business transactions are recorded immediately, correctly and in a uniform way for accounting purposes. The implementation of the internal control system in relation to the financial reporting process is also set out in the internal rules and regulations.

The internal control system of Addiko Bank is built on a process-oriented approach. Addiko Bank deploys control activities through process documentation which incorporates the tracking and documentation of each process, including the information about process flow according to the internally set up guidelines for process management.

The overall effectiveness of the internal controls is monitored on an ongoing basis. Monitoring of key risks is part of daily activities of Addiko Bank as well as periodic evaluations by the business lines, internal control functions, risk management, compliance and internal audit.

Regular internal control system monitoring and promptly reporting on internal control deficiency and escalation to relevant stakeholders (e.g. committees) is established. Internal control deficiencies, whether identified by business line, internal audit, or other control functions are reported in a timely manner to the appropriate management level for further decision and addressed promptly.

Internal Audit performs independent and regular reviews of compliance with legal provisions and internal rules.

The internal control system itself is not a static system but is continuously adapted to the changing environment. The implementation of the internal control system is fundamentally based on the integrity and ethical behavior of the employees. The Management Board and the leadership team actively and consciously embrace their role of leading by example by promoting high ethical and integrity standards and establishing a risk and control culture within the organization that emphasizes and demonstrates to all levels the importance of internal controls.

# 8. Mid-term targets, Outlook & Risk factors

## 8.1. Mid-term targets

Mid-Term Targets for ABSA starting with the business year 2024 will be:

Business Growth:

- Living Loan book in focus areas at >95% (previously ca. 95%)
- Net interest margin >3.5% (previously ca. 3%)
- Focus performing loan book growth ca. 14%
- Cost of risk (net loans) ca. -0,8% (previously ca. 0,3%)
- Loan/deposit ratio <100% (unchanged)

Cost Base:
Cost income ratio mid-term target ca. 50% (unchanged)

The above leading to:

- Total capital ratio > 20%
- Annual dividend payout of 100% of net profit (unchanged)

## 8.2. Outlook

Several different world situations that have had an impact on the global economy, caused indirect effect on Addiko Bank d.d., such as financial market volatility, rising inflation and similar.

In Bosnia & Herzegovina the economy is expected to stabilize in 2024 with possible growth around 3% in comparison to 2023, which is higher than expected growth in Eurozone. Generally, banking sector has recorded significant amount of net profit in first half of 2023 due to increases in interest income and lower loan loss provisions.
It is expected that the inflation pressure will slightly stabilize and fall from 6% to range of 3% to 4% in 2024, aside from some ad hoc shock that might cause sharp inflationary rise. There are still no measures to ease the burden of increased prices from the local governments. This is continuously decreasing the standard of living as wages and pensions have not been aligned with rising market prices.
The Addiko Bank intends to continue to accelerate its competitive specialist strategy execution in the market in 2024, focusing on sustainable business growth in the segments Consumer and SME, with a specific focus on standard and small enterprises and the overall ambition to become the leading specialist bank for these segments. Addiko's prudent risk approach will remain a key anchor of the loan growth generation strategy.
The clear focus on Consumer and SME business will accelerate the transformation of the balance sheet of Addiko towards these higher value generating segments. In this context, the Bank will continue considering the possibility of capital generation via faster non-focus reduction. Addiko believes that the reduction in the non-focus portfolio will generate value in the long-term by sharpening the focus in the core segments and releasing capital from higher risk weight non-focus loans.

As one of its short-term ambitions, Addiko intends to further push its efficiency by reducing costs and complexity and streamlining its operating model. Addiko will continue with the implementation efficiency measures in order to generate a sustainable and visible gross saving impact.

In summary, for the full year 2024 the Bank expects:

- Gross performing loans at ca. BAM 0.636 million with ca. 14% growth in focus compared to YE23,
- Net Banking Income above up by ca. 6% impacted positively by the rising interest curve, despite increasing funding costs,
- Operating expenses ca. BAM 33 million with the increase mainly driven by inflation related cost,
- TCR above 20%.

## 8.3. Risk factors and management

The Bank manages and controls risk in all business segments in order to optimize risk-adjusted returns in order to ensure the ability to bear the risk, and thus protect the bank's creditors. Through the Risk Strategy, the Bank determines the vision, risk appetite and opportunities to ensure that all material risks to which the Bank is exposed in business are identified, understood and that appropriate responses are available to protect the
Bank and prevent damage to customers, shareholders, economy, colleagues or the community, enabling the bank to achieve its goals and improve its ability to respond to new opportunities. In its operations, the bank is exposed to the highest credit risk, liquidity risk, operational risk, market risk, strategic risk, and has a management and monitoring framework in place for each.

### Credit risk

Credit risk is defined as the probability of total or partial loss due to non-performance of contractual obligations caused by the weakening of the creditworthiness of the other party.
The credit risk management framework has the following dimensions:

- Underwriting and risk assets management,
- Credit risk measuring through credit loss calculation, capital requierement calculation, credit risk parameters evaluation model - rating models
- Budgeting and planning: Budgeting process is a key process for planning the capital utilisation and development of the portfolio. Careful monitoring of the budget utilisation enables the Bank to undertake appropriate measures whenever any departures from the budget are determined. Budget realisation is closely monitored and expected realisation is revised and updated on a monthly basis. In this manner, the management has continuous information on the portfolio success and expectations for the future.
- Credit risk reporting to regulator, management and supervisory board
- Stress tests: Credit risk of the Bank is subject to a comprehensive stress test once a year, including credit risk impact on increase of the NPL portfolio, provisioning costs and capital adequacy. Stress test result is taken into account in ICR in accordance with the ICAAP rules
- Limit setting and monitoring: In an intention to maximally enhance its risk control system and appropriately interconnect all its components, Addiko Bank set up a framework of limits
- New product evaluation (PIP).

### Operational risk

Operational risk is the risk of losses resulting from inadequate or failed internal processes, systems, people or external factors. This definition includes legal risk, but excludes reputational risk and strategic risk.
The Bank has an established framework for operational risk management and control, which conceptually, in addition to management, consists of a network of ORO (operational risk officer) and DORO (decentralized operational risk officer Decentralized operational officer); DORO operating within the business processes of the bank and ORO as a function of supporting DORO and business functions and control the identification, reporting and reporting of operational risk cases.
Operational risk management is an ongoing cyclical process that includes risk self-assessment and control, risk decision-making, scenario analysis, and risk control, resulting in risk acceptance, mitigation, or avoidance.

### Liquidity risk

Five sub-types of liquidity risk are managed in Addiko:

- Illiquidity risk: a risk that the Bank will not be able to pay its financial liabilities upon maturity in full or within the given deadline;
- Funding Spread Risk: a risk of a financial loss arising from disadvantageous changes in the Bank’s credit spread (liquidity spread), where the credit transaction was refinanced with a non-compatible maturity term (transformation risk of maturity liquidity);
- Liquidity Market Risk: a risk that a financial loss will be generated out of the lack of market; measured together with the market price risk. The bank tracks market prices on regular daily basis to be able to react in earliest possible way.
- Intraday liquidity risk

- Financing sources concetration risk: Liquidity risk may arise from concetration on passive side due to individual concentration, currency or due date. The bank regularly tracks and repors this risk to avoid unfavourable situation in terms of liquidity due to concentration.

**Market risk**

The Bank is exposed to the following market risks: interest rate risk, currency and credit spread risk.

**Credit spread risk** is the risk of a change in market price based on changes in the market's credit spread. Addiko has set up a framework of VAR, volume limit and internal capital limits, monitoring and escalation processes on daily basis, as well as stress testing framework to test for sensitivity in case of adverse market scenarios.

**Interest rate risk is** exposure of the bank's financial condition to undesirable interest rate movements.
Changes in interest rates affect the Bank's earnings by changing net interest income and the level of other sensitive income and operating expenses. Changes in interest rates also affect the underlying value of the bank's assets, liabilities and off-balance sheet instruments because the economic value of future cash flows changes when interest rates change.

For the purposes of reporting to the Agency on interest rate risk exposure in the banking book, the bank uses a simplified calculation of the assessment of changes in the economic value of the banking book, applying standard interest shock to banking book positions in all significant currencies individually and for other currencies in total.
A framework for stress testing is also needed to determine the level of sensitivity of the bank due to stressful conditions in the market. Possible stress scenarios include:

- sudden changes in the general level of interest rates (including the supervisory standardized 200BP interest rate shock),
- changes in the slope and shape of the interest rate curve,
- specific scenarios identified for the bank
- ICAAP stress test for VAR changes

**Strategic/ business risk**

Strategic risk occurs due to incorrect management decisions on the positioning of the corporation, treatment of business sectors, selection of business partners or development and use of internal resources.
The bank's ability to manage strategic risk is crucial for its survival and long-term development. Strategic risk management primarily involves the bank's relationship to the environment in which it operates, decisions in response to changes in the business environment and making decisions about capital and other resources in a way that prioritizes the bank as a whole over the competition.
Addiko has an advanced framework for strategic risk and business risk management and monitoring, with developed technical tools and clear reporting lines.

**ICAAP (Internal capital adequacy assessment)**

Ensuring the Bank's ability to bear economic risk is a major part of Addiko Bank's management activities. Therefore, the Bank has established a clearly defined internal capital adequacy assessment process (ICAAP).

Risk management is part of the bank's comprehensive management process, whereby risk capital is allocated by type of risk in accordance with the strategy, limits are set and capital is monitored through set limit systems. The identification of all material risks is done through the
annual risk inventory process, which is the starting point for assessing the ability to bear the risk..
Once a year, the Bank performs a comprehensive internal assessment of capital adequacy through the analysis of quantitative and qualitative elements of the Bank's operations. As part of this process, the bank assesses the relationship of internal capital adequacy with the adopted financial plan of the bank, in regular and stressful circumstances.For detailed information on the Bank's risk management models and risk exposure, as well as the methods of risk management, see Chapter 5. of the Financial Statements with the notes below.

Sarajevo, 15 March 2024
Addiko Bank dd Sarajevo

MANAGEMENT BOARD

Jasmin Spahić
(Chairman)

Mario Ivanković
Member of the Management Board

Enver Lemeš
Member of the Management Board

ADDIKO BANK DD
1.3.1
SARAJEVO

# Financial statements

# I. Statement of comprehensive income

## Statement of profit or loss

(000) BAM

| | Note | 01.01. - 31.12.2023 | 01.01. - 31.12.2022 |
|---|---|---|---|
| Interest income calculated using the effective interest method | | 41,165 | 31,571 |
| Interest expenses | | -2,644 | -2,394 |
| **Net interest income** | **(29)** | **38,521** | **29,177** |
| Fee and commission income | | 22,689 | 21,419 |
| Fee and commission expenses | | -5,825 | -4,929 |
| **Net fee and commission income** | **(30)** | **16,864** | **16,490** |
| Net result on financial instruments | (31) | 122 | 144 |
| Other operating income | (32) | 2,944 | 1,200 |
| Other operating expenses | (32) | -3,257 | -3,025 |
| Personnel expenses | (33) | -14,923 | -14,670 |
| Other administrative expenses | (34) | -13,392 | -12,942 |
| Depreciation and amortisation | (35) | -3,040 | -2,934 |
| **Operating result before impairments and provisions** | | **23,839** | **13,440** |
| Other result | (36) | -1,134 | 321 |
| Credit loss expenses on financial assets | (37) | -4,649 | 1,572 |
| **Result before tax** | | **18,056** | **15,333** |
| Taxes on income | (38) | -1,387 | -956 |
| **Result after tax** | | **16,669** | **14,377** |
| thereof attributable to equity holders of parent | | 16,669 | 14,377 |

| | 31.12.2023 | 31.12.2022 |
|---|---|---|
| Result after tax attributable to ordinary shareholders (in TBAM) | 16,669 | 14,377 |
| Number of ordinary shares (in units of shares) | 532.5 | 532.5 |
| Earnings/losses per share (in BAM) | 31.30 | 27 |

The following notes (1) - (74) are an integral part of these financial statements.

## Statement of other comprehensive income

(000) BAM

| | 01.01. - 31.12.2023 | 01.01. - 31.12.2022 |
|---|---|---|
| **Result after tax** | **16,669** | **14,377** |
| **Other comprehensive income** | **10,538** | **-20,681** |
| **Items that will not be reclassified to profit or loss** | **4** | **33** |
| Fair value reserve - equity instruments | 4 | 33 |
| Net change in fair value | 4 | 12 |
| Income Tax | 0 | 21 |
| **Items that may be reclassified to profit or loss** | **10,534** | **-20,714** |
| Fair value reserve - debt instruments | 10,534 | -20,714 |
| Net change in fair value | 11,683 | -22,899 |
| Net amount transferred to profit or loss | -25 | -113 |
| Income Tax | -1,124 | 2,298 |
| **Total comprehensive income for the year** | **27,207** | **-6,304** |
| thereof attributable to equity holders of parent | 27,207 | -6,304 |

The following notes (1) - (74) are an integral part of these financial statements.

# II. Statement of financial position

(000) BAM

| | Note | 31.12.2023 | 31.12.2022 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | (39) | 321,149 | 265,443 |
| Loans and advances | (40) | 545,654 | 504,798 |
| Loans and advances to credit institutions | | 1,068 | 28 |
| Loans and advances to customers | | 544,586 | 504,770 |
| Investment securities | (41) | 220,861 | 213,715 |
| Tangible assets | (42) | 17,066 | 18,346 |
| Property plant and equipment | | 17,062 | 16,963 |
| Investment property | | 3 | 1,383 |
| Intangible assets | (43) | 5,407 | 5,628 |
| Tax assets | | 4,427 | 6,938 |
| Current tax assets | | 102 | 1,418 |
| Deferred tax assets | | 4,325 | 5,520 |
| Other assets | (45) | 1,415 | 1,888 |
| Non-current assets held for sale | (46) | 2,185 | 2,406 |
| **Total assets** | | **1,118,164** | **1,019,162** |
| | | | |
| **Liabilities** | | | |
| Financial liabilities measured at amortized cost | (47) | 916,475 | 828,479 |
| Deposits of credit institutions | | 7,410 | 10,765 |
| Deposits of customers | | 896,136 | 808,982 |
| Borrowings from banks | | 2,934 | 0 |
| Other financial liabilities | | 9,995 | 8,732 |
| Provisions | (48) | 7,598 | 8,752 |
| Other liabilities | (49) | 7,325 | 7,995 |
| Total liabilities | | 931,398 | 845,226 |
| Equity | | | |
| Share capital | | 100,403 | 100,403 |
| Statutory reserves | | 25,101 | 25,101 |
| Fair value reserve | | -10,361 | -20,869 |
| Retained earnings | | 71,623 | 69,301 |
| Total equity | (50) | 186,766 | 173,936 |
| **Total liabilities and equity** | | **1,118,164** | **1,019,162** |

# III. Statement of changes in equity

(000) BAM

| 31.12.2023 | Share capital | Statutory reserves | Fair value reserve | Retained earnings | Total |
|---|---|---|---|---|---|
| **Equity as at 01.01.2023** | **100,403** | **25,101** | **-20,869** | **69,301** | **173,936** |
| Result after tax | 0 | 0 | 0 | 16,669 | 16,669 |
| Other comprehensive income | 0 | 0 | 10,508 | 30 | 10,538 |
| Total comprehensive income | 0 | 0 | 10,508 | 16,699 | 27,207 |
| Dividends paid | 0 | 0 | 0 | -14,377 | -14,377 |
| **Equity as at 31.12.2023** | **100,403** | **25,101** | **-10,361** | **71,623** | **186,766** |

(000) BAM

| 31.12.2022 | Share capital | Statutory reserves | Fair value reserve | Retained earnings | Total |
|---|---|---|---|---|---|
| **Equity as at 01.01.2022** | **100,403** | **25,101** | **28** | **82,053** | **207,585** |
| Result after tax | 0 | 0 | 0 | 14,377 | 14,377 |
| Other comprehensive income | 0 | 0 | -20,897 | 216 | -20,681 |
| Total comprehensive income | 0 | 0 | -20,897 | 14,593 | -6,304 |
| Dividends paid | 0 | 0 | 0 | -27,345 | -27,345 |
| **Equity as at 31.12.2022.** | **100,403** | **25,101** | **-20,869** | **69,301** | **173,936** |

The following notes (1) - (74) are an integral part of these financial statements.

# IV. Statement of cash flows

(000) BAM

| | 2023 | 2022 |
|---|---|---|
| **Result after tax** | **16,669** | **14,377** |
| Income tax | 1,387 | 956 |
| Depreciation and amortization of intangible assets and tangible fixed assets | 3,039 | 2,934 |
| Impairment of intangible assets and tangible fixed assets | 25 | 193 |
| Impairment of repossessed assets | 5 | 15 |
| Impairment of non-current assets classified as held for sale | 0 | 120 |
| Change in risk provisions on financial instruments | 8,480 | 1,636 |
| Change in provision | -266 | 80 |
| (Gains) / losses on investment securities | -25 | -113 |
| (Gains) / losses from disposals of intangible assets and tangible fixed assets | -1,407 | 40 |
| (Gains) / losses from disposals of repossessed assets | -989 | -867 |
| (Gains) / losses from disposals of non-current assets | -4 | 0 |
| **Subtotal** | **26,914** | **19,371** |
| Loans and advances to credit institutions and customers | -78,400 | -66,121 |
| Investment securities | 7,347 | 8,460 |
| Other assets | 1,457 | 1,287 |
| Financial liabilities measured at amortized cost | 87,558 | 23,425 |
| Provisions | -1,921 | -1,933 |
| Other liabilities from operating activities | -670 | -2,504 |
| Interests received | 31,054 | 26,178 |
| Interest paid | -2,644 | -2,394 |
| **Cash flows from operating activities** | **70,695** | **5,769** |
| Proceeds from the sale of: | 2,945 | 51 |
| Financial investments at amortized cost | 143 | 1 |
| Tangible assets, investment properties, lease assets and intangible assets | 2,802 | 50 |
| Payments for purchases of: | -5,406 | -3,436 |
| Financial investments at amortized cost | -3,344 | -1,958 |
| Tangible assets, investment properties, lease assets and intangible assets | -2,062 | -1,478 |
| Proceeds from the sale of non current assets | 225 | 0 |
| **Cash flows from investing activities** | **-2,236** | **-3,385** |
| Lease payments | -748 | -700 |
| Dividend payment | -14,377 | -27,345 |
| Proceeds from borrowings | 2,934 | - |
| **Cash flows from financing activities** | **-12,191** | **-28,045** |
| **Net increase in cash and cash equivalents** | **56,268** | **-25,661** |
| **Cash reserves at the end of previous period (01.01.)** | **265,928** | **291,589** |
| **Cash reserves at end of period (31.12.)** | **322,196** | **265,928** |

# V. Condensed notes

## Company

Addiko Bank d.d. Sarajevo (hereinafter the ‘’Bank’’) has received the approval from the Banking Agency of Federation of Bosnia and Herzegovina (“FBA”) on 17 January 2000 and the Bank was registered at the Cantonal Court in Mostar on 21 January 2000.

The Bank conducts its operations in Federation of Bosnia and Herzegovina through the headquarters in Sarajevo and 28 branch offices in Federation of Bosnia and Herzegovina.

The Bank is registered in Federation of Bosnia and Herzegovina to perform payment operations, credit and deposit activities in the country and abroad, in accordance with the legislation of FBiH.

The immediate parent of the Bank is Addiko Bank AG Austria based in Vienna, Canetti Tower, Canettistraße 5/12. OG. The consolidated financial statements of the parent company can be found on the website at www.addiko.com.

## Accounting policies

### (1) Accounting principles

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

- The Law on Accounting and Auditing in FBiH stipulates preparation of the financial statements in accordance with the International Financial Reporting Standards (IFRS).

- The Law on Banks of FBiH stipulates preparation of annual financial statements in accordance with the aforementioned Law on Accounting and Auditing in FBiH, this law and bylaws passed based on both laws.

- The Banking Agency of FBiH adopted the Decision on Credit Risk Management and Determining Expected Credit Losses (the Decision), which is in force as of 1 January 2020, and which resulted in certain differences arising from calculation of allowances for credit losses due to application of minimum rates stipulated by the Decision, which are not required by IFRS 9: Financial Instruments (IFRS 9). The Decision has an effect on valuation of non-financial assets arising from credit operations (acquired tangible assets whose valuation is within the scope of other relevant IFRSs).

In accordance with the provisions of the Decision, the Bank created higher allowances for credit losses in the amount of BAM 10,977 thousand (31 December 2022: BAM 7,722) compared to the amount calculated by using the Bank’s internal methodology in line with the requirements of IFRS 9. This difference as at 31 December 2023 arose from the following reasons:

- application of minimum impairment rates stipulated by the Article 23 of the Decision for exposures in Stage 1 of credit risk – difference in the amount of BAM 5,274 thousand (2022: BAM 4,210 thousand),
- application of minimum impairment rates stipulated by the Article 24 of the Decision for exposures in Stage 2 of credit risk – difference in the amount of BAM 4,810 thousand (2022: BAM 2,105 thousand),
- application of minimum impairment rates stipulated by the Article 25 of the Decision for exposures in Stage 3 of credit risk (non-performing assets) – difference in the amount of BAM 893 thousand (2022: BAM 1,407 thousand), of which the amount of BAM 859 thousand (2022: BAM 1,193 thousand) refers to exposures not secured by acceptable collateral, the amount of BAM 34 thousand (2022: BAM 214 thousand) refers to exposures secured by acceptable collateral, and the amount of BAM 126 thousand (2022: BAM 173 thousand) refers to presentation of interest calculation for exposures arising solely due to passage of time (unwinding).

In accordance with Article 32 of the Decision, the Bank presented lower value of repossessed assets by amount of BAM 620 thousand (2022: BAM 912 thousand) compared to the value of those assets in accordance with IAS 2 (BAM 620 thousand, 2022: BAM 917 thousand); hence value of repossessed assets as at 31 December 2023 was BAM 0 thousand and BAM 5 thousand as at 31 December 2022. In accordance with the Decision, Bank recorded the acquired tangible assets at net carrying amount of receivables acquired in the process of collection of receivables, so that it does not recognize gain from acquisition of assets before its actual sale / realization.

The aforementioned difference arose based on the assets acquired in the period longer than three years.

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

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Assets | -9,280 | -7,785 |
| Liabilities | 1,425 | 635 |
| Equity | -10,705 | -8,420 |

| | Year ended 31 December 2023 | Year ended 31 December 2022 |
|---|---|---|
| Financial result before taxation | -2,285 | -2,041 |

** Note: positive amount represents increase of value, negative one represents decrease of value.*

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

These financial statements consist of the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the financial statements. In principle, the statement of financial position is structured in descending order of liquidity. Amounts due or realizable within twelve or more than twelve months after the reporting date are described in one of the notes. Analysis of remaining maturities.

These financial statements are prepared on a going concern basis which assumes it will continue its business operations in the foreseeable future. Regarding estimates and assumptions according to IAS 1, please refer to note Use of estimates and assumptions/material uncertainties in relation to estimates.

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

The figures in the financial statements are generally stated in thousands of convertible marks (ths KM); the convertible mark (KM) is the reporting currency. Convertible mark is pegged to the Euro (EUR 1 = BAM 1.95583). The tables shown may contain rounding differences.

On 15. March 2024, the Management Board of the Bank approved the financial statements as at 31 December 2023 for publication by submitting them to the Supervisory Board. The Supervisory Board is responsible for examining the financial statements and announcing whether it approves the financial statements as at 31 December 2023.

## (2) Changes in the presentation of the financial statements

In 2023 Bank reviewed the **statement of cash flows**. The result of the review led to a change in the presentation of cash flows from investment in debt securities measured at amortized cost, which are now reported as part of the investment activities. Previously they were reported as part of the net cash flows from operating activities. The cash flow of the previous period was adjusted by BAM 1,957 thousand in the position Investment securities and consequently by BAM +1 thousand in the position Proceeds from the sale or collection of principal and interest of financial investments at amortized cost and by BAM -1,958 thousand in the position Payments for purchases of financial investments at amortized cost. As a result from the change in the presentation, the financial statements provide a more relevant information about the cash flows from treasury activities.

| 31.12.2022 | As previously Reported | Amendments | Amended |
|---|---|---|---|
| **Statement of cash flows** | | | |
| Investment securities | 6,503 | 1,957 | 8,460 |
| Cash flows from operating activities | 3,812 | 1,957 | 5,769 |
| Proceeds from sales or collection of principal and interest of financial investments at amortized cost | 0.0 | 1 | 1 |
| Payments for purchases of: | | | |
| Financial investments at amortized cost | 0 | -1,958 | -1,958 |
| Cash flows from investing activities | -1,428 | -1,957 | -3,385 |

For the purpose of better presentation of compliance with the applicable accounting standards, in 2023, in relation to published reports for 2022, the Bank has made reclassification of the amount of BAM 2,384 thousand related to liabilities for variable payments to employees from Provisions to Other liabilities.

## (3) Application of new standards and amendments

### 3.1. New currently effective requirements

Only new standards, interpretations and their amendments that are relevant for the business of the Bank are listed below. The impact of all other standards, and interpretations are listed below.

The following new standards, interpretations and amendments to existing standards are mandatory for periods beginning on 1 January 2023:

| Standard | Name | Description | Impact on Addiko |
|---|---|---|---|
| IFRS 17 | IFRS 17 Insurance contracts | New Standard replacing IFRS 4 | No impact |
| IFRS 17 | Amendments to IFRS 17 Insurance contracts | Initial application of IFRS 17 and IFRS 9 – Comparative information | No impact |
| IAS 1 | Amendments to IAS 1 Presentation of Financial Statements | Disclosure of Accounting policies | No significant changes |
| IAS 8 | Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors | Definition of Accounting Estimates | No significant changes |
| IAS 12 | IAS 12 Income Taxes | Deferred Tax related to Assets and liabilities arising from a Single Transaction | No significant changes |
| IAS 12 | Amendments to IAS 12 Income Taxes | International Tax Reform – Pillar Two Model Rules | No impact |

New standard **IFRS 17** Insurance contracts replaced IFRS 4 Insurance contracts. It applies to annual reporting periods beginning on or after 1 January 2023. Insurance contract is a contract under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Bank assessed of the relevant criteria whether the issued contract is an insurance contract and the impact of IFRS 17 Insurance contracts on the following business areas:

**Financial guarantees**
Financial guarantee contracts require the issuer to make specified payments, to reimburse the holder for a loss that it incurs because a specified debtor fails to make a payment when due, meet the definition of an insurance contract. They are, however, outside the scope of IFRS 17, unless the issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used the accounting guidance applicable to insurance contracts. The Bank chose to treat financial guarantees according to IFRS 9.

**Credit cards and other payment arrangements**
Some credit card contracts (or similar contracts that provide credit or payment arrangements) meet the definition of an insurance contract, because they make payments to the card holder in circumstances that meet the definition of insurance risk. Examples include if the holder uses the card to purchase goods or services that turn out to be faulty or are not delivered, or if the holder is ‘scammed’ into making an invalid payment. Bank´s contract pricing does not reflect an assessment of the individual customer’s insurance risk, IFRS 17 does not apply to the contract in its entirety.

**Performance guarantees**
In the Bank performance guarantees compensate the beneficiary, if Bank’s client fails to perform his obligations (i.e. to design, develop, manufacture, construct or produce products or production facilities (and related non-monetary obligations) or to provide services related to any of the foregoing) according to the requirements specified in client’s contract with the beneficiary of the guarantee. An adverse effect on the policyholder is a precondition for the payment.
Some contracts require a payment if a specified uncertain future event occurs, but do not require an adverse effect on the policyholder as a precondition for the payment. This type of contract is not an insurance contract even if the holder uses it to mitigate an underlying risk exposure (IFRS 17.B13, IFRS 4.B14).
In Bank the payment of a guarantee is made, when the guarantee is called, independent of whether the specified uncertain event has caused an adverse impact on the beneficiary or not.

The bank does not have the right to investigate whether the event actually caused an adverse effect and to deny the payment if it is not satisfied that the event caused an adverse effect. This means that a main feature of the definition of insurance contract is not fulfilled. Therefore, the performance guarantees, which are offered by Bank, cannot be considered as insurance contracts that are in scope of IFRS 17.

Bank does not bear any risk to pay additional amounts, in the cases where the bank has a contractual right to receive back the money that it paid to the beneficiary from its client’s account. This means that there is a risk of loss of money, if the customer defaults. There is a regular credit risk whose existence is conditional on occurrence of an event rather than an insurance risk.

**Insurance contracts**
When Bank offer insurance (e.g. travel insurance), Bank always acts as Agent, not as a Principal (as defined in IFRS 15), therefore there is no transfer of insurance risk.

**Death waivers**
In case of the death of loan costumer, insurance will cover the outstanding balance of the loan principal determined on the day of death. Bank is a policyholder, therefore there is no transfer of insurance risk and no application of IFRS 17. Provided that no other scope exclusions apply (according to IFRS 17.7), an entity can choose to apply either IFRS 9 or IFRS 17 to contracts which limit the compensation to the amount otherwise required to settle the policyholder's obligation created by the contract.

After the assessment the Bank came to the conclusion that the new standard IFRS 17 Insurance contracts and its amendments do not result in an impact and changes within the Bank.
The amendments to **IAS 1** clarify the requirements for disclosure of material accounting policy instead of significant accounting policies. The amendment applies to annual reporting periods beginning on or after 1 January 2023. These amendments do not result in any significant changes within the Bank.

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

The amendments to **IAS 12** provide a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. Following the amendments to IAS 12, when tax deductions are attributable to the lease liability, temporary differences associated with the lease asset and lease liability arise on initial recognition of the lease, an entity is required to recognize the related deferred tax asset and liability. The amendment applies to annual reporting periods beginning on or after 1 January 2023, applying to transactions that occurred on or after the beginning of the earliest comparative period. There was no impact on the statement of financial position because the of IAS balances qualify for offset under paragraph 74 of IAS 12. There was also no impact on the opening retained earnings as at 1 January 2023 as a result of the change.

### 3.2. Forthcoming requirements

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

| Standard | Name | Description | Impact on Addiko |
|---|---|---|---|
| IFRS 16 | Amendments to IFRS 16 Leases | Lease liability in sale and leaseback | No significant changes |
| IAS 1 | Amendments to IAS 1 Presentation of Financial Statements | Classification of liabilities as current or non-current | No impact |

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

The amendments to **IAS 1** clarify the requirements for classifying liabilities as current or non-current. The amendment applies to annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. These amendments are not expected to result in any significant changes within the Bank as assets and liabilities of Bank are presented in decreasing order of liquidity.

The following new standards and interpretations issued by the IASB have not yet been adopted by the EU:

| Standard | Name | Description | Impact on Addiko |
|---|---|---|---|
| IAS 7 and IFRS 7 | Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures | Supplier Finance Arrangements | No significant changes |
| IAS 21 | Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates | Lack of Exchangeability | No significant changes |

The amendments to **IAS 7** and **IFRS 7** describe the characteristics of an arrangement for which an entity is required to provide the information. The amendments note that arrangements that are solely credit enhancements for the entity or instruments used by the entity to settle directly with a supplier the amounts owed are not supplier finance arrangements. Entities will have to disclose in the notes information that enables users of financial statements to assess how supplier finance arrangements affect an entity's liabilities and cash flows and to understand the effect of supplier finance arrangements on an entity's exposure to liquidity risk and how the entity might be affected if the arrangements were no longer available to it. New disclosure requirements are added. The amendment applies to annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. These amendments are not expected to result in any significant changes within the Bank.

The amendments to **IAS 21** introduce requirements to assess when a currency is exchangeable into another currency and when it is not. The amendments require an entity to estimate the spot exchange rate when it concludes that a currency is not exchangeable into another currency. New disclosure requirements are added. The amendment applies to annual reporting periods beginning on or after 1 January 2025. Earlier application is permitted. These amendments are not expected to result in any significant changes within the Bank.

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

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

**Credit risk provisions**

The Bank regularly assesses the recoverability of its problematic loans and recognizes corresponding risk provisions in case of impairment. Estimates as to the amount, duration and probable occurrence of expected return cash flows are made when assessing recoverability. This assessment is based on a detailed analysis and assumptions made, which are however subject to uncertainties. A different estimate of these assumptions may result in a significantly different measurement of credit risk provisions.

The model for measurement of expected credit losses requires the assessment of significant increase in credit risk and uses historical data and their extrapolations, the observed data and individual estimations as well as grouping of similar assets when credit risk deterioration has to be assessed on a collective basis. The uncertainty which is inherent to estimating expected credit losses is currently elevated, due to the increased volatility of the economic environment as consequences of still ongoing conflicts in Russia and in the Middle East, as well as still present inflationary pressures.

Due to the fact that the current developments are not fully comparable to the historic data used for development and calibrations of the existing PD models, Addiko has addressed the uncertainty by considering post model adjustments (PMAs). These adjustments mainly cover the ability of the PD models to correctly capture uncertainty of the future and high overall volatility of the macroeconomic environment.

For further information on credit risk provisioning methodology, reference is made to financial assets in note (15) Financial instruments as well as to the Risk Report under note (57) Development of risk provisions and note (57.1) Method of calculating risk provisions.

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

Provisions for legal proceedings typically require a higher degree of judgment than other types of provisions. When matters are at an early stage, accounting judgments can be difficult because of the high degree of uncertainty associated with determining whether a present obligation exists and estimating the probability and amount of any outflows that may arise. As matters progress, management and legal advisers evaluate on an ongoing basis whether provisions should be recognized, revising previous estimates as appropriate. At more advanced stages, it is typically easier to make estimates around a better-defined set of possible outcomes. The calculation of potential losses takes generally into account possible scenarios of how the litigation would be resolved and their probability, considering the history of former verdicts and assessments by independent law firms. In certain cases, due to a short horizon of available historical data and significant uncertainty as to the direction of court decisions as well as the market conditions, the adopted methodology and assumptions may be subjects of updates in subsequent reporting periods. Details regarding provisions for legal cases and uncertainty of estimates are described in note (25) Provisions.

**Taxation**
The Bank calculates 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 authority, which is authorized to carry out a subsequent audit of the records of taxpayers.

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

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

For further details regarding the treatment of leasing contracts please refer to the note (8) Leases.

## (5) Impact of climate change on financial statements

Addiko supports the transition to a carbon-neutral economy and will lower its footprint by reducing its direct emissions from own banking operations and indirect through its lending activities. Regarding its own banking operations measures planned until 2030 or already taken include a significant increase of the share of battery electric vehicles (BEV) in the group's car fleet, the installation of photovoltaic modules on self-owned buildings, the replacement of fossil fuel heating systems and switch to renewable energy sources used for electricity or heating.

In preparing the financial report, Addiko has considered climate change and the inherent risk on non-financial and financial assets. The impact of climate-related risks were assessed as follows:

- Impairment of assets: Addiko's ESG strategy and the planned replacement measures were considered in determining the carrying amount of non-current assets (property, plant and equipment and investment properties). Based on the assessment no impairment need was identified.
- Useful lives of assets: The impact of it's sustainability strategy and the planned measures on the useful lives of non-current assets. The assessment did not identify any impact on the financial statements.
- Expected credit losses (ECL): Based on an assessment of climate-related and other environmental risks (C&E risks) Addiko concluded that an impact on the credit risk exists, although there is no immediate material threat given the

granularity and diversification of the loan portfolio. As C&E risks already do impact macroeconomic indicators, Addiko considered the impact from climate-related transition risks in the macroeconomic financial forecasts used in the calculation of the ECL, thus, directly impacting the risk provisions of the loan book and consequently, the financial statements. Furthermore, an assessment of climate-related and environmental risks was incorporated in the loan origination process of relevant SME clients, which can impact the rating and in turn the ECL of these clients.

## (6) Basis of measurement

The financial statements have been prepared on a historical cost basis, except for the following material items, which are measured on the following alternative basis on each reporting date.

| Items | Measurement basis |
|---|---|
| Investment securities at fair value through other comprehensive income | Fair value |
| Non-current assets held for sale | Lower of carrying amount and fair value less costs to sell |

## (7) Foreign currency translation

Foreign currency translation within the Bank follows the provisions of IAS 21. Accordingly, all monetary assets and liabilities have to be converted at the exchange rate prevailing at the reporting date.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Profits and losses arising on translation are included in the income statement for the period.

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

| | | |
|---|---|---|
| 31 December 2023 | 1 EUR = 1.95583 KM | 1 USD = 1.769982KM |
| 31 December 2022 | 1 EUR = 1.95583 KM | 1 USD = 1.833705 KM |

## (8) Leases

### 8.1. Leases in which the Bank is a lessee

At inception the Bank assesses whether a contract is or contains a lease. A lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration. This assessment involves the exercise of judgment about whether the contract contains an identified asset, whether the Bank obtains substantially all the economic benefits from the use of that asset through-out the period of use, and whether the Bank has the right to direct the use of the asset.
The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle, remove or restore the underlying asset, less any lease incentives received. The right of use asset is subsequently depreciated over the shorter of the lease term or the useful life of the underlying asset using the straight-line method. The Bank also assess the right of use asset for impairment when such indicators exist. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank´s incremental borrowing rate. Thus, all lease obligations are generally recognized pursuant to the "right-of-use" approach in the statement of financial position. The only exception is for leases with a total lease term of 12 months or less, as well as for leases for which the underlying asset has a low value in new, with the IASB considering a lease to be of low value if it is USD 5,000 or less. In such cases the lease contracts are recognized off the statement of financial position and lease expenses are accounted on straight-line basis over the remaining lease term.

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

Lease payments generally include fixed payments, variable payments that depend on an index or a rate, and amounts expected to be payable under a residual value guarantee. Prolongation options, termination options and purchase options are also considered (see note (4) “Use of estimates and assumptions/material uncertainties in relation to estimates”).

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

### 8.2. Presentation in the financial statements

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

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

## (9) Earnings per share

The Bank presents earnings per share (EPS) in accordance with IAS 33 Earnings per share for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the bank by weighted average number of shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss that is attributable to ordinary shareholders for any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares and increasing the weighted average number of ordinary shares outstanding by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares. As there are no stock options issued by the Bank, the basic (undiluted) earnings per share equal the diluted earnings per share.

## (10) Net interest income

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

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

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

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

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

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

### (11) Net fee and commission income

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

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

Fees earned for the provision of services over a period of time are accrued over that period. Conversely, fee income earned from providing particular services to third parties or the occurrence of a certain event is recognized upon completion of the underlying transaction. Taking into consideration product classes the following services are accrued over the period:
- *Accounts and packages*, this category includes fee income and expense from monthly regular account/package fees, including monthly charges for standalone internet banking, mobile banking, SMS services and other services (not related to credit cards).
- *Loans and Deposits*, representing Fee income and expense that are not an integral part of the effective interest rate related directly to credit business (e.g. origination fee of the limit) which are not treated as interest like income
- *Securities*, representing commission income and expense from asset management
- *Bankassurance*, representing commission income and expense from insurance brokerage.

The fees generated by the following products are recognized upon completion of the underlying transaction:
- *Transaction services*, representing fee income charged to clients for transactions performed (except credit cards) like payment order, standing order
- *Cards*, representing fee income related to prepaid and credit cards (like monthly membership fees) and acquiring business like membership fees, interchange fees, scheme fees, service fees, etc.
- *FX & DCC*, representing fee income related to foreign exchange transactions like fees from FX spot transaction or Dynamic currency conversions.
- *Trade finance*, representing fee income earned from providing transaction services to third parties, such as arranging the acquisition of shares or other securities.

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

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

### (12) Net result on financial instruments

Net result on financial instruments held for trading income includes all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading, realized gains and losses from derecognition, the result from trading in securities and derivatives, any ineffective portions recorded in fair value and cash flow hedge transactions and foreign exchange gains and losses on monetary assets and liabilities. The Bank has elected to present the clean fair value movements of trading assets and liabilities in trading income, excluding any related interest income and expense, which are presented in “Net interest income”.

Net result on non-trading financial assets mandatorily at fair value through profit or loss includes all gains and losses from changes in the fair value of these assets, realized gains and losses from derecognition and dividends.

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

### (13) Other operating income and other operating expenses

Other operating income and other operating expenses reflect all other income and expenses not directly attributable to ordinary activities, such as gain or loss on the sale of property and income from operating lease assets. In addition, it encompasses expenses for other taxes and certain regulatory charges (bank levies and the contributions to the deposit guarantee scheme).

### (14) Other result

The other result shows the result from legal cases, the result from operational risks and impairment losses and reversal of impairment losses for non-financial assets and for assets classified as held for sale and disposal groups. Furthermore, the insignificant modification gains and losses are presented in this position.

### (15) Financial instruments

The presentation of the items in the statement of financial position as such reflects the nature of the financial instruments. A financial instrument is any contract giving rise to a financial asset of one party and a financial liability or equity instrument of another party.

#### 15.1. Classification and measurement

**Business models**

All financial assets have to be assigned to one of the business models described below. It must be assessed for each solely payments of principal and interest (SPPI) compliant financial asset at initial recognition, if it belongs to the following category:
- *Hold to collect:* a financial asset held with the objective to collect contractual cash flows.
- *Hold to collect and sell:* a financial asset held with the objective of both collecting the contractual cash flows and selling financial assets.
- *Other:* a financial asset held with trading intent or that does not meet the criteria of the categories above, not identified in the Bank.

In the infrequent case that the entity changes its business model for managing certain financial assets and specific IFRS 9 requirements would be fulfilled, a reclassification of all affected financial assets would be required. Such subsequent changes do not lead to reclassifications or prior period corrections. Sales due to increase in credit risk, sales close to maturity and infrequent sales triggered by a non-recurring event are not considered as contradicting the held to collect business model.

**Contractual cash flow characteristics**

For the assessment whether contractual cash flows are solely payments of principal and interest, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

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

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

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

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

During 2022 and 2023, there were no financial instruments with interest mismatch features which would lead to the classification at FVTPL. Significant volumes of financial instruments with critical features are not expected due to the internal policy for new products which eliminates potentially SPPI non-compliant features.

**Classification and measurement of financial assets and financial liabilities**

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

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

A financial asset is recognized when the Bank becomes a party to the contractual provisions of the instrument. Financial instruments are initially measured at fair value including transaction costs (except for FVTPL financial instruments, for which transaction costs are recognized directly in the statement of profit or loss). Regular way (spot) purchases and sales of financial assets are recognized on the trade date.

Financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract – leading to the situation that from the perspective of the holder of the asset there may be a so-called negative compensation (the prepayment amount could be less than the unpaid amount of principal and interest) – can be measured at amortized cost or at fair value through other comprehensive income instead of at fair value through profit or loss. To qualify for amortized cost measurement, the asset must be held within a "held to collect" business model.

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

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

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

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

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

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

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

Non-trading financial assets consist of the two following subcategories and shall be assigned into the other business model and are measured at fair value through profit or loss.

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

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

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

When a modification or exchange of financial liability measured at amortized cost that does not result in the derecognition is performed, an entity recognizes any adjustment to the amortized cost of the financial liability arising from a modification or exchange in profit or loss at the date of the modification or exchange.

Financial liabilities measured at FVTPL consist of financial liabilities held for trading and financial liabilities measured at FVTPL at initial recognition. Changes to the fair value of liabilities designated at FVTPL resulting from changes in own credit risk of the liability are recognized in other comprehensive income, the remaining amount of the change in the fair value has to be presented in profit or loss. The Bank did not make a use of the option to designate some financial liabilities as measured at FVTPL during 2023 and 2022.
The Bank has not designated any hedge accounting relationships in the current or in the previous year.

**15.2. Impairment**

While applying the forward-looking ECL model, the Bank recognizes ECL and updates the amount of ECL recognized at each reporting date to reflect changes in the credit risk of financial assets. The impairment standards applied measure ECL based on reasonable and supportable information that includes historical, current and forecast information, thus considering possible future credit loss events in different scenarios.

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

**Overview ECL calculation**

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

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

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

The PD (probability of default) parameters reflects the probability of default for a certain period of time. The PDs used for the ECL calculation are derived by models/methodology which were developed by the Bank internal model development units. Generally, the models are country and segment specific whenever possible and plausible. For certain parts of the portfolio Group wide models are applied to reflect data availability and portfolio characteristics. In certain cases, also external data from rating agencies is applied for the same reason mentioned before. Methodology wise, an indirect modeling approach is chosen. This means that underlying existing Basel III methodology is used as a starting point and is adapted in a way to be fully IFRS 9 compliant. This includes the removal of any conservatism from the models, the inclusion of forward-looking point-in-time information within the methodology as well as the estimation of lifetime PD term structures.

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

LGD (loss given default) is an estimate of the economic loss under condition of a default. For the LGD parameter a simplified approach is chosen. The Bank incorporates expertly determined overall LGD values within the IFRS 9 ECL calculation. Those values are internally aligned while qualitative and/or quantitative checks are performed to ensure an adequate level.
In addition to the generalized ECL calculation based on internal estimated risk parameters/methodology a portfolio approach is applied for certain circumstances which cannot not be appropriately considered in a different way within the general framework while being relevant for the reporting date. These aspects are related but not limited to data availability and quality, model/parameter weaknesses, limited timeseries and/or time lags in data. A formalized approach is defined to ensure a consistent and sound application within the overall calculation logic.

As stated in Note (1) Accounting policies, the new regulatory decision prescribes minimum thresholds for the calculation of provisions for credit losses, i.e. if the Bank in accordance with its internal methodology, determines the amount of ECL higher than those arising from the Decision, it shall apply the higher ECL amount.

Minimum rates of expected credit losses as stipulates by Decision are as follows:
***Stage 1***
The Bank determines ECL for exposures in Stage 1 at least in the following amounts:
a) for low-risk exposures referred to in Article 18, paragraph (2) of the Decision - 0.1% of exposures,

b) for exposures to central governments and central banks outside Bosnia and Herzegovina for which there is a credit assessment by a recognized external credit rating institution which is assigned to credit quality level of 3 and 4 in accordance with Article 69 of the regulator's decision on calculating the bank's capital - 1% of exposures,
c) for exposures to banks and other financial sector entities for which there is a credit assessment by a recognized external credit rating institution which is assigned to credit quality level of 1, 2 or 3 in accordance with Article 69 of the regulator's decision on calculating the bank's capital - 0.1% of exposures
d) for other exposures - 0.5% of exposures.

***Stage 2***

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

***Stage 3***

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

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

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

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

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

In accordance with the Decision on Temporary Measures to Mitigate the Risk of Interest Rate Increases, the Bank determines expected credit losses as follows:

- For newly approved credit exposures with variable or fixed nominal and effective interest rates that will be classified in credit risk level 1, the Bank determines expected credit losses amounting to a minimum of 2% of the exposure.
- For existing credit exposures previously classified in credit risk level 2 in accordance with Article 19 of the Decision, where a significant increase in interest rates is identified, the Bank determines expected credit losses amounting to a minimum of 12% of the exposure.

**Significant increase in credit risk**

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

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

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

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

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

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

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

Qualitative staging criteria:

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

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

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

The Bank has established thresholds for significant increases in credit risk based on both a percentage (relative) and absolute change in PD compared to initial recognition.

Following quantitative PD thresholds were set:
Retail/ Corporate: 200% relative increase (which corresponds to the factor of 3 or threefold relative PD increase between the probability of default at origination the probability of default at the reporting date) where the determination of significant increase in PD is based on the initial and actual probability of default of the financial instrument

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

**Forward-looking information**

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

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

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

**Validation**

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

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

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

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

**Write-offs**

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

An accounting write - off is a transfer of a balance sheet exposure to an off - balance sheet one, whereby the Bank reserves the right to take further measures to collect receivables from debtors.
If, during the debtor's recovery process, the Bank recognizes that financial assets measured at amortized cost will not be repaid, in part or in full, and the conditions for derecognition under IFRS are met, it will reserve 100% of special risk provisions for financial value of assets and after accounting write-off stop recognizing assets from the statement of financial position.

The Bank may write off the balance sheet exposure two years after it has recorded the expected credit losses in the amount of 100% of the gross book value of that exposure and declared it fully due.

After meeting the aforementioned conditions, it is necessary to write off all types of balance sheet receivables (principal, interest, fees) that are written off internally and record them in off-balance sheet records. Accounting written-off receivables should receive special types of balances (asset type) for each of the types of receivables: principal, regular and default interest, fee.

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

**15.3. Derecognition and contract modification**

A financial asset is derecognized when:

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

Contractual adjustments resulting from negotiations with borrowers can lead to two types of modifications of initial contractual cash flows: significant and insignificant modifications.
The following main criteria result in significant modifications:

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

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

For financial instruments in Stage 1 and 2 measured at amortized costs, the unamortized balance of the origination fees and transaction costs considered in the effective interest rate is presented in the line "Net interest income" and for financial instruments in Stage 3 measured at amortized costs, it is presented in the line "Credit loss expenses on financial assets". The release of the credit loss allowances of the original asset and the recognition of credit loss allowance for the new asset are presented in the line "Expected credit loss expenses on financial assets".

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

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

### 15.4. Interest rate benchmark reform

The Bank has exposure to IBORs (Interbank Offered Rates) on its financial instruments that were reformed. LIBOR reference rates EUR, GPB, CHF, JPY for all tenors and USD LIBOR reference rates for 1W and 2M tenors ceased at the end of 2021. The remaining USD LIBOR tenors ceased as at 30 June 2023. New alternative reference rates (SONIA, SARON, TONAR, SOFR) are available as a replacement of the ceased rates.

The main risks to which the Bank has been exposed as a result of IBOR reform are operational. For example, the renegotiation of loan contracts through bilateral negotiation with customers, updating of contractual terms, updating of systems that use IBOR curves, revision of operational controls related to the reform and assessing of potential litigation risk. Financial risk is predominantly limited to interest rate risk.

The main focus of the Bank during 2022 was the transition of CHF LIBOR. The transition of USD LIBOR contracts was performed during the year 2023 and SOFR (Secured Overnight Financing rate) rates were applied.

The Bank applied the practical expedient in relation to accounting for modifications of financial assets and financial liabilities required by IBOR reform. If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortized cost changes as a result of interest rate benchmark reform, then the effective interest rate of the financial asset or financial liability is updated to reflect the change that is required by the reform. There is consequently no adjustment of the carrying amount and no gain or loss is recognized. In effect, the change is treated as akin to a movement in the market rate of interest. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis.

### (16) Repurchase agreements

A repurchase agreement is an agreement between two parties under which one party transfers to the other party the ownership of assets at a specified price for a limited period of time, and at the same time it is agreed that these assets, upon expiry of the said term, should or may be repurchased at a previously agreed-upon amount. Under IFRS 9, the seller continues to recognize the asset in its statement of financial position if the seller retains substantially all risks and rewards of ownership. The cash amount received or paid is presented as a liability by the seller, whereas the buyer recognizes a receivable.

### (17) Fiduciary transactions

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

### (18) Financial guarantees

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

### (19) Cash and cash equivalents

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

The mandatory minimum reserve requirement is calculated from defined items from of the statement of financial position and has to be fulfilled in average through an extended period of time. Therefore, the minimum reserve requirement deposits are not subject to any restraints. Minimum reserve requirements is defined by Central Bank of BiH, used as of the indirect instruments of monetary policies and are not subject to any restraints.

### (20) Tangible assets: Property, plant and equipment and investment properties

Land and buildings used by the Bank in the course of its own business activities as well as operating and office equipment are reported under property, plant and equipment. Assets leased to third parties under operating leases are reported here as well, for further details see note (8) Leases. Real estate acquired to generate returns is reported under investment properties.

Property, plant and equipment is measured at cost less any accumulated depreciation and any accumulated impairment losses. Scheduled depreciation is recorded on a straight-line basis over the expected useful life. Factors involved in determining the useful life include the asset’s age when purchased, how frequently the asset will be used, technology changes and changes due to climate risks. The following depreciation rates and expected useful lives are used:

(000) BAM

| Depreciation rate | in percent | in years |
|---|---|---|
| for immovable assets (buildings) | 2% | 50 yrs |
| for movable assets (plant and equipment) | 10-33.3% | 3-10 yrs |

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

Investment properties are carried at cost less any accumulated depreciation and any accumulated impairment losses, according to the cost method admissible under IAS 40, with straight-line depreciation being applied over the useful lives applicable to property, plant and equipment.

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

The assets are reviewed for indications of possible impairment at every reporting date. For this purpose, the current carrying amount is offset against the recoverable amount pursuant to IAS 36. Therefore, the recoverable amount is the higher of the fair value less costs to sell and the value in use. If the recoverable amount is less than the carrying amount, an impairment has to be recognized. Insofar as the asset generates cash inflows that are largely independent of the cash inflows of other assets, the impairment test is performed on the basis of the individual asset. Otherwise, the impairment test is performed for the cash-generating unit the asset belongs to. IAS 36 defines a cash-generating unit as the smallest identifiable group of assets generating cash inflows that are largely independent from the cash inflows of other assets or groups of assets. The existence of a plan for energy efficient replacement investments which is in line with the Group’s carbon reduction strategy qualifies as an impairment trigger. Impairment or reversal of impairment, if any, is reported under the item “Other result”. If the reasons for the impairment cease to exist, the previously recognized impairment is reversed. The reversal is limited in that the asset’s carrying amount is not permitted to exceed the amount that would have been reported after depreciation if no impairment loss had been recorded for the asset in previous years.

### (21) Intangible assets

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

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

| Depreciation rate or useful life | in percent | in years |
|---|---|---|
| for software | 14 - 33% | 3 - 7 |

If there are indications of impairment, an impairment test is performed according to IAS 36 as described under tangible assets, and impairments are recorded through profit or loss. Impairment or reversal of impairment and gains and losses from disposal, if any, are reported under the item “Other result”.

### (22) Tax assets and tax liabilities

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

The tax expense is based on taxable income for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities are accounted for using the liability method, which compares the tax base of the items in the statement of financial position with the amounts stated pursuant to IFRS. In the case of expected taxable temporary differences, taxes are deferred. A deferred tax liability shall be recognized if the reversal of taxable temporary differences will lead to an effective tax burden. Deferred tax assets are recognized for taxable temporary differences that result in a tax credit when recovered. Deferred tax assets and deferred tax liabilities have been offset as required by IAS 12. The recognition of deferred tax is only allowed if there is convincing other evidence that sufficient taxable profits will be available.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if any. In accordance with IAS 12, non-current deferred taxes are not discounted. Deferred tax assets are recorded for tax loss carry-forwards if there is convincing evidence that future taxable profits will be available against which losses can be utilized. This assessment is made on tax plans which are based on business plans as agreed by the Management Board.

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

### (23) Other assets

Other assets mainly consist of deferred assets and real estate held as current assets, but do not comprise financial instruments.

Deferred assets are recognized at their nominal value, the real estate held as current asset with the lower of the carrying amount and the fair value less cost to sell.

### (24) Non-current assets classified as held for sale

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

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

If the requirements are met, the disposal item must thus be measured according to the special provisions under IFRS 5 as at the reporting date and written down to the lower of the carrying amount or the fair value less costs to sell.

Assets classified as held for sale and the associated liabilities are each recorded in a separate main item in the statement of financial position. “Impairment losses and reversal of impairment losses for assets classified as held for sale" are presented in “Other result”. Gains and losses from disposal for assets classified as held for sale are presented in “Other operating income and other operating expense.”
For detailed information, please refer to note (46) Non-current assets classified as held for sale.

## (25) Provisions

### 25.1. Provisions for risks arising from the lending business

Provisions for risks arising from the lending business are set up for risks arising in particular from impending drawdowns on framework agreements or as a provision against liability assumed for customer transactions (particularly issued financial guarantees and granted loan commitments). Provisions are made both for individual cases and at portfolio level and measured in accordance with IFRS 9 and Decision on Credit Risk Management and Determining Expected Credit Losses.

Changes in provisions for risks arising from the lending business affecting profit or loss are reported in the income statement under the item “Credit loss expenses on financial assets”.

### 25.2. Provisions for restructuring

Provisions for restructuring are only recorded if the general criteria for recording provisions in accordance with IAS 37.72 are fulfilled. This requires the existence of a constructive obligation for the company, which is fulfilled by the existence of a formal, detailed restructuring plan and the announcement of the measures set out in this plan to those affected.

### 25.3. Provisions for legal disputes and other provisions

Provisions for legal disputes and other provisions are recorded if there is a present liability related to a past event towards a third party, if the assertion of the relevant claim is probable and if the amount of the claim can be determined reliably. If the time value of the money effect due to passage of time is material, then provisions are determined by discounting the expected future cash flow at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability. The unwinding of the discount is recognized as interest expense. The measurement of provisions for contingent liabilities and impending losses is based on reliable (best) estimates according to IAS 37.36 et seq. Provisions for legal cases include disputes with business partners, customers and external institutions, and are created based on an evaluation of the probability of a court case being lost by the Bank. In certain cases, the legal risk-related loss is calculated using statistical methods with the expected value being the sum of the products of the probabilities of specific litigation resolutions and the loss calculated for each scenario, taking into account alternative prediction methods with respect to the number of disputes within the relevant time horizon.

## (26) Other liabilities

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

## (27) Employee benefits

### 27.1. Short-term benefits

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

### 27.2. Long-term employee benefits: retirement severance payments

In accordance with applicable laws and regulations, as well as the requirements of the Bank`s Employment Handbook, severance payments are made depending on the type of employment contract termination and for cases in which a payment is determined. In the event of termination of employment due to retirement, the Bank pays severance payments in the amount of 3 (three) average net individual salaries of employees, and in the case of termination of employment for economic, technical and organizational reasons, the Bank prepares the redundancy program, and the extra amount of severance pay may be approved by the Management Board and the Supervisory Board, appreciating the circumstances of each case. Retirement benefits provisions are based on actuarial reports and are used only for the purposes they are intended for. At the end of each year, an assessment of accuracy of the amounts of provisions for retirement benefits and unused holiday accrual is performed.

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

## (28) Equity

Equity evidences the residual interest in the assets of an entity after deduction of all liabilities or obligations which cannot be terminated by the investor. Subscribed (registered) capital represents the amounts paid in by shareholders in accordance with the articles of association.

Statutory reserves represent reserve fund formed in accordance with the article 108 of the Law on Companies ("Official Gazette of FBiH" no. 81/15).

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

The retained earnings include the cumulated profits generated by the Bank with the exception of the share of profit to which external parties are entitled.

## Notes to the profit or loss statement

### (29) Net interest income

(000) BAM

| | 01.01. - 31.12.2023 | 01.01. - 31.12.2022 |
|---|---|---|
| **Interest income calculated using the effective interest method** | **40,903** | **31,571** |
| Financial assets at fair value through other comprehensive income | 2,727 | 2,492 |
| Financial assets at amortized cost | 38,176 | 29,078 |
| Negative interest from financial liabilities | 0 | 1 |
| **Other interest income** | **262** | **0** |
| Cash balances at central banks, other demand deposits and other receivables | 262 | 0 |
| **Total interest income** | **41,165** | **31,571** |
| Financial liabilities measured at amortized cost | -2,638 | -1,993 |
| o/w lease liabilites | -65 | -40 |
| o/w borrowings | -7 | 0 |
| Negative interest from financial assets | -6 | -401 |
| **Total interest expense** | **-2,644** | **-2,394** |
| **Net interest income** | **38,521** | **29,177** |

Interest expense of financial liabilities measured at amortized cost in the amount of BAM -2,644 thousand (YE22: BAM -2,394 thousand) includes expenses of BAM -2,566 thousand (YE22: BAM -1,953 thousand) related to customer deposits.

Interest income break down by instrument and sector as follows:

(000) BAM

| | 01.01. - 31.12.2023 | 01.01. - 31.12.2022 |
|---|---|---|
| **Debt securities** | **2,727** | **2,492** |
| Governments | 2,060 | 2,083 |
| Credit institutions | 667 | 406 |
| Non-financial corporations | 0 | 3 |
| **Loans and advances** | **38,176** | **29,078** |
| Governments | 263 | 10 |
| Credit institutions | 4,065 | 188 |
| Other financial corporations | 162 | 216 |
| Non-financial corporations | 11,714 | 8,050 |
| Households | 21,972 | 20,614 |
| **Other interest income** | **262** | **0** |
| Governments | 262 | **0** |
| **Negative interest from financial liabilities** | **0** | **1** |
| Credit institutions | 0 | 1 |
| **Total** | **41,165** | **31,571** |

Interest expenses break down by instrument and sector as follows:

(000) BAM

| | 01.01. - 31.12.2023 | 01.01. - 31.12.2022 |
|---|---|---|
| **Deposits** | **-2,631** | **-1,953** |
| Governments | -80 | -41 |
| Credit institutions | -263 | -181 |
| Other financial corporations | -613 | -415 |
| Non-financial corporations | -421 | -61 |
| Households | -1,254 | -1,255 |
| **Borrowings** | **-7** | **0** |
| Credit institutions | -7 | 0 |
| **Other financial liabilities** | **0** | **-40** |
| **Negative interest from financial assets** | **-6** | **-401** |
| Central banks | -6 | -401 |
| **Total** | **-2,644** | **-2,394** |

## (30) Net fee and commission income

(000) BAM

| | 01.01. - 31.12.2023 | 01.01. - 31.12.2022 |
|---|---|---|
| Accounts and Packages | 6,282 | 5,753 |
| Transactions | 4,308 | 4,132 |
| Cards | 3,850 | 2,726 |
| Loans | 823 | 724 |
| Trade finance | 1,780 | 1,676 |
| Bancassurance | 1,555 | 1,372 |
| Foreign exchange & Dynamic currency conversion | 4,059 | 4,765 |
| Other | 32 | 271 |
| **Fee and commission income** | **22,689** | **21,419** |
| Accounts and Packages | -559 | -529 |
| Transactions | -737 | -642 |
| Cards | -4,128 | -3,427 |
| Securities | -120 | -60 |
| Client incentives | -4 | -32 |
| FX changes | -23 | -74 |
| Loans | -162 | -44 |
| Other | -92 | -121 |
| **Fee and commission expenses** | **-5,825** | **-4,929** |
| **Net fee and commission income** | **16,864** | **16,490** |

The nature of fee and commission income and expenses is described in Note (11).

## (31) Net result on financial instruments

(000) BAM

| | 01.01. - 31.12.2023 | 01.01. - 31.12.2022 |
|---|---|---|
| Exchange difference, net | 97 | 31 |
| Financial assets at fair value through other comprehensive income | 25 | 113 |
| **Total** | **122** | **144** |

The amount of BAM 25 thousand (YE22: BAM 113 thousand) is related to gain on sale of debt securities.

## (32) Other operating income and other operating expenses

Other operating income and other operating expenses - net

(000) BAM

| | 01.01. - 31.12.2023 | 01.01. - 31.12.2022 |
|---|---|---|
| Deposit guarantee | -1,978 | -1,753 |
| Banking levies and other taxes | -880 | -807 |
| Net result from sale of non-financial assets | 2,280 | 842 |
| Result from operate lease assets | 204 | 154 |
| Result from other income and other expenses | 61 | -261 |
| **Total** | **-313** | **-1,825** |

Other operating income and other operating expenses - gross

(000) BAM

| | 01.01. - 31.12.2023 | 01.01. - 31.12.2022 |
|---|---|---|
| **Other operating income** | **2,944** | **1,200** |
| Gains from sale of non-financial assets | 2,280 | 876 |
| Income from operating lease assets | 203 | 154 |
| Other income | 461 | 170 |
| **Other operating expenses** | **-3,257** | **-3,025** |
| Losses from sale of non-financial assets | 0 | -34 |
| Deposit guarantee | -1,978 | -1,753 |
| Banking levies and other taxes | -880 | -807 |
| Impairment of repossessed assets | 0 | 0 |
| Other expenses | -399 | -431 |
| **Total** | **-313** | **-1,825** |

## (33) Personnel expenses

(000) BAM

| | 31.12.2023 | 31.12.2022 |
|---|---|---|
| Wages and salaries | -7,455 | -7,137 |
| Social security | -2,152 | -2,046 |
| Variable remuneration | -1,822 | -1,834 |
| Voluntary social expenses | -995 | -1,253 |
| Pension contributions | -2,491 | -2,382 |
| Expenses for severance payments | -393 | -166 |
| Income from release of other employee provisions | 858 | 208 |
| Other personnel expenses | -473 | -60 |
| **Total** | **-14,923** | **-14,670** |

| | 31.12.2023 | 31.12.2022 |
|---|---|---|
| Employees at closing date (Full Time Equivalent - FTE) | 331 | 322 |
| Employees average (FTE) | 324.40 | 320.58 |

## (34) Other administrative expenses

(000) BAM

| | 31.12.2023 | 31.12.2022 |
|---|---|---|
| IT expense | -7,179 | -7,071 |
| Premises expenses (rent and other building expenses) | -2,686 | -2,613 |
| Legal and advisory costs | -1,201 | -922 |
| Advertising costs | -1,285 | -1,308 |
| Other administrative expenses | -1,041 | -1,028 |
| **Total** | **-13,392** | **-12,942** |

## (35) Depreciation and amortization

(000) BAM

| | 01.01. - 31.12.2023 | 01.01. - 31.12.2022 |
|---|---|---|
| Property plant and equipment | -1,589 | -1,568 |
| Intangible assets | -1,451 | -1,366 |
| **Total** | **-3,040** | **-2,934** |

## (36) Other result

(000) BAM

| | 01.01. - 31.12.2023 | 01.01. - 31.12.2022 |
|---|---|---|
| **Net result from legal provision and legal income/expense** | **734** | **664** |
| Release of provisions for legal cases and income from legal cases | 906 | 812 |
| Allocation of provisions for passive legal cases and legal costs | -172 | -148 |
| **Net result from operational risks**[1] | **-1,838** | **0** |
| Allocation of operational risk expenses | -1,838 | 0 |
| **Impairment / reversal of impairment from non-financial assets** | **-30** | **-223** |
| Impairment | -30 | -223 |
| **Net result from remeasurement of Non-current assets classified as held for sale** | **0** | **-120** |
| Impairment | 0 | -120 |
| **Total** | **-1,134** | **321** |

[1] New line item introduced for the purpose of a transparent presentation of the expenses connected with operational risk items. Previous-year figures were not adapted as no material operational risk items, on an individual or aggregated bases, have been identified, other than the losses related to legal cases which, were and will be further reported under the line item "Net result from legal cases".

Release of provisions for legal cases and income from legal cases includes other income from legal cases recognized based on positive outcome of legal dispute in the amount of BAM 298 thousand based on out of court settlement (2022: 380 thousand). Further details regarding provisions for legal cases are included in the note (25) Provisions and note (63) Legal risk.

The net result from operational risk amounts to BAM -1,838 thousand in 2023 (2022: BAM 0 thousand). The amount relates to additional VAT liability related to prior periods as determined by the control conducted by the tax authorities during 2023. The main focus of the control was the treatment of card transactions and all related services provided by VISA/MasterCard/AMERICAN. Since the Law on VAT in Bosnia & Herzegovina was passed in 2006, the common understanding of the market was that card business transactions are treated as financial services and therefore exempt from VAT charges (also previously accepted by the local tax authority). As a result of these latest controls, the tax authority took a different stand, claiming that such services are now subject to VAT. Addiko bank dd Sarajevo, among other banks which were subject to control, initiated a legal dispute against the tax authority.

The line item "Impairment on non-financial assets" in 2023 in the amount of 30 thousand BAM (YE 2022: 223 thousand) includes impairment of properties according to IAS 36.

## (37) Credit loss expenses on financial assets

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

(000) BAM

| | 01.01. - 31.12.2023 | 01.01. - 31.12.2022 |
|---|---|---|
| **Change in CL on financial instruments at FVTOCI** | **-395** | **36** |
| Additions | -401 | -85 |
| Reversal | 10 | 121 |
| Other changes | -4 | 0 |
| **Change in CL on financial instruments at amortized cost** | **-3,220** | **340** |
| Net allocation to risk provision | -6,893 | -2,612 |
| Other changes | -3,829 | -6,730 |
| Additions | -22,132 | -9,280 |
| Reversal | 19,068 | 13,398 |
| Proceeds from loans and receivables previously impaired | 3,832 | 3,208 |
| Directly recognised impairment losses | -159 | -256 |
| **Net allocation of provisions for commitments and guarantees given** | **-1,034** | **1,196** |
| **Total** | **-4,649** | **1,572** |

## (38) Taxes on income

(000) BAM

| | 01.01. - 31.12.2023 | 01.01. - 31.12.2022 |
|---|---|---|
| Current tax | -1,315 | -365 |
| Deferred tax | -72 | -591 |
| **Total** | **-1,387** | **-956** |

### 38.1. Reconciliation of effective tax rate

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

(000) BAM

| | 31.12.2023 | 31.12.2022 |
|---|---|---|
| **Result before tax** | **18,056** | **15,333** |
| Theoretical income tax expense based on B&H corporate tax rate of 10 % | -1,805 | -1,533 |
| **Tax effects** | | |
| Effects of non-deductible expenses | -680 | -297 |
| Effects of tax exempt income | 1,170 | 880 |
| Used tax losses from previous years | - | 585 |
| Effects from the change of deferred taxes on temporary differences | -72 | -591 |
| **Tax on income (effective tax rate: 8% (2022: 6%)** | **-1,387** | **-956** |

### 38.2. Movements in deferred tax balances

In the financial year, deferred tax assets and liabilities were netted as far as the requirements according to IAS 12 were fulfilled. Deferred taxes (tax assets or tax liabilities) have been recorded for the differences between carrying amounts for tax purposes and book values as presented in the following table:

(000) BAM

| 2023 | Net balance at 1 January | Recognised in profit or loss | Recognised in OCI | Net | Balance at 31 December Deferred tax assets | Deferred tax liabilities |
|---|---|---|---|---|---|---|
| Property and equipment and intangible assets | -62 | -74 | - | -136 | - | 136 |
| Investment securities at FVTOCI | 2,351 | - | -1,124 | 1,227 | 1,227 | - |
| Debt securities - credit risk component | 28 | 40 | - | 68 | 68 | - |
| Provisions for legal cases | 746 | -252 | - | 494 | 494 | - |
| Allowance for expected credit losses | 1,560 | 315 | - | 1,875 | 1,875 | - |
| Other | 247 | - | - | 247 | 247 | - |
| Impairment of non-financial assets | 650 | -101 | - | 549 | 549 | - |
| **Tax assets (liabilities)** | **5,520** | **-72** | **-1,124** | **4,324** | **4,460** | **136** |

(000) BAM

| 2022 | Net balance at 1 January | Recognised in profit or loss | Recognised in OCI | Net | Balance at 31 December Deferred tax assets | Deferred tax liabilities |
|---|---|---|---|---|---|---|
| Property and equipment and intangible assets | -120 | 58 | - | -62 | - | 62 |
| Investment securities at FVTOCI | 33 | - | 2,318 | 2,351 | 2,351 | - |
| Debt securities - credit risk component | 32 | -4 | - | 28 | 28 | - |
| Provisions for legal cases | 872 | -126 | - | 746 | 746 | - |
| Allowance for expected credit losses | 1,950 | -390 | - | 1,560 | 1,560 | - |
| Other | 306 | -59 | - | 247 | 247 | - |
| Impairment of non-financial assets | 720 | -70 | - | 650 | 650 | - |
| **Tax assets (liabilities)** | **3,793** | **-591** | **2,318** | **5,520** | **5,582** | **62** |

The total change in deferred taxes in the financial statements is BAM -1,196 thousand (2022: 1,727 thousand). Of this, BAM -72 thousand (2022: -591 thousand) is reflected in the current income statement as deferred tax income and an amount of BAM -1,124 thousand (2022: 2,318 thousand) is shown in other comprehensive income in equity.

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

(000) BAM

| | 2023 | 2022 |
|---|---|---|
| **Balance at start of period (01.01.)** | **5,520** | **3,793** |
| Tax income (expense) recognized in profit or loss | -72 | -591 |
| Tax income (expense) recognized in OCI | -1,124 | 2,318 |
| **Balance at end of period (31.12.)** | **4,324** | **5,520** |

(000) BAM

| | 2023 | 2022 |
|---|---|---|
| Deferred tax assets | 4,460 | 5,582 |
| Deferred tax liabilities | 136 | 62 |
| **Total** | **4,324** | **5,520** |

## Notes to the statement of financial position

### (39) Cash reserves

(000) BAM

| 31.12.2023 | Gross carrying amount | ECL allowance | Carrying amount (net) |
|---|---|---|---|
| Cash and cash equivalents[1)] | 27,519 | 0 | 27,519 |
| Cash balances at central banks | 193,887 | -196 | 193,691 |
| Other demand deposits | 100,790 | -851 | 99,939 |
| **Total** | **322,196** | **-1,047** | **321,149** |

(000) BAM

| 31.12.2022 | Gross carrying amount | ECL allowance | Carrying amount (net) |
|---|---|---|---|
| Cash and cash equivalents[1)] | 24,721 | 0 | 24,721 |
| Cash balances at central banks | 180,071 | -180 | 179,891 |
| Other demand deposits | 61,136 | -305 | 60,831 |
| **Total** | **265,928** | **-485** | **265,443** |

[1)]Cash on hand

Cash balances at central banks and other demand deposits include amounts that are daily due and the minimum reserves. Amounts that are not daily due are reported under loans and receivables. Cash balances at central banks also serve to meet the requirements for minimum reserves. At the reporting date, the minimum reserve held was BAM 89,080 thousand (YE22: BAM 77,991 thousand).

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

(000) BAM

| 2023 | Stage 1 |
|---|---|
| **Gross carrying amount at 01.01.2023** | **241,207** |
| Changes in the gross carrying amount | 53,470 |
| **Gross carrying amount at 31.12.2023** | **294,677** |

(000) BAM

| 2022 | Stage 1 |
|---|---|
| **Gross carrying amount at 01.01.2022** | **238,301** |
| Changes in the gross carrying amount | 2,906 |
| **Gross carrying amount at 31.12.2022** | **241,207** |

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

(000) BAM

| 2023 | Stage 1 |
|---|---|
| **ECL allowance as at 01.01.2023** | **-485** |
| Changes in the loss allowance | -562 |
| Transfer between stages | 0 |
| Write-offs | 0 |
| Foreign exchange and other movements | 0 |
| **ECL allowance as at 31.12.2023** | **-1,047** |

(000) BAM

| | Stage 1 |
|---|---|
| **ECL allowance as at 01.01.2022** | **-439** |
| Changes in the loss allowance | -46 |
| **ECL allowance as at 31.12.2022** | **-485** |

## (40) Loans and advances

The Bank measures all loans and advances at amortized cost.

### 40.1. Loans and advances to credit institutions

(000) BAM

| 31.12.2023 | Gross carrying amount | ECL allowance | Carrying amount (net) |
|---|---|---|---|
| Loans and advances | | | |
| Credit institutions | 1,123 | -55 | 1,068 |
| **Total** | **1,123** | **-55** | **1,068** |

(000) BAM

| 31.12.2022 | Gross carrying amount | ECL allowance | Carrying amount (net) |
|---|---|---|---|
| Loans and advances | | | |
| Credit institutions | 28 | 0 | 28 |
| **Total** | **28** | **0** | **28** |

(000) BAM

| 2023 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **Gross carrying amount at 01.01.2023** | **28** | **0** | **0** | **0** | **28** |
| Changes in the gross carrying amount | 784 | 587 | 20 | 0 | 1,391 |
| Transfer between stages | 197 | -197 | 0 | 0 | 0 |
| Write-offs | 0 | 0 | 0 | 0 | 0 |
| Foreign exchange and other movements | 94 | -390 | 0 | 0 | -296 |
| **Gross carrying amount at 31.12.2023** | **1,103** | **0** | **20** | **0** | **1,123** |

(000) BAM

| 2022 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **Gross carrying amount at 01.01.2022** | **34** | **0** | **0** | **0** | **34** |
| Changes in the gross carrying amount | -542 | 0 | 0 | 0 | -542 |
| Foreign exchange and other movements | 536 | 0 | 0 | 0 | 536 |
| **Gross carrying amount at 31.12.2022** | **28** | **0** | **0** | **0** | **28** |

(000) BAM

| 2023 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **ECL allowance as at 01.01.2023** | **0** | **0** | **0** | **0** | **0** |
| Changes in the loss allowance | -36 | 1 | -20 | 0 | -55 |
| Transfer between stages | 1 | -1 | 0 | 0 | 0 |
| **ECL allowance as at 31.12.2023** | **-35** | **0** | **-20** | **0** | **-55** |

(000) BAM

| 2022 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **ECL allowance as at 01.01.2022** | **0** | **0** | **0** | **0** | **0** |
| Changes in the loss allowance | 0 | 0 | 0 | 0 | 0 |
| Transfer between stages | 0 | 0 | 0 | 0 | 0 |
| **ECL allowance as at 31.12.2022** | **0** | **0** | **0** | **0** | **0** |

### 40.2. Loans and advances to customers

(000) BAM

| 31.12.2023 | Gross carrying amount | ECL | | | Carrying amount (net) |
|---|---|---|---|---|---|
| | | Stage 1 | Stage 2 | Stage 3 | |
| **Loans and advances** | | | | | |
| Governments | 3,934 | -219 | 0 | 0 | 3,715 |
| Other financial corporations | 1,839 | -56 | -5 | -23 | 1,755 |
| Non-financial corporations | 227,768 | -2,307 | -4,860 | -4,740 | 215,861 |
| Households | 350,706 | -3,190 | -4,793 | -19,468 | 323,255 |
| **Total** | **584,247** | **-5,772** | **-9,658** | **-24,231** | **544,586** |

(000) BAM

| 31.12.2022 | Gross carrying amount | ECL | | | Carrying amount (net) |
|---|---|---|---|---|---|
| | | Stage 1 | Stage 2 | Stage 3 | |
| **Loans and advances** | | | | | |
| Governments | 101 | -1 | 0 | 0 | 100 |
| Other financial corporations | 4,330 | -28 | -1 | -156 | 4,145 |
| Non-financial corporations | 219,839 | -1,131 | -3,960 | -9,937 | 204,811 |
| Households | 333,014 | -1,877 | -6,906 | -28,517 | 295,714 |
| **Total** | **557,284** | **-3,037** | **-10,867** | **-38,610** | **504,770** |

(000) BAM

| 2023 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **Gross carrying amount at 01.01.2023** | **417,823** | **96,909** | **42,552** | **0** | **557,284** |
| Changes in the gross carrying amount | 6,645 | 27,514 | 11,019 | 0 | 45,178 |
| Transfer between stages | 32,980 | -25,743 | -7,237 | 0 | 0 |
| Write-offs | -6 | 0 | -18,946 | 0 | -18,952 |
| Foreign exchange and other movements | 663 | 54 | 20 | 0 | 737 |
| **Gross carrying amount at 31.12.2023** | **458,105** | **98,734** | **27,408** | **0** | **584,247** |

(000) BAM

| 2022 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **Gross carrying amount at 01.01.2022** | **385,213** | **94,654** | **61,180** | **0** | **541,047** |
| Changes in the gross carrying amount | 80,255 | -38,306 | -3,672 | 0 | 38,277 |
| Transfer between stages | -48,945 | 40,607 | 8,338 | 0 | 0 |
| Write-offs | -36 | -48 | -23,424 | 0 | -23,508 |
| Foreign exchange and other movements | 1,336 | 2 | 130 | 0 | 1,468 |
| **Gross carrying amount at 31.12.2022** | **417,823** | **96,909** | **42,552** | **0** | **557,284** |

### Development of ECL allowances of loans and advances to customers

(000) BAM

| 2023 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **ECL allowance as at 01.01.2023** | **-3,037** | **-10,867** | **-38,610** | **0** | **-52,514** |
| Changes in the loss allowance | 79 | 1,093 | -7,443 | 0 | -6,271 |
| Transfer between stages | -2,814 | 116 | 2,698 | 0 | 0 |
| Write-offs | 0 | 0 | 18,792 | 0 | 18,792 |
| Foreign exchange and other movements | 0 | 0 | 332 | 0 | 332 |
| **ECL allowance as at 31.12.2023** | **-5,772** | **-9,658** | **-24,231** | **0** | **-39,661** |

(000) BAM

| 2022 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **ECL allowance as at 01.01.2022** | **-5,264** | **-11,386** | **-56,745** | **0** | **-73,395** |
| Changes in the loss allowance | 230 | 1,947 | -4,750 | 0 | -2,573 |
| Transfer between stages | 1,996 | -1,436 | -560 | 0 | 0 |
| Write-offs | 3 | 10 | 23,257 | 0 | 23,270 |
| Foreign exchange and other movements | -2 | -2 | 188 | 0 | 184 |
| **ECL allowance as at 31.12.2022** | **-3,037** | **-10,867** | **-38,610** | **0** | **-52,514** |

### LOANS AND ADVANCES TO HOUSEHOLDS

(000) BAM

| 2023 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **Gross carrying amount at 01.01.2023** | **228,572** | **72,386** | **32,056** | **0** | **333,014** |
| Changes in the gross carrying amount | 51,567 | -25,285 | 303 | 0 | 26,585 |
| Transfer between stages | -4,253 | 6,215 | -1,962 | 0 | 0 |
| Write-offs | -5 | 0 | -8,922 | 0 | -8,927 |
| Foreign exchange and other movements | 4 | 13 | 17 | 0 | 34 |
| **Gross carrying amount at 31.12.2023** | **275,885** | **53,329** | **21,492** | **0** | **350,706** |

(000) BAM

| 2022 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **Gross carrying amount at 01.01.2022** | **223,821** | **61,981** | **46,054** | **0** | **331,856** |
| Changes in the gross carrying amount | 41,534 | -18,070 | -2,426 | 0 | 21,038 |
| Transfer between stages | -36,758 | 28,521 | 8,237 | 0 | 0 |
| Write-offs/utilisation | -32 | -48 | -19,939 | 0 | -20,019 |
| Foreign exchange and other movements | 7 | 2 | 130 | 0 | 139 |
| **Gross carrying amount at 31.12.2022** | **228,572** | **72,386** | **32,056** | **0** | **333,014** |

(000) BAM

| 2023 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **ECL allowance as at 01.01.2023** | **-1,877** | **-6,906** | **-28,517** | **0** | **-37,300** |
| Changes in the loss allowance | 1,421 | 2,428 | -3,217 | 0 | 632 |
| Transfer between stages | -2,734 | -315 | 3,049 | 0 | 0 |
| Write-offs | 0 | 0 | 8,921 | 0 | 8,921 |
| Foreign exchange and other movements | 0 | 0 | 296 | 0 | 296 |
| **ECL allowance as at 31.12.2023** | **-3,190** | **-4,793** | **-19,468** | **0** | **-27,451** |

(000) BAM

| 2022 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **ECL allowance as at 01.01.2022** | **-3,116** | **-7,103** | **-42,429** | **0** | **-52,648** |
| Changes in the loss allowance | -573 | 1,433 | -5,233 | 0 | -4,373 |
| Transfer between stages | 1,812 | -1,244 | -568 | 0 | 0 |
| Write-offs/utilisation | 0 | 10 | 19,554 | 0 | 19,564 |
| Foreign exchange and other movements | 0 | -2 | 159 | 0 | 157 |
| **ECL allowance as at 31.12.2022** | **-1,877** | **-6,906** | **-28,517** | **0** | **-37,300** |

Overall gross carrying amount slightly increased during the year 2023, mostly through disbursements of new loans - outperforming the repayments and write-offs. Average coverage slightly increased on stage 3, and decreased on stage 2, due to increased prudency of stage 2 classification, which caused inflow of lower risk exposures into stage 2.

### LOANS AND ADVANCES TO NON-FINANCIAL CORPORATIONS

(000) BAM

| 2023 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **Gross carrying amount at 01.01.2023** | **184,993** | **24,506** | **10,340** | **0** | **219,839** |
| Changes in the gross carrying amount | -45,268 | 52,290 | 10,846 | 0 | 17,868 |
| Transfer between stages | 36,810 | -31,536 | -5,274 | 0 | 0 |
| Write-offs | -1 | 0 | -10,024 | 0 | -10,025 |
| Foreign exchange and other movements | 42 | 41 | 3 | 0 | 86 |
| **Gross carrying amount at 31.12.2023** | **176,576** | **45,301** | **5,891** | **0** | **227,768** |

(000) BAM

| 2022 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **Gross carrying amount at 01.01.2022** | **155,709** | **32,673** | **14,995** | **0** | **203,377** |
| Changes in the gross carrying amount | 41,484 | -20,222 | -1,271 | 0 | 19,991 |
| Transfer between stages | -12,156 | 12,055 | 101 | 0 | 0 |
| Write-offs/utilisation | -4 | 0 | -3,485 | 0 | -3,489 |
| Foreign exchange and other movements | -40 | 0 | 0 | 0 | -40 |
| **Gross carrying amount at 31.12.2022** | **184,993** | **24,506** | **10,340** | **0** | **219,839** |

(000) BAM

| 2023 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **ECL allowance as at 01.01.2023** | **-1,131** | **-3,960** | **-9,937** | **0** | **-15,028** |
| Changes in the loss allowance | -1,115 | -1,313 | -4,359 | 0 | -6,787 |
| Transfer between stages | -62 | 413 | -351 | 0 | 0 |
| Write-offs | 0 | 0 | 9,871 | 0 | 9,871 |
| Foreign exchange and other movements | 1 | 0 | 36 | 0 | 37 |
| Unwinding | 0 | 0 | 36 | 0 | 36 |
| **ECL allowance as at 31.12.2023** | **-2,307** | **-4,860** | **-4,740** | **0** | **-11,907** |

(000) BAM

| 2022 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **ECL allowance as at 01.01.2022** | **-2,017** | **-4,283** | **-14,185** | **0** | **-20,485** |
| Changes in the loss allowance | 699 | 515 | 508 | 0 | 1,722 |
| Transfer between stages | 184 | -192 | 8 | 0 | 0 |
| Write-offs | 3 | 0 | 3,703 | 0 | 3,706 |
| Foreign exchange and other movements | 0 | 0 | 29 | 0 | 29 |
| **ECL allowance as at 31.12.2022** | **-1,131** | **-3,960** | **-9,937** | **0** | **-15,028** |

### LOANS AND ADVANCES TO GENERAL GOVERNMENTS

(000) BAM

| 2023 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **Gross carrying amount at 01.01.2023** | **100** | **1** | **0** | **0** | **101** |
| Changes in the gross carrying amount | 3,215 | -1 | 2 | 0 | 3,216 |
| Transfer between stages | 0 | 1 | -1 | 0 | 0 |
| Foreign exchange and other movements | 617 | 0 | 0 | 0 | 617 |
| **Gross carrying amount at 31.12.2023** | **3,932** | **1** | **1** | **0** | **3,934** |

(000) BAM

| 2022 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **Gross carrying amount at 01.01.2022** | **334** | **0** | **0** | **0** | **334** |
| Changes in the gross carrying amount | -1,602 | 0 | 0 | 0 | -1,602 |
| Transfer between stages | -1 | 1 | 0 | 0 | 0 |
| Foreign exchange and other movements | 1,369 | 0 | 0 | 0 | 1,369 |
| **Gross carrying amount at 31.12.2022** | **100** | **1** | **0** | **0** | **101** |

(000) BAM

| 2023 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **ECL allowance as at 01.01.2023** | **-1** | **0** | **0** | **0** | **-1** |
| Changes in the loss allowance | -217 | 0 | 0 | 0 | -217 |
| Foreign exchange and other movements | -1 | 0 | 0 | 0 | -1 |
| **ECL allowance as at 31.12.2023** | **-219** | **0** | **0** | **0** | **-219** |

(000) BAM

| 2022 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **ECL allowance as at 01.01.2022** | **-4** | **0** | **0** | **0** | **-4** |
| Changes in the loss allowance | 5 | 0 | 0 | 0 | 5 |
| Foreign exchange and other movements | -2 | 0 | 0 | 0 | -2 |
| **ECL allowance as at 31.12.2022** | **-1** | **0** | **0** | **0** | **-1** |

### LOANS AND ADVANCES TO OTHER FINANCIAL CORPORATIONS

(000) BAM

| 2023 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **Gross carrying amount at 01.01.2023** | **4,158** | **16** | **156** | **0** | **4,330** |
| Changes in the gross carrying amount | -2,869 | 510 | -132 | 0 | -2,491 |
| Transfer between stages | 423 | -423 | 0 | 0 | 0 |
| **Gross carrying amount at 31.12.2023** | **1,712** | **103** | **24** | **0** | **1,839** |

(000) BAM

| 2022 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **Gross carrying amount at 01.01.2022** | **5,349** | **0** | **131** | **0** | **5,480** |
| Changes in the gross carrying amount | -1,161 | -14 | 25 | 0 | -1,150 |
| Transfer between stages | -30 | 30 | 0 | 0 | 0 |
| **Gross carrying amount at 31.12.2022** | **4,158** | **16** | **156** | **0** | **4,330** |

(000) BAM

| 2023 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **ECL allowance as at 01.01.2023** | **-28** | **-1** | **-156** | **0** | **-185** |
| Changes in the loss allowance | -10 | -22 | 133 | 0 | 101 |
| Transfer between stages | -18 | 18 | 0 | 0 | 0 |
| **ECL allowance as at 31.12.2023** | **-56** | **-5** | **-23** | **0** | **-84** |

(000) BAM

| 2022 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **ECL allowance as at 01.01.2022** | **-127** | **0** | **-131** | **0** | **-258** |
| Changes in the loss allowance | 99 | -1 | -25 | 0 | 73 |
| **ECL allowance as at 31.12.2022** | **-28** | **-1** | **-156** | **0** | **-185** |

Weighted average interest rates on loans can be summarized as follow:

(000) BAM

| | 31.12.2023 | 31.12.2022 |
|---|---|---|
| Corporate | 4.79% | 3.73% |
| Retail | 6.84% | 6.83% |

## (41) Investment securities

(000) BAM

| | 31.12.2023 | 31.12.2022 |
|---|---|---|
| **Investment securities** | | |
| Fair value through other comprehensive income (FVTOCI) | 215,703 | 211,758 |
| At amortised cost | 5,158 | 1,957 |
| **Total** | **220,861** | **213,715** |

### 41.1. Fair value through other comprehensive income (FVTOCI)

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

(000) BAM

| 2023 | Stage 1 |
|---|---|
| **Gross carrying amount at 01.01.2023** | **211,824** |
| Changes in the gross carrying amount | 8,085 |
| Financial assets that have been derecognized | -9,648 |
| **Gross carrying amount at 31.12.2023** | **216,160** |

(000) BAM

| 2022 | Stage 1 |
|---|---|
| **Gross carrying amount at 01.01.2022** | **242,965** |
| Changes in the gross carrying amount | -20,504 |
| Financial assets that have been derecognized | -10,637 |
| **Gross carrying amount at 31.12.2022** | **211,824** |

Investment securities - development of ECL allowance

(000) BAM

| 2023 | Stage 1 |
|---|---|
| **ECL allowance as at 01.01.2023** | **-279** |
| Changes in the loss allowance | -395 |
| Foreign exchange and other movements | -1 |
| **ECL allowance as at 31.12.2023** | **-675** |

(000) BAM

| 2022 | Stage 1 |
|---|---|
| **ECL allowance as at 01.01.2022** | **-315** |
| Changes in the loss allowance | 36 |
| **ECL allowance as at 31.12.2022** | **-279** |

(000) BAM

| | 31.12.2023 | 31.12.2022 |
|---|---|---|
| **Debt securities** | **215,485** | **211,544** |
| Governments | 109,359 | 103,096 |
| Credit institutions | 106,126 | 108,448 |
| **Equity instruments** | **218** | **214** |
| Other financial corporations | 97 | 97 |
| Non-financial corporations | 121 | 117 |
| **Total** | **215,703** | **211,758** |

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

(000) BAM

| | 31.12.2023 | 31.12.2022 |
|---|---|---|
| S.W.I.F.T SCRL | 121 | 114 |
| Sarajevska berza d.d. Sarajevo | 97 | 96 |
| PIVARA TUZLA DD TUZLA | 0 | 3 |
| IF MI GROUP D.D. SARAJEVO | 0 | 1 |
| **Total** | **218** | **214** |

## (42) Tangible assets

(000) BAM

| | 31.12.2023 | 31.12.2022 |
|---|---|---|
| Owned property, plant and equipment | 15,519 | 15,595 |
| Land and buildings | 14,147 | 14,094 |
| Plant and equipment | 1,372 | 1,475 |
| Plant and equipment - under construction | 0 | 26 |
| Right of use assets | 1,544 | 1,368 |
| Land and buildings | 1,268 | 908 |
| Plant and equipment | 276 | 460 |
| Investment property | 3 | 1,383 |
| **Total** | **17,066** | **18,346** |

## (43) Intangible assets

(000) BAM

| | 31.12.2023 | 31.12.2022 |
|---|---|---|
| Purchased software | 3,475 | 3,962 |
| Intangible assets under development | 1,932 | 1,666 |
| **Total** | **5,407** | **5,628** |

## (44) Development of tangible and intangible assets

### 44.1. Development of cost and carrying amounts

(000) BAM

| 31.12.2023 | Owned property, plant and equipment | | | Right of use assets | | Investment property |
|---|---|---|---|---|---|---|
| | Land and buildings | Plant and equipment - internally used | Plant and equipment - under construction | Land and buildings | Plant and equipment | |
| **Acquisition cost 01.01.2023** | **28,929** | **13,021** | **26** | **2,263** | **688** | **3,853** |
| Changes due to IFRS 5 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfers | -4 | 139 | -137 | 0 | 0 | 2 |
| Additions | 588 | 132 | 111 | 827 | 0 | 0 |
| Disposals | 0 | -19 | 0 | -487 | -4 | -3,852 |
| Other changes | 0 | 0 | 0 | 0 | 0 | 0 |
| Write-offs | -357 | -3,899 | 0 | 0 | 0 | 0 |
| **Acquisition cost 31.12.2023** | **29,156** | **9,374** | **0** | **2,603** | **684** | **3** |
| **Cumulative depreciation 31.12.2023** | **-15,009** | **-8,002** | **0** | **-1,335** | **-408** | **0** |
| **Carrying amount 31.12.2023** | **14,147** | **1,372** | **0** | **1,268** | **276** | **3** |

(000) BAM

| 31.12.2023 | Intangible assets | | | |
| --- | --- | --- | --- | --- |
| | Purchased software | Developed software | Under development | Total |
| **Acquisition cost 01.01.2023** | **36,030** | **0** | **1,666** | **86,476** |
| Changes due to IFRS 5 | 0 | 0 | 0 | 0 |
| Transfers | 965 | 0 | -965 | 0 |
| Additions | 0 | 0 | 1,231 | 2,889 |
| Disposals | 0 | 0 | 0 | -4,362 |
| Other changes | 7 | 0 | 0 | 7 |
| Write-offs | 0 | 0 | 0 | -4,256 |
| **Acquisition cost 31.12.2023** | **37,002** | **0** | **1,932** | **80,754** |
| **Cumulative depreciation 31.12.2023** | **-33,527** | **0** | **0** | **-58,281** |
| **Carrying amount 31.12.2023** | **3,475** | **0** | **1,932** | **22,473** |

(000) BAM

| 31.12.2022 | Owned property, plant and equipment | | | Right of use assets | | Investment property |
| --- | --- | --- | --- | --- | --- | --- |
| | Land and buildings | Plant and equipment - internally used | Plant and equipment - under construction | Land and buildings | Plant and equipment | |
| **Acquisition cost 01.01.2022** | **37,019** | **12,817** | **150** | **2,101** | **562** | **413** |
| Changes due to IFRS 5 | -4,468 | 0 | 0 | 0 | 0 | 0 |
| Transfers | -3,833 | 207 | -225 | 0 | 0 | 3,851 |
| Additions | 227 | 234 | 101 | 290 | 153 | 0 |
| Disposals | 0 | -10 | 0 | -128 | -27 | -411 |
| Other changes | 0 | 0 | 0 | 0 | 0 | 0 |
| Write-offs | -16 | -227 | 0 | 0 | 0 | 0 |
| **Acquisition cost 31.12.2022** | **28,929** | **13,021** | **26** | **2,263** | **688** | **3,853** |
| **Cumulative depreciation 31.12.2022** | **-14,835** | **-11,546** | **0** | **-1,355** | **-228** | **-2,470** |
| **Carrying amount 31.12.2022** | **14,094** | **1,475** | **26** | **908** | **460** | **1,383** |

(000) BAM

| 31.12.2022 | Intangible assets | | | |
| --- | --- | --- | --- | --- |
| | Purchased software | Developed software | Under development | Total |
| **Acquisition cost 01.01.2022** | **34,892** | **0** | **1,926** | **89,880** |
| Changes due to IFRS 5 | 0 | 0 | 0 | -4,468 |
| Transfers | 1,176 | 0 | -1,176 | 0 |
| Additions | 0 | 0 | 916 | 1,921 |
| Disposals | 0 | 0 | 0 | -576 |
| Other changes | 0 | 0 | 0 | 0 |
| Write-offs | -38 | 0 | 0 | -281 |
| **Acquisition cost 31.12.2022** | **36,030** | **0** | **1,666** | **86,476** |
| **Cumulative depreciation 31.12.2022** | **-32,068** | **0** | **0** | **-62,502** |
| **Carrying amount 31.12.2022** | **3,962** | **0** | **1,666** | **23,974** |

### 44.2. Development of depreciation and amortization

(000) BAM

| 31.12.2023 | Owned property, plant and equipment | | | Right of use assets | | |
|---|---|---|---|---|---|---|
| | Land and buildings | Plant and equipment - internally used | Plant and equipment - under construction | Land and buildings | Plant and equipment | Investment property |
| **Cumulative depreciation and amortization 01.01.2023** | **-14,835** | **-11,546** | **0** | **-1,355** | **-228** | **-2,470** |
| Changes due to IFRS 5 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfers | 0 | 0 | 0 | 0 | 0 | 0 |
| Additions | 0 | 0 | 0 | 0 | 0 | 0 |
| Disposals | 0 | 17 | 0 | 564 | 0 | 2,505 |
| Scheduled depreciation | -462 | -372 | 0 | -544 | -176 | -35 |
| Impairment | -24 | 0 | 0 | 0 | 0 | 0 |
| Other changes | 0 | 0 | 0 | 0 | -4 | 0 |
| Write-offs | 312 | 3,899 | 0 | 0 | 0 | 0 |
| **Cumulative depreciation and amortization 31.12.2023** | **-15,009** | **-8,002** | **0** | **-1,335** | **-408** | **0** |

(000) BAM

| 31.12.2023 | Intangible assets | | | |
|---|---|---|---|---|
| | Purchased software | Developed software | Under development | Total |
| **Cumulative depreciation and amortization 01.01.2023** | **-32,068** | **0** | **0** | **-62,502** |
| Changes due to IFRS 5 | 0 | 0 | 0 | 0 |
| Transfers | 0 | 0 | 0 | 0 |
| Additions | 0 | 0 | 0 | 0 |
| Disposals | 0 | 0 | 0 | 3,086 |
| Scheduled depreciation | -1,451 | 0 | 0 | -3,040 |
| Impairment | 0 | 0 | 0 | -24 |
| Other changes | 0 | 0 | 0 | -4 |
| Write-offs | -8 | 0 | 0 | 4,203 |
| **Cumulative depreciation and amortization 31.12.2023** | **-33,527** | **0** | **0** | **-58,281** |

(000) BAM

| 31.12.2022 | Owned property, plant and equipment: Land and buildings | Owned property, plant and equipment: Plant and equipment - internally used | Owned property, plant and equipment: Plant and equipment - under construction | Right of use assets: Land and buildings | Right of use assets: Plant and equipment | Investment property |
|---|---|---|---|---|---|---|
| **Cumulative depreciation and amortization 01.01.2022** | **-19,553** | **-11,385** | **0** | **-996** | **-180** | **-364** |
| Changes due to IFRS 5 | 2,965 | 0 | | 0 | 0 | 0 |
| Transfers | 2,444 | 0 | 0 | 0 | 0 | -2,444 |
| Additions | 0 | 0 | 0 | 0 | 135 | 0 |
| Scheduled depreciation | -498 | -378 | 0 | -477 | -183 | -32 |
| Impairment | -193 | 0 | 0 | 0 | 0 | 0 |
| Other changes | 0 | 11 | 0 | 118 | 0 | 370 |
| Write-offs | 0 | 206 | 0 | 0 | 0 | 0 |
| **Cumulative depreciation and amortization 31.12.2022** | **-14,835** | **-11,546** | **0** | **-1,355** | **-228** | **-2,470** |

(000) BAM

| 31.12.2022 | Intangible assets: Purchased software | Intangible assets: Developed software | Intangible assets: Under development | Total |
|---|---|---|---|---|
| **Cumulative depreciation and amortization 01.01.2022** | **-30,727** | **0** | **0** | **-63,205** |
| Changes due to IFRS 5 | 0 | | | 2,965 |
| Transfers | 0 | 0 | 0 | 0 |
| Additions | 0 | 0 | 0 | 135 |
| Scheduled depreciation | -1,366 | 0 | 0 | -2,934 |
| Impairment | 0 | 0 | 0 | -193 |
| Other changes | 0 | 0 | 0 | 499 |
| Write-offs | 25 | 0 | 0 | 231 |
| **Cumulative depreciation and amortization 31.12.2022** | **-32,068** | **0** | **0** | **-62,502** |

## (45) Other assets

(000) BAM

| | 31.12.2023 | 31.12.2022 |
|---|---|---|
| Prepayments and accrued income | 1,363 | 1,851 |
| Inventories (repossessed assets, emergency acquired assets, leases to go, etc.) | 0 | 5 |
| Other assets | 52 | 32 |
| **Total** | **1,415** | **1,888** |

## (46) Non-current assets classified as held for sale

In the current reporting period, this position mainly includes real estate assets which are part of a project to dispose non-core assets and are already actively marketed.

(000) BAM

| | 31.12.2023 | 31.12.2022 |
|---|---|---|
| Property plant and equipment | 2,185 | 2,406 |
| **Total** | **2,185** | **2,406** |

## (47) Financial liabilities measured at amortized cost

(000) BAM

| | 31.12.2023 | 31.12.2022 |
|---|---|---|
| Deposits and borrowings | 906,480 | 819,747 |
| Deposits of credit institutions | 7,410 | 10,765 |
| Deposits of customers | 896,136 | 808,982 |
| Borrowings from banks | 2,934 | 0 |
| Other financial liabilities | 9,995 | 8,732 |
| o/w lease liabilities | 1,613 | 1,394 |
| **Total** | **916,475** | **828,479** |

### 47.1. Deposits of credit institutions

(000) BAM

| | 31.12.2023 | 31.12.2022 |
|---|---|---|
| Current accounts / overnight deposits | 1,030 | 2,540 |
| Deposits with agreed terms | 6,380 | 8,225 |
| **Total** | **7,410** | **10,765** |

### 47.2. Deposits of customers

(000) BAM

| | 31.12.2023 | 31.12.2022 |
|---|---|---|
| **Current accounts / overnight deposits** | **642,301** | **603,245** |
| Governments | 35,859 | 25,504 |
| Other financial corporations | 3,464 | 8,023 |
| Non-financial corporations | 157,325 | 212,417 |
| Households | 445,653 | 357,301 |
| **Deposits with agreed terms** | **253,835** | **205,737** |
| Governments | 6,416 | 5,545 |
| Other financial corporations | 48,233 | 32,184 |
| Non-financial corporations | 63,357 | 29,051 |
| Households | 135,829 | 138,957 |
| **Total** | **896,136** | **808,982** |

Average interest rates on deposits can be summarized as follow:

| | 31.12.2023 | 31.12.2022 |
|---|---|---|
| Corporate | -0.40% | -0.20% |
| Retail | -0.21% | -0.26% |

### 47.3. Borrowings from banks

(000) BAM

| Creditor | Currency | Nominal interest rate (%) | Year of maturity | 31.12.2023 | 31.12.2022 |
|---|---|---|---|---|---|
| EBRD | EUR | 4.449 | 2026 | 2,934 | 0 |

## (48) Provisions

(000) BAM

| | 31.12.2023 | 31.12.2022 |
|---|---|---|
| Pensions and other post employment defined benefit obligations | 70 | 82 |
| Restructuring measures | 245 | 0 |
| Pending legal disputes and tax litigation | 4,944 | 7,461 |
| Provisions for operational risks | 97 | 0 |
| Commitments and guarantees granted | 2,242 | 1,209 |
| **Total** | **7,598** | **8,752** |

The item “pending legal disputes and tax litigation” includes provisions for legal risks in connection with customer protection claims, which normally occur in banking business. Further, outstanding obligations such as pending legal disputes in connection with the loan business are disclosed under this item. No further disclosures according to IAS 37.92 are made in order to protect the Bank’s position in these legal disputes. For more information please see note (63) Legal risk.

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

### 48.1. Provisions - development of loan commitments, financial guarantee and other commitments given

(000) BAM

| 2023 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **Gross carrying amount at 01.01.2023** | **183,942** | **4,666** | **0** | **0** | **188,608** |
| Changes in the nominal value | -9,602 | 12,918 | 0 | 0 | 3,316 |
| Transfer between stages | 7,393 | -7,393 | 0 | 0 | 0 |
| **Gross carrying amount at 31.12.2023** | **181,733** | **10,191** | **0** | **0** | **191,924** |

(000) BAM

| 2022 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **Gross carrying amount at 01.01.2022** | **172,342** | **10,963** | **0** | **0** | **183,305** |
| Changes in the nominal value | 6,764 | -1,390 | -71 | 0 | 5,303 |
| Transfer between stages | 4,836 | -4,907 | 71 | 0 | 0 |
| **Gross carrying amount at 31.12.2022** | **183,942** | **4,666** | **0** | **0** | **188,608** |

(000) BAM

| 2023 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **ECL allowance as at 01.01.2023** | **-1,003** | **-206** | **0** | **0** | **-1,209** |
| Changes in the loss allowance | -432 | -605 | 3 | 0 | -1,034 |
| Transfer between stages | -339 | 342 | -3 | 0 | 0 |
| Foreign exchange and other movements | 1 | 0 | 0 | 0 | 1 |
| **ECL allowance as at 31.12.2023** | **-1,773** | **-469** | **0** | **0** | **-2,242** |

(000) BAM

| 2022 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **ECL allowance as at 01.01.2022** | **-1,835** | **-571** | **0** | **0** | **-2,406** |
| Changes in the loss allowance | 253 | 947 | -4 | 0 | 1,196 |
| Transfer between stages | 578 | -582 | 4 | 0 | 0 |
| Foreign exchange and other movements | 1 | 0 | 0 | 0 | 1 |
| **ECL allowance as at 31.12.2022** | **-1,003** | **-206** | **0** | **0** | **-1,209** |

### 48.2. Provisions - development of other provisions

(000) BAM

| | Carrying amount 01.01.2023 | Foreign-exchange-differences | Allocations | Use | Releases | Other changes | Carrying amount 31.12.2023 |
|---|---|---|---|---|---|---|---|
| Pensions and other post employment defined benefit obligations | 82 | 0 | 0 | -12 | 0 | 0 | 70 |
| Restructuring measures | 0 | 0 | 245 | 0 | 0 | 0 | 245 |
| Pending legal disputes and tax litigation | 7,461 | 0 | 0 | -1,909 | -608 | 0 | 4,944 |
| Provisions for operational risks | 0 | 0 | 97 | 0 | 0 | 0 | 97 |
| Commitments and guarantees granted | 1,209 | 0 | 1,655 | 0 | -622 | 0 | 2,242 |
| **Total** | **8,752** | **0** | **1,997** | **-1,921** | **-1,230** | **0** | **7,598** |

(000) BAM

| | Carrying amount 01.01.2022 | Foreign-exchange-differences | Allocations | Use | Releases | Other changes | Carrying amount 31.12.2022 |
|---|---|---|---|---|---|---|---|
| Pensions and other post employment defined benefit obligations | 101 | 0 | 0 | -19 | 0 | 0 | 82 |
| Restructuring measures | 394 | 0 | 0 | -394 | 0 | 0 | 0 |
| Pending legal disputes and tax litigation | 8,724 | 0 | 0 | -831 | -432 | 0 | 7,461 |
| Commitments and guarantees granted | 2,406 | 0 | 612 | 0 | -1,809 | 0 | 1,209 |
| **Total** | **11,625** | **0** | **612** | **-1,244** | **-2,241** | **0** | **8,752** |

In accordance with the second pillar of the “Acceleration Program”, the associated “Operational Excellence Programstream”, which is aimed to achieve further E2E optimisation of core processes across the Group, the Bank recognized restructuring provisions in amount of BAM 245 thousand. The provisions are expected to be used during the year ending 31 December 2024.

Provisions for operational risks were recognized in connection with the controls performed by the tax authorities in Bosnia & Herzegovina during 2023 to all local banks. The amount is connected with penalties that could arise from this case.

## (49) Other liabilities

(000) BAM

| | 31.12.2023 | 31.12.2022 |
|---|---|---|
| Deferred income | 289 | 225 |
| Accruals | 3,088 | 4,476 |
| Other liabilities | 1,642 | 910 |
| Provisions for variable payments | 2,306 | 2,384 |
| **Total** | **7,325** | **7,995** |

Accruals and other liabilities include liabilities for services provided and not yet paid as well as salaries and salary compensations not yet paid, including obligations for variable performance-based payments

### (50) Equity

(000) BAM

| | 31.12.2023 | 31.12.2022 |
|---|---|---|
| **Equity holders of parent** | **186,766** | **173,936** |
| Share capital | 100,403 | 100,403 |
| Statutory reserves | 25,101 | 25,101 |
| Fair value reserve | -10,361 | -20,869 |
| Retained earnings | 71,623 | 69,301 |
| Non-controlling interest | 0 | 0 |

Direct owner of the Bank is Addiko Bank AG Austria.

The total amount of BAM 100,403 thousand (2022: BAM 100,403 thousand) corresponds to the fully paid in share capital of Addiko Bank AG, which is divided into 532,500 (2022: 532,500) registered shares. The proportionate amount of the share capital per share amounts BAM 188.55 (2022: BAM 188.55).

The statutory reserves include obligatory reserves 25% of share capital.

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

Cumulated results represent accumulated net profit brought forward.

Pursuant to Banking Act of FBiH, the Bank recorded a profit in the amount of BAM 16,669 thousand in the financial year 2023. In the next General Assembly, a proposal will be made to distribute profit as dividend.

### (51) Statement of cash flows

The statement of cash flows according to IAS 7 represents the changes in cash and cash equivalents of the Bank due to The statement of cash flows according to IAS 7 represents the changes in cash and cash equivalents of the Bank due to cash flows from operating, investment and financing activities. The cash flow from operating activities of the Bank contains cash inflows and outflows arising from loans and receivables from credit institutions and customers, liabilities to credit institutions and customers.  The cash flow from investing activities includes cash inflows and outflows arising from securities, intangible assets and property, plant and equipment. Cash and cash equivalents include cash, cash balances at central banks that are daily due and deposits that are daily due.

## Segment Reporting

Segment reporting represents results of Addiko Bank's business segments, prepared on the basis of internal reports used by the Management Board to assess the performance of the segments and used as a source for decision-making. Business segmentation is divided into the segment of consumer loans, small and medium-sized enterprises (SME), which are the focus segments, and non-focus segments, which are large corporate, public financing and mortgage loans. In order to evaluate the results of the segments in question, the Management uses the income statement listed below as the primary method of determining business success, as well as the volume of interest-bearing loans, the volume of deposits and the associated KPI. In the income statement of the report by segment, interest income and interest expense are stated in the net amount in the position net interest income, which reflects the presentation of internal reporting and is the basis for further management of the Bank by the Management. The accounting policies in the operating segments are the same as those described in the significant accounting policies. The bank assesses the business success of each segment based on a.) business results before taxes b.) the volume of income-generating loans and c.) the volume of deposits as the most important items that the Management takes into consideration when evaluating the results of the respective segments.

**Consumer strategy**

Addiko Bank’s strategy is to offer modern banking, focusing on products for the essential needs of customers unsecured loans and payments, delivered efficiently and communicated in a simple and transparent manner. Hence, the Bank maintains focus on lending Consumer cash, non-purpose loans, with the aim of increasing the interest-bearing portfolio and associated interest income.  In Consumer segment, focus is also on commission income, especially on products such as Accounts & Packages, Cards and Transactions. Addiko Bank also puts significant efforts in maintaining digital capabilities and is recognized in its markets throughout hybrid sales channels such as Digital (Addiko Chat Banking on Viber, Webloans, mLoans), CVM and of doing its business through the network of 28 branches (as the key channel where all contracts are concluded).

**SME Finance Strategy**

SME business is a main strategic focus segment of Addiko Bank in which the Bank is targeting the “real economy” with working capital loans, investment loans and a strong focus on trade finance products and quality. Addiko's strategy in SME business is to achieve primary bank status by providing services based on convenience, developing flexible solutions and products which are digitalized and the related competitive advantage. In recent years Addiko Bank builds up digital platform which will cater to the needs of modern Small and Medium-sized customers by providing primarily simple loan financing with market leader delivery times. With it, Addiko Bank also plans to continue to digitally serve the untapped potential of smaller legal entities and consequently increasing the loan volumes and related commission income. In SME segment, focus is also on commission income, especially on products such as Accounts & Packages and Transactions.

**Mortgage, Large and Public**

Segments that are not part of the ‘focus area’ include Large and Public companies, as well as mortgage loans to Consumers. Given the gradual run-down strategy, mortgage lending products are not marketed. Business with large and public companies includes lending and deposit collection. The primary goal for non-focused clients is to maintain existing clients that have a favorable ratio between the level of risk and return, as well as the provision of account management services.

**Corporate Center**

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

000 BAM

| 31.12.2023. | Focus segments | | Non-focus segments | | | Corporate Center | Total |
|---|---|---|---|---|---|---|---|
| | Consumer | SME Business | Mortgage | Large Corporates | Public Finance | | |
| Net banking income | 32,007 | 14,840 | 931 | 973 | 236 | 6,398 | 55,385 |
| Net interest income | 19,718 | 10,233 | 931 | 522 | 97 | 7,020 | 38,521 |
| o/w regular interest income | 20,535 | 9,924 | 887 | 752 | 245 | 0 | 32,343 |
| Net fee and commission income | 12,289 | 4,607 | 0 | 451 | 139 | -622 | 16,864 |
| Net result from financial instruments | 0 | 0 | 0 | 0 | 0 | 122 | 122 |
| Other operating result | 0 | 0 | 0 | 0 | 0 | -313 | -313 |
| **Operating income** | **32,007** | **14,840** | **931** | **973** | **236** | **6,207** | **55,194** |
| **Operating expenses** | **-19,295** | **-4,698** | **-13** | **-619** | **-142** | **-6,588** | **-31,355** |
| **Operating result** | **12,712** | **10,142** | **918** | **354** | **94** | **-381** | **23,839** |
| Other result | 0 | 0 | 0 | 0 | 0 | -1,134 | -1,134 |
| Credit loss expenses on financial assets | 1,245 | -6,242 | 1,415 | 185 | -350 | -902 | -4,649 |
| **Operating result before tax** | **13,957** | **3,900** | **2,333** | **539** | **-256** | **-2,417** | **18,056** |
| | | | | | | | |
| **Business volume** | | | | | | | |
| Net loans and receivables | 309,282 | 201,106 | 11,409 | 14,181 | 5,852 | 3,824 | 545,654 |
| Financial liabilities at AC [1)] | 571,172 | 146,217 | 0 | 100,436 | 78,312 | 20,338 | 916,475 |

000 BAM

| 31.12.2022. | Focus segments | | Non-focus segments | | | Corporate Center | Total |
|---|---|---|---|---|---|---|---|
| | Consumer | SME Business | Mortgage | Large Corporates | Public Finance | | |
| Net banking income | 29,583 | 10,651 | 1,063 | 1,918 | 424 | 2,028 | 45,667 |
| Net interest income | 18,250 | 6,347 | 1,063 | 1,264 | 165 | 2,088 | 29,177 |
| o/w regular interest income | 18,884 | 6,154 | 1,012 | 1,031 | 209 | 2,711 | 30,001 |
| Net fee and commission income | 11,333 | 4,304 | 0 | 654 | 259 | -60 | 16,490 |
| Net result from financial instruments | 0 | 0 | 0 | 0 | 0 | 144 | 144 |
| Other operating result | 0 | 0 | 0 | 0 | 0 | -1,825 | -1,825 |
| **Operating income** | **29,583** | **10,651** | **1,063** | **1,918** | **424** | **347** | **43,986** |
| **Operating expenses** | **-17,913** | **-4,261** | **-20** | **-683** | **-230** | **-7,439** | **-30,546** |
| **Operating result** | **11,670** | **6,390** | **1,043** | **1,235** | **194** | **-7,092** | **13,440** |
| Other result | 0 | 0 | 0 | 0 | 0 | 321 | 321 |
| Credit loss expenses on financial assets | -3,482 | 1,816 | 1,882 | 1,363 | 31 | -38 | 1,572 |
| **Operating result before tax** | **8,188** | **8,206** | **2,925** | **2,598** | **225** | **-6,809** | **15,333** |
| | | | | | | | |
| **Business volume** | | | | | | | |
| Net loans and receivables | 279,279 | 183,499 | 14,397 | 19,799 | 3,496 | 4,330 | 504,800 |
| Financial liabilities at AC [1)] | 487,402 | 157,999 | 0 | 113,744 | 43,833 | 25,501 | 828,479 |

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

(000) BAM

| 31.12.2023. | Focus segments | | Non-focus segments | | Corporate Center | Total |
|---|---|---|---|---|---|---|
| | Consumer | SME Business | Large Corporates | Public Finance | | |
| Transactions | 1,821 | 2,160 | 225 | 102 | 0 | 4,308 |
| Accounts and Packages | 5,253 | 981 | 18 | 30 | 0 | 6,282 |
| Cards | 3,757 | 92 | 1 | 0 | 0 | 3,850 |
| FX & DCC | 3,826 | 231 | 2 | 0 | 0 | 4,059 |
| Securities | 0 | 0 | 0 | 0 | 0 | 0 |
| Bancassurance | 1,555 | 0 | 0 | 0 | 0 | 1,555 |
| Loans | 674 | 149 | 0 | 0 | 0 | 823 |
| Trade finance | 0 | 1,506 | 248 | 26 | 0 | 1,780 |
| Other | 15 | 14 | 3 | 0 | 0 | 32 |
| **Fee and commission income** | **16,901** | **5,133** | **497** | **158** | **0** | **22,689** |
| Cards | -3,535 | -90 | -1 | 0 | -502 | -4,128 |
| Transactions | -311 | -368 | -40 | -18 | 0 | -737 |
| Client incentives | -4 | 0 | 0 | 0 | 0 | -4 |
| Securities | 0 | 0 | 0 | 0 | -120 | -120 |
| Accounts and Packages | -559 | 0 | 0 | 0 | 0 | -559 |
| Bancassurance | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | -203 | -68 | -5 | -1 | 0 | -277 |
| **Fee and commission expenses** | **-4,612** | **-526** | **-46** | **-19** | **-622** | **-5,825** |
| **Net fee and commission income** | **12,289** | **4,607** | **451** | **139** | **-622** | **16,864** |

(000) BAM

| 31.12.2022. | Focus segments | | Non-focus segments | | Corporate Center | Total |
|---|---|---|---|---|---|---|
| | Consumer | SME Business | Large Corporates | Public Finance | | |
| Transactions | 1,668 | 2,085 | 277 | 102 | 0 | 4,132 |
| Accounts and Packages | 4,982 | 733 | 14 | 24 | 0 | 5,753 |
| Cards | 2,642 | 83 | 1 | 0 | 0 | 2,726 |
| FX & DCC | 4,399 | 326 | 7 | 33 | 0 | 4,765 |
| Securities | 0 | 0 | 0 | 0 | 0 | 0 |
| Bancassurance | 1,371 | 0 | 0 | 0 | 0 | 1,371 |
| Loans | 539 | 182 | 3 | 0 | 0 | 724 |
| Trade finance | 0 | 1,332 | 340 | 4 | 0 | 1,676 |
| Other | 36 | 64 | 57 | 115 | 0 | 272 |
| **Fee and commission income** | **15,637** | **4,805** | **699** | **278** | **0** | **21,419** |
| Cards | -3,318 | -107 | -1 | -1 | 0 | -3,427 |
| Transactions | -262 | -322 | -43 | -16 | 0 | -643 |
| Client incentives | -32 | 0 | 0 | 0 | 0 | -32 |
| Securities | 0 | 0 | 0 | 0 | -59 | -59 |
| Accounts and Packages | -529 | 0 | 0 | 0 | 0 | -529 |
| Bancassurance | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | -165 | -71 | -1 | -2 | 0 | -239 |
| **Fee and commission expenses** | **-4,306** | **-500** | **-45** | **-19** | **-59** | **-4,929** |
| **Net fee and commission income** | **11,331** | **4,305** | **654** | **259** | **-59** | **16,490** |

## Risk Report

### (52) Risk control and monitoring

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

The following central principles apply in the Bank to the bank's overall controlling:

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

### (53) Risk strategy & Risk Appetite Framework (RAF)

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

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

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

### (54) Risk organization

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

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

In 2023, the following organizational units were operative:

**Credit Risk Management division** – **Credit operations department** has the responsibility for credit risk management for all non-Retail customer segments i.e. SME, Large Corporates, Public Finance (Sovereigns and Sub sovereigns).That includes an operative and a strategic role. Operationally it covers analysis and approval of credit applications, while strategically it defines policies, procedures, manuals, guidelines and all other documents for above mentioned segments of credit risk management.

**Credit Risk Management division** – **Retail Collection team and Retail Underwriting & Portfolio management department** - its aim is to support the profitable growth of the Retail portfolio while ensuring the credit risk is aligned to the overall bank budget. It covers portfolio reporting and analysis and retail collections. Monthly portfolio quality review meetings ensure that the portfolio development is tracked, issues are identified at an early stage and corrective actions are initiated. Retail Risk is also a key stakeholder of the product approval and review process. This ensures that the risk appetite of the lending products is in line with the risk appetite of the Bank.

**Risk controlling division -** all risk and regulatory topics which are of strategic importance for the Bank.
**Credit Risk control and regulatory reporting department -** it provides the risk strategy, economic capital management, stress testing and coordination of national bank examinations and coordinates Banks units in participation in activities connected to recovery and resolution topics, as well as steering of the SREP process and coordination of risk projects.
**Risk Controlling division** includes a **Market & Liquidity Risk control department**, which defines thresholds, monitors risk indicators and initiates measures to manage the market and liquidity risk of the Bank within the defined risk appetite, and regulatory limitations. **Risk Controlling division** includes also a **department for Operational Risk, control management and anti fraud** which provides strategic direction with a robust framework of operational risk management which includes identifying, measuring, managing, monitoring and reporting operational risk, providing a mechanism for discussion and effective escalation of issues leading to better risk management and increasing institutional resilience.

The respective country CROs ensure compliance with the risk principles.

## (55) Internal risk management guidelines

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

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

## (56) Credit risk

### 56.1. Definition

In terms of scale, credit risk constitutes the most significant risks for the Bank. Credit risk mainly arises from the lending business. Credit risk (or counterparty default risk) occurs when transactions result in claims against debtors, issuers of securities or counterparties. If these parties do not meet their obligations, losses result in the amount of non-received benefits less utilised collaterals, reduced by the achieved recovery rate of unsecured portions. This definition includes default and surety risks from credit transactions as well as issuer, replacement and fulfilment risks from trading transactions.

### 56.2. General requirements

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

In line with a instruction on authority levels as defined by the Management and Supervisory Boards, credit decisions are made by the Credit Committee as well as by key staff in the back office and the analysis units of the Risk Office.

The Credit Committee is a permanent institution of the Bank and the highest body for making credit decisions, subordinated only to the Management Board.

### 56.3. Risk measurement

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

### 56.4. Risk limitation

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

In the Bank, limits within financial institutions segment are set and monitored independently by a responsible unit. If limits are exceeded, the escalation process is initiated and this is communicated immediately to operative risk unit as well as front office and reported to the relevant decision-making level. At portfolio level, there are lot of limits to prevent the formation of risk concentrations; limit breaches are escalated to the Management Board, and the front office is required to work together with the back office to define measures to control these risk concentrations.

### 56.5. Reconciliation between Financial instruments classes and Credit risk exposure

The credit risk exposure comprises the gross carrying amount (or nominal value in the case of off-balance-sheet exposures) without taking into account expected credit losses (including those for guarantees), any collateral held, netting effects, other credit enhancements or credit risk mitigating transactions. Market values are used to calculate the relevant exposure for securities, whereas amortized cost is used for loans. Unless explicitly stated differently, all values in the risk report are shown inclusive of the portfolio that is classified as held for sale according to IFRS 5.
All the written-off exposures which are not written-off as a part of the asset sale or debt settlement process, and are therefore kept out-of balance, continue to be subject to enforcement activity.

Breakdown of net exposure within the Bank in accordance with IFRS 7.35M as at 31 December 2023:

(000 BAM)

| Financial instruments | Exposure | ECL S1&2 | Net | Exposure | ECL S3&POCI | Net | Exposure | Net |
|---|---|---|---|---|---|---|---|---|
| Cash reserves | 294,677 | -1,047 | 293,630 | 0 | 0 | 0 | 294,677 | 293,630 |
| Loans and receivables | 557,943 | -15,464 | 542,479 | 27,427 | -24,252 | 3,175 | 585,370 | 545,654 |
| Investment securities | 221,541 | -680 | 220,861 | 0 | 0 | 0 | 221,541 | 220,861 |
| **On balance total** | **1,074,161** | **-17,191** | **1,056,970** | **27,427** | **-24,252** | **3,175** | **1,101,588** | **1,060,145** |
| **Off balance total** | **191,924** | **-2,242** | **189,682** | **0** | **0** | **0** | **191,924** | **189,682** |
| **Total credit risk exposure** | **1,266,085** | **-19,433** | **1,246,652** | **27,427** | **-24,252** | **3,175** | **1,293,512** | **1,249,827** |

The following table shows the exposure in accordance with IFRS 7.35M as at 31 December 2022:

(000 BAM)

| Financial instruments | Exposure | ECL S1&2 | Net | Exposure | ECL S3&POCI | Net | Exposure | Net |
|---|---|---|---|---|---|---|---|---|
| Cash reserves | 241,207 | -485 | 240,722 | 0 | 0 | 0 | 241,207 | 240,722 |
| Loans and receivables | 514,760 | -13,904 | 500,856 | 42,552 | -38,610 | 3,942 | 557,312 | 504,798 |
| Investment securities | 213,783 | -282 | 213,501 | 0 | 0 | 0 | 213,783 | 213,501 |
| **On balance total** | **969,750** | **-14,671** | **955,079** | **42,552** | **-38,610** | **3,942** | **1,012,302** | **959,021** |
| **Off balance total** | **188,608** | **-1,209** | **187,399** | **0** | **0** | **0** | **188,608** | **187,399** |
| **Total credit risk exposure** | **1,158,358** | **-15,880** | **1,142,478** | **42,552** | **-38,610** | **3,942** | **1,200,910** | **1,146,420** |

### 56.6. Credit risk exposure by rating class

At 31 December 2023 roughly 25.72% (YE22: 21.27%) of the exposure is categorized as rating classes 1A to 1E. This exposure mainly relates to receivables from financial institutions, sovereigns and private individuals.

The overall NPE stock development in 2023 is mainly influenced by accounting write-off repayments, settlements and collection effects. Taking all these effects into consideration the overall non-performing exposure decreased during 2023 by BAM 15,204 thousand.

The following table shows the exposure by rating classes and market segment as at 31 December 2023:

(000) BAM

| 31.12.2023 | 1A-1E | 2A-2E | 3A-3E | Watch | NPE | No rating | Total |
|---|---|---|---|---|---|---|---|
| Consumer | 15,145 | 174,833 | 115,729 | 31,373 | 19,291 | 213 | 356,584 |
| SME | 51,250 | 179,294 | 111,699 | 7,467 | 5,899 | 53 | 355,662 |
| Non-Focus | 262 | 33,494 | 22,405 | 5,525 | 2,066 | 26 | 63,778 |
| o/w Large Corporate | 137 | 25,613 | 17,052 | 0 | 24 | 0 | 42,826 |
| o/w Mortgage | 41 | 7,879 | 912 | 3,273 | 2,042 | 20 | 14,167 |
| o/w Public Finance | 84 | 2 | 4,441 | 2,252 | 0 | 6 | 6,785 |
| Corporate Center[1)] | 266,041 | 16,623 | 234,802 | 1 | 21 | 0 | 517,488 |
| **Total** | **332,698** | **404,244** | **484,635** | **44,366** | **27,277** | **292** | **1,293,512** |

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

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

(000) BAM

| 31.12.2022 | 1A-1E | 2A-2E | 3A-3E | Watch | NPE | No rating | Total |
|---|---|---|---|---|---|---|---|
| Consumer | 11,483 | 154,919 | 99,683 | 33,363 | 25,164 | 2,876 | 327,488 |
| SME | 45,970 | 185,432 | 75,853 | 18,812 | 10,558 | 756 | 337,381 |
| Non-Focus | 240 | 43,453 | 17,865 | 10,618 | 6,747 | 145 | 79,068 |
| o/w Large Corporate | 61 | 33,854 | 12,792 | 7,118 | 0 | 0 | 53,825 |
| o/w Mortgage | 104 | 9,599 | 1,494 | 3,499 | 6,748 | 139 | 21,583 |
| o/w Public Finance | 75 | 0 | 3,579 | 1 | -1 | 6 | 3,660 |
| Corporate Center[1] | 197,772 | 23,323 | 206,606 | 0 | 12 | 29,260 | 456,973 |
| **Total** | **255,465** | **407,127** | **400,007** | **62,793** | **42,481** | **33,037** | **1,200,910** |

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

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

- 1A-1E: representing customers with a very low risk, having the best, excellent or very good credit standing;
- 2A-2E: representing customers with a good or moderate credit standing;
- 3A-3E: representing customers with a medium or high credit risk;
- Watch: representing customers with a very high credit risk or who are likely to default. This class includes customers which may have overdue payments or defaults in their credit history or may encounter debt repayment difficulties in the medium term;
- NPE (default): one or more of the default criteria under Decision about credit risk management and establishment of expected credit losses are met: among others, interest or principal payments on a material exposure have been overdue for more than 90 days, the bank significantly doubts the customer's credit standing, there are risk-oriented restructuring measures leading to a forborne non-performing exposure, there is a realization of a loan loss or bankruptcy proceedings are initiated.

The Bank applies the customer view to all customer segments, including retail clients. If an obligor defaults on one deal, then the customers's performing transactions are classified as non-performing as well. The classifications per rating class and ECL stage can be seen in the tables below.
Loans and advances to customers at amortized cost:

(000) BAM

| 31.12.2023 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| Rating class | | | | | |
| 1A-1E | 30,826 | 351 | 0 | 0 | 31,177 |
| 2A-2E | 263,075 | 21,335 | 0 | 0 | 284,410 |
| 3A-3E | 158,062 | 39,073 | 0 | 0 | 197,135 |
| Watch | 6,088 | 37,737 | 151 | 0 | 43,976 |
| NPE | 0 | 0 | 27,257 | 0 | 27,257 |
| No rating | 54 | 238 | 0 | 0 | 292 |
| **Total gross carrying amount** | **458,105** | **98,734** | **27,408** | **0** | **584,247** |
| Loss allowance | -5,772 | -9,658 | -24,231 | 0 | -39,661 |
| **Carrying amount** | **452,333** | **89,076** | **3,177** | **0** | **544,586** |

(000) BAM

| 31.12.2022 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| Rating class | | | | | |
| 1A-1E | 24,146 | 183 | 0 | 0 | 24,329 |
| 2A-2E | 255,102 | 12,304 | 0 | 0 | 267,406 |
| 3A-3E | 131,382 | 34,884 | 0 | 0 | 166,266 |
| Watch | 3,889 | 49,210 | 71 | 0 | 53,170 |
| NPE | 0 | 0 | 42,481 | 0 | 42,481 |
| No rating | 3,304 | 328 | 0 | 0 | 3,632 |
| **Total gross carrying amount** | **417,823** | **96,909** | **42,552** | **0** | **557,284** |
| Loss allowance | -3,037 | -10,867 | -38,610 | 0 | -52,514 |
| **Carrying amount** | **414,786** | **86,042** | **3,942** | **0** | **504,770** |

Loans and advances to banks at amortized cost:

(000) BAM

| 31.12.2023 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| Rating class | | | | | |
| 1A-1E | 2 | 0 | 0 | 0 | 2 |
| 2A-2E | 0 | 0 | 0 | 0 | 0 |
| 3A-3E | 1,101 | 0 | 0 | 0 | 1,101 |
| Watch | 0 | 0 | 0 | 0 | 0 |
| NPE | 0 | 0 | 20 | 0 | 20 |
| No rating | 0 | 0 | 0 | 0 | 0 |
| **Total gross carrying amount** | **1,103** | **0** | **20** | **0** | **1,123** |
| Loss allowance | -35 | 0 | -20 | 0 | -55 |
| **Carrying amount** | **1,068** | **0** | **0** | **0** | **1,068** |

(000) BAM

| 31.12.2022 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| Rating class | | | | | |
| 1A-1E | 0 | 0 | 0 | 0 | 0 |
| 2A-2E | 10 | 0 | 0 | 0 | 10 |
| 3A-3E | 18 | 0 | 0 | 0 | 18 |
| Watch | 0 | 0 | 0 | 0 | 0 |
| NPE | 0 | 0 | 0 | 0 | 0 |
| No rating | 0 | 0 | 0 | 0 | 0 |
| **Total gross carrying amount** | **28** | **0** | **0** | **0** | **28** |
| Loss allowance | 0 | 0 | 0 | 0 | 0 |
| **Carrying amount** | **28** | **0** | **0** | **0** | **28** |

Debt instruments measured at FVTOCI:

(000) BAM

| 31.12.2023 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| Rating class | | | | | |
| 1A-1E | 168,220 | 0 | 0 | 0 | 168,220 |
| 2A-2E | 18,019 | 0 | 0 | 0 | 18,019 |
| 3A-3E | 41,702 | 0 | 0 | 0 | 41,702 |
| Watch | 0 | 0 | 0 | 0 | 0 |
| NPE | 0 | 0 | 0 | 0 | 0 |
| No rating | 0 | 0 | 0 | 0 | 0 |
| **Total gross carrying amount** | **227,941** | **0** | **0** | **0** | **227,941** |
| Loss allowance | -675 | 0 | 0 | 0 | -675 |
| FV | -11,781 | 0 | 0 | 0 | -11,781 |
| **Carrying amount** | **215,485** | **0** | **0** | **0** | **215,485** |

(000) BAM

| 31.12.2022 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| Rating class | | | | | |
| 1A-1E | 134,677 | 0 | 0 | 0 | 134,677 |
| 2A-2E | 23,312 | 0 | 0 | 0 | 23,312 |
| 3A-3E | 24,575 | 0 | 0 | 0 | 24,575 |
| Watch | 0 | 0 | 0 | 0 | 0 |
| NPE | 0 | 0 | 0 | 0 | 0 |
| No rating | 29,260 | 0 | 0 | 0 | 29,260 |
| **Total gross carrying amount** | **211,824** | **0** | **0** | **0** | **211,824** |
| Loss allowance | -280 | 0 | 0 | 0 | -280 |
| **Carrying amount** | **211,544** | **0** | **0** | **0** | **211,544** |

Commitments and financial guarantees given:

(000) BAM

| 31.12.2023 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| Rating class | | | | | |
| 1A-1E | 35,471 | 9 | 0 | 0 | 35,480 |
| 2A-2E | 96,064 | 7,147 | 0 | 0 | 103,211 |
| 3A-3E | 50,096 | 2,747 | 0 | 0 | 52,843 |
| Watch | 102 | 288 | 0 | 0 | 390 |
| NPE | 0 | 0 | 0 | 0 | 0 |
| No rating | 0 | 0 | 0 | 0 | 0 |
| **Total gross carrying amount** | **181,733** | **10,191** | **0** | **0** | **191,924** |
| Loss allowance | -1,773 | -469 | 0 | 0 | -2,242 |
| **Carrying amount** | **179,960** | **9,722** | **0** | **0** | **189,682** |

(000) BAM

| 31.12.2022 | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| Rating class | | | | | |
| 1A-1E | 33,363 | 1 | 0 | 0 | 33,364 |
| 2A-2E | 114,122 | 2,277 | 0 | 0 | 116,399 |
| 3A-3E | 27,319 | 1,758 | 0 | 0 | 29,077 |
| Watch | 8,993 | 630 | 0 | 0 | 9,623 |
| NPE | 0 | 0 | 0 | 0 | 0 |
| No rating | 145 | 0 | 0 | 0 | 145 |
| **Total gross carrying amount** | **183,942** | **4,666** | **0** | **0** | **188,608** |
| Loss allowance | -1,003 | -206 | 0 | 0 | -1,209 |
| **Carrying amount** | **182,939** | **4,460** | **0** | **0** | **187,399** |

### 56.7. Exposure by business sector

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

| | Non-financial corporations | |
|---|---|---|
| 31.12.2023 | Gross carrying amount | ECL |
| A Agriculture, forestry and fishing | 3,515 | -198 |
| B Mining and quarrying | 2,284 | -121 |
| C Manufacturing | 47,776 | -2,360 |
| D Electricity, gas, steam and air conditioning supply | 5,074 | -204 |
| E Water supply | 2,207 | -23 |
| F Construction | 22,124 | -587 |
| G Wholesale and retail trade | 100,582 | -6,688 |
| H Transport and storage | 9,868 | -569 |
| I Accommodation and food service activities | 8,153 | -214 |
| J Information and communication | 4,512 | -304 |
| K Financial and insurance activities | 231 | -2 |
| L Real estate activities | 3,104 | -68 |
| M Professional, scientific and technical activities | 7,977 | -134 |
| N Administrative and support service activities | 4,895 | -212 |
| O Public administration and defence, compulsory social security | 0 | 0 |
| P Education | 1,210 | -16 |
| Q Human health services and social work activities | 3,548 | -178 |
| R Arts, entertainment and recreation | 511 | -11 |
| S Other services | 197 | -18 |
| **Loans and advances** | **227,768** | **-11,907** |

| 31.12.2022 | Non-financial corporations Gross carrying amount | ECL |
|---|---|---|
| A Agriculture, forestry and fishing | 3,001 | -70 |
| B Mining and quarrying | 5,850 | -30 |
| C Manufacturing | 51,551 | -6,924 |
| D Electricity, gas, steam and air conditioning supply | -5 | -1 |
| E Water supply | 3,003 | -26 |
| F Construction | 19,332 | -220 |
| G Wholesale and retail trade | 95,540 | -5,969 |
| H Transport and storage | 4,613 | -95 |
| I Accommodation and food service activities | 7,811 | -273 |
| J Information and communication | 4,499 | -278 |
| K Financial and insurance activities | 3,754 | -79 |
| L Real estate activities | 5,395 | -163 |
| M Professional, scientific and technical activities | 8,250 | -88 |
| N Administrative and support service activities | 3,896 | -191 |
| O Public administration and defense, compulsory social security | 0 | 0 |
| P Education | 216 | -3 |
| Q Human health services and social work activities | 2,130 | -317 |
| R Arts, entertainment and recreation | 511 | -4 |
| S Other services | 492 | -297 |
| **Loans and advances** | **219,839** | **-15,028** |

### 56.8. Presentation of exposure by overdue days

(000) BAM

| 31.12.2023 | No Overdue | - overdue to 30 days | - overdue 31 to 60 days | - overdue 61 to 90 days | - overdue more than 90 days | Total |
|---|---|---|---|---|---|---|
| Consumer | 328,773 | 11,035 | 1,255 | 807 | 14,714 | 356,584 |
| SME | 342,441 | 8,110 | 552 | 3,539 | 1,020 | 355,662 |
| Non-Focus | 52,059 | 9,768 | 31 | 260 | 1,660 | 63,778 |
| o/w Large Corporate | 35,037 | 7,789 | 0 | 0 | 0 | 42,826 |
| o/w Mortgage | 10,238 | 1,979 | 31 | 260 | 1,659 | 14,167 |
| o/w Public Finance | 6,784 | 0 | 0 | 0 | 1 | 6,785 |
| Corporate Center[2] | 517,488 | 0 | 0 | 0 | 0 | 517,488 |
| **Total** | **1,240,761** | **28,913** | **1,838** | **4,606** | **17,394** | **1,293.512** |

(000) BAM

| 31.12.2022 | No Overdue | - overdue to 30 days | - overdue 31 to 60 days | - overdue 61 to 90 days | - overdue more than 90 days | Total |
|---|---|---|---|---|---|---|
| Consumer | 295,968 | 11,510 | 1,091 | 446 | 18,473 | 327,488 |
| SME | 319,601 | 7,576 | 47 | 2 | 10,155 | 337,381 |
| Non-Focus | 71,596 | 1,365 | 81 | 72 | 5,954 | 79,068 |
| o/w Large Corporate | 53,825 | 0 | 0 | 0 | 0 | 53,825 |
| o/w Mortgage | 14,111 | 1,365 | 81 | 72 | 5,954 | 21,583 |
| o/w Public Finance | 3,660 | 0 | 0 | 0 | 0 | 3,660 |
| Corporate Center[2] | 456,973 | 0 | 0 | 0 | 0 | 456,973 |
| **Total** | **1,144,138** | **20,451** | **1,219** | **520** | **34,582** | **1,200,910** |

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

### 56.8.1. FORBEARANCE

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

The following table shows the forbearance status in the course of the year 2023:

(000) BAM

| | 1.1.2023 | Classified as forborne during the year (+) | Transferred to non - forborne during the year (-) | Changes due to IFRS 5 (+/-) | FX (+/-) | Repayments and other changes (+/-) | 31.12.2023 |
|---|---|---|---|---|---|---|---|
| Non-financial corporations | 16,048 | | -2,480 | | | -11,228 | 2,340 |
| Households | 13,790 | 505 | -2,168 | | | -3,066 | 9,061 |
| **Loans and advances** | **29,838** | **505** | **-4,648** | | | **-14,294** | **11,401** |

The following chart provides an overview of the forbearance status at the Bank in the course of the financial year 2022.

(000) BAM

| | 1.1.2022 | Classified as forborne during the year (+) | Transferred to non - forborne during the year (-) | Changes due to IFRS 5 (+/-) | FX (+/-) | Repayments and other changes (+/-) | 31.12.2022 |
|---|---|---|---|---|---|---|---|
| Non-financial corporations | 20,694 | 40 | | | | -4,689 | 16,045 |
| Households | 12,774 | 4,220 | -591 | | | -2,625 | 13,778 |
| **Loans and advances** | **33,468** | **4,260** | **-591** | | | **-7,314** | **29,823** |

The forbearance exposure was as follows at the YE 2023:

(000) BAM

| | 31.12.2023 | Neither past due nor impaired | Past due but not impaired (> 0 days) | Impaired |
|---|---|---|---|---|
| Non-financial corporations | 2,340 | 1,460 | 0 | 880 |
| Households | 9,061 | 4,718 | 966 | 3,377 |
| **Loans and advances** | **11,401** | **6,178** | **966** | **4,257** |

The forbearance exposure was as follows at the YE 2022:

(000) BAM

| | 31.12.2022 | Neither past due nor impaired | Past due but not impaired (> 0 days) | Impaired |
|---|---|---|---|---|
| Non-financial corporations | 16,045 | 8,632 | 40 | 7,373 |
| Households | 13,778 | 6,606 | 692 | 6,480 |
| **Loans and advances** | **29,823** | **15,238** | **732** | **13,853** |

The following table shows the collateral allocation for the forbearance exposure at the YE 2023:

(000) BAM

| | Internal Collateral Value (ICV) in respect of forborne assets | therof CRE | thereof RRE | thereof financial collateral | thereof guarantees | thereof other |
|---|---|---|---|---|---|---|
| Public Finance | 0 | 0 | 0 | 0 | 0 | 0 |
| Financial Institutions | 0 | 0 | 0 | 0 | 0 | 0 |
| Large Corporate | 0 | 0 | 0 | 0 | 0 | 0 |
| Medium and Small Corporate | 845 | 845 | 0 | 0 | 0 | 0 |
| Retail | 4,163 | 1,242 | 2,921 | 0 | 0 | 0 |
| **Total** | **5,008** | **2,087** | **2,921** | **0** | **0** | **0** |

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

(000) BAM

| | ICV | therof CRE | thereof RRE | thereof financial collateral | thereof guarantees | thereof other |
|---|---|---|---|---|---|---|
| Public Finance | 0 | 0 | 0 | 0 | 0 | 0 |
| Financial Institutions | 0 | 0 | 0 | 0 | 0 | 0 |
| Large Corporate | 0 | 0 | 0 | 0 | 0 | 0 |
| Medium and Small Corporate | 7,927 | 7,685 | 184 | 0 | 0 | 58 |
| Retail | 8,720 | 4,343 | 4,377 | 0 | 0 | 0 |
| **Total** | **16,647** | **12,028** | **4,561** | **0** | **0** | **58** |

56.8.2. CARRYING AMOUNTS OF INVENTORIES (INCL. RESCUE ACQUISITIONS)

In the financial year 2022, the Bank reported carrying amounts of inventories (including rescue acquisitions) of BAM 0 thousand (2022: BAM 5 thousand). Inventories (incl. rescue acquisitions) mainly consist of collateral that belongs to the Bank due to non-fulfilment of a credit contract by a customer. This includes especially assets from rescue acquisitions from the banking business (especially real estate).

## (57) Development of risk provisions

### 57.1. Method of calculating risk provisions

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

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

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

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

In general, market expectations continuously improve as demonstrated also by overall upward revisions of publicly available forecasts up to October 2023, accompanied by modest, but quite evident decrease in uncertainty. However, Addiko perceives uncertainty levels to be historically high, still remaining elevated in relation to pre-Covid shock, and risks weighing down significantly on baseline trajectories. Strong rebound amid current short-term and medium-term risks obviously provides less chance of additional improvement. Therefore, scenario-probabilities used to assign weights to a particular scenario were adjusted in favor of negative scenario as depicted in table below. These probabilities are defined in a joint review process. By default, the scenario probabilities stay the same as in the previous delivery. In case there is a strong argument for a revision, any expert team member can propose to amend the probability distribution. The proposal is reviewed jointly by the research team. If the argument is strong enough, wiiw´s team adopts the change.

| Scenario probabilities[1] | Baseline case | Optimistic case | Pesimistic case |
|---|---|---|---|
| October 2023 wiiw forecast report | 60% | 5% | 35% |

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

Projections for the euro area and Addiko countries of operation use a starting point of wiiw's Spring 2023 forecasts, which had a cut-off date of September 20th 2023. For the Euro area, we use wiiw's assumptions for growth, inflation, unemployment, interest rates, FX and the current account for the main forecasting period: the current year and next two years. Beyond that, we use the ECB's most recent survey of professional forecasters for longer-term projections.2 All other series are derived from the core assumptions for these six indicators. For the purposes of FX forecasting we also make projections for inflation up for a six-year horizon. This is based on a mixture of central bank projections, consensus forecasts, and wiiw expert judgement.
Uncertainties related to key assumptions regarding medium-term macroeconomic projections are significant. First of all, it is impossible to predict the duration of the war in Ukraine and its further course. Consequently, further turbulence in the international energy and commodity markets is possible. In BiH, there are additional risks that could accelerate the growth of domestic prices, which would further reduce the available real income of the population. Currently, the short-term effects of the normalization of the ECB's monetary policy for the economies of the Eurozone, and indirectly the EU and the Western Balkan region, can only be speculated about, because the current inflation has the characteristics of cost inflation
Optimistic : According to wiiw, 5% likelihood to this scenario materializing.

The likelihood for this scenario is set at a very low level for two major reasons. First, it assumes an immediate strengthening of the ambition regarding the greenhouse gases and implementation of those policies by the largest CO2 emitters. This is at odds with the latest policy track record and insufficient ambition to strengthen the ambition as reported currently by the Climate Action Tracker. Second, the scenario also assumes that massive warfare in Ukraine ends in Q4 2023. This, however, does not appear to be a plausible outcome. Although the scope of warfare narrowed down to the South and East of Ukraine with artillery and heavy arms being the primary tool for troops advancement, both Ukrainian and Russian governments demonstrate commitment to continue fighting.[3] Both sides have resources for continuing warfare: Moscow thanks to the continuing income stream from fossil fuel exports and Kyiv thanks to international credit and arms supplies from the EU and G7 countries. Considering that neither COVID outbreak, nor the Russian invasion against Ukraine caused an unequivocal response in the global community, we see a very low change of simultaneous coordination on climate change issues and conflict resolution in the foreseeable future.

3 https://www.understandingwar.org/backgrounder/ukraine-conflict-updates

Pessimistic: According to wiiw, 35% likelihood to this scenario materializing.

The likelihood for this scenario is set at 35%, which is less compared to the previous estimation. We do so to reflect that some of the risks have already materialized (high and persistent inflation), while the others did not (recession in the major economies). We find three major risks at the moment, which we all find heavily skewed in favor of negative outcomes. First, there is a high uncertainty regarding the inflation trajectory over the coming months. Although wiiw believes that inflation shock reached its peak in 2022 and subsides in 2023, it is possible that transmission of the monetary policy is not effective to anchor the expectations. Second, we see growing risks among financial institutions and corporates due to increasing interest rates. The negative impact of the bank failures in the United States and Switzerland were contained as of now but there is uncertainty about the future failures considering years of exposures that were built-up during the era of quantitative easing. Third, interstate tensions between Russia and China on the one hand and US and EU on the other hand may lead to further trade fragmentation leading to another round of inflation and macro financial instability.
Considering the climate risks, we see a sizable chance that the global leaders may fail to coordinate on implementation of the climate action programs beyond the nationally determined contributions. Although major CO2 emitting countries did submit more ambitious goals, it remains open whether domestic politics across the countries will shift in the next decades for an unconditional support of the climate change policies or not.

The following table shows the macro-economic scenarios used for calculation of ECL in the previous reporting period end:

| 31.12.2023 | Baseline case | | Optimistic case | Pessimistic case |
|---|---|---|---|---|
| | First 12 months | Remaining 2-year period | 3-year period | 3-year period |
| Real GDP (constant prices) | 1.7 | 2.2 | 4.7 | -4.3 |
| Unemployment Rate (ILO, average %) | 15.0 | 14.5 | 13.2 | 16.2 |
| CPI Inflation (average % YoY) | 9.0 | 3.3 | 4.3 | 14.7 |

The following table shows how the ECL allowance for stage 1 and stage 2 is taking into account the forward looking information from the weighted multiple economic scenarios. The Bank's probability-weighted ECL allowance reflect a 60 percent weighting of base case (2022: 50%), optimistic a 5% per cent weighting (2022: 5%) and pessimistic case a 35 percent weighting (2022: 45%). Final ECL is further adjusted adding PMA value and according to minimal coverage prescribed by Decision on Credit Risk Management and Determination of Expected Credit Losses of Banking Agency of Federation of Bosnia and Herzegovina and Decision On Temporary Measures To Mitigate The Risk Of An Interest Rate Increase.

(000) BAM

| 31.12.2023 | Probability weighted | Optimistic case | Base case | Pessimistic case |
|---|---|---|---|---|
| • Consumer | 6,488 | 6,466 | 6,481 | 6,504 |
| • SME | 2,744 | 2,741 | 2,742 | 2,746 |
| • Non focus | 990 | 873 | 962 | 1,056 |
| • Corporate Center | 12 | 7 | 11 | 16 |
| • Total (Stage 1 and 2) | **10,234** | **10,086** | **10,196** | **10,321** |

(000) BAM

| 31.12.2022 | Probability weighted | Optimistic case | Base case | Pessimistic case |
|---|---|---|---|---|
| • Consumer | 7,644 | 5,469 | 6,358 | 9,315 |
| • SME | 2,117 | 1,949 | 2,071 | 2,186 |
| • Non focus | 832 | 726 | 777 | 905 |
| • Corporate Center | 72 | 19 | 49 | 104 |
| • Total (Stage 1 and 2) | **10,665** | **8,163** | **9,255** | **12,510** |

### 57.2. Development of risk provisions

The movement of risk provisions in 2023 is mainly caused by:

- Positive updated of macro-economic data and a prolongation of timeseries with more recent available data, during which the Bank implemented more conservative rates, released existing ones and booked additional PMA
- Implementing parameters for calculating expected credit losses developed based on internally available Bank data for the corporate client segment
- Implementing LGD parameters of credit risk, incorporating data on internal and external collection process costs in accordance with Article 19, paragraph (1) of the Instructions for the classification and valuation of financial assets, and using the effective interest rate for discounting cash flows until the occurrence of the default status
- Implementation of minimum expected credit loss rates for credit risk levels 1 and 2 in accordance with Articles 23 and 24, paragraph (2) of the Decision on credit risk management and determination of expected credit losses for Standard client segments

Also, in accordance with the Decision on Temporary Measures to Mitigate the Risk of Rising Interest Rates, the Bank determined credit losses as follows:

- For newly approved credit exposures with variable or fixed nominal and effective interest rates to be allocated to credit risk level 1, expected credit losses are determined at a minimum of 2% of the exposure.
- For existing credit exposures previously allocated to credit risk level 2 in accordance with Article 19 of the Decision, where a significant increase in interest rates has been identified, the Bank determines expected credit losses amounting to at least 12% of the exposure,

leading to additional increases in expected credit losses.

### 57.3. Changes in the calculation of portfolio risk provisions

Based on the ongoing model improvement framework at the Bank, updates are performed regularly to make sure that the latest available information is considered. In 2023 a refinement/recalibration of all segments and sub-subsidiaries was performed. The changes included a prolongation of timeseries with more recent available data used for calculation of PDs, a reassessment of the quantitative staging thresholds and an update of the macro forecasts to reflect latest available information. In addition, an empirically based LGD model was developed and introduced in the retail area. The Bank included data on direct collection process costs in developing LGD parameters.

IFRS9 PD Models were developed using all methodological prudency, following internal governance. They were validated and shown adequate results. Nevertheless, in the current macro-economic environment, a significant release of provisions is not deemed appropriate.

Therefore, the Bank decided to introduce a Post Model Adjustment (PMA). PMA was calculated in the amount of BAM 3.814 thousand. The stated amount was obtained as the difference between the amount of expected credit losses obtained using the TTC matrices and the amount obtained using the PIT matrices. PMA implementation is carried out in accordance with the regulatory regulation linearly during the period until the renewal of the PD matrix.

## (58) Measurement of real estate collateral and other collateral

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

The internal collateral values (ICV) are shown in the following table for 31 December 2023 as well as 31 December 2022:

(000) BAM

| Collateral Distribution | 31.12.2023 | 31.12.2022 |
|---|---|---|
| • Exposure | 1,113,150 | 1,035,712 |
| • Internal Collateral Value (ICV) | 133,371 | 153,769 |
| • therof CRE | 64,511 | 83,238 |
| • thereof RRE | 46,566 | 53,282 |
| • thereof financial collateral | 4,663 | 6,682 |
| • thereof guarantees | 13,500 | 8,029 |
| • thereof other | 4,131 | 2,539 |
| **ICV coverage rate** | **12%** | **15%** |

The predominant part of the reflected stated collaterals is provided for loans and advances (negligible collaterals for other exposure types). With the decrease of gross exposure also internal collateral value decreased. Primarily residential real estate given as collaterals for Retail loans were reduced, due to decrease of mortgage loan portfolio in Retail. Collateral coverage did not change.

Dependent on the value of collateral, some stage 3 exposures may not have individual ECLs assigned, if the expected discounted cash flows from realization of collateral is greater that the outstanding amount, even if the expected discounted cash flows from realization of collateral is forecasted using multiple economic scenarios. However, the stage 3 ECL amount can be higher than the net exposure shown below when the expected discounted cash flows from realization of collateral is not individually determined but estimated based on a portfolio approach

(000) BAM

| 31.12.2023 | Gross Carrying amount | Fair value of collateral held under the base case scenario | | | | | | | Net exposure | ECL |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Securities | Guarantees | Property | Other | Off-setting | Surplus collateral | Total collateral | | |
| **Loans and advances** | **19,956** | **0** | **0** | **1,208** | **0** | **0** | **0** | **0** | **19,956** | **-15,867** |
| Other financial corporations | **14** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **14** | **-14** |
| Non-financial corporations | **5,487** | **0** | **0** | **1,029** | **0** | **0** | **0** | **0** | **5,487** | **-4,464** |
| Households | **14,454** | **0** | **0** | **179** | **0** | **0** | **0** | **0** | **14,454** | **-11,389** |
| **Commitments and financial guarantees** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| Loan commitments given | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |

(000) BAM

| 31.12.2022 | Gross Carrying amount | Fair value of collateral held under the base case scenario | | | | | | | Net exposure | ECL |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Securities | Guarantees | Property | Other | Off-setting | Surplus collateral | Total collateral | | |
| **Loans and advances** | **42,553** | **0** | **0** | **1,181** | **0** | **0** | **0** | **0** | **41,372** | **-38,454** |
| Other financial corporations | 156 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 156 | 0 |
| Non-financial corporations | 10,340 | 0 | 0 | 692 | 0 | 0 | 0 | 0 | 9,648 | -9,937 |
| Households | 32,057 | 0 | 0 | 489 | 0 | 0 | 0 | 0 | 31,568 | -28,517 |
| **Commitments and financial guarantees** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| Loan commitments given | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |

## (59) Market risk

### 59.1. Definition

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

### 59.2. Risk measurement

The Bank calculates market risk as part of daily monitoring with value-at-risk methods on the basis of a one-day holding period, with a confidence level of 99.0%. The main instrument used in this process is the Monte Carlo simulation involving exponentially weighted volatilities and correlations from a history of 250 days. For the purpose of determining the tied-up economic market risk capital for the risk-bearing capacity calculation, VaR (value at risk) figures (99.0%, 1 day) are scaled to the uniform confidence level of 99.7% and a 250 days holding period. The models calculate potential losses taking into account historical market fluctuations (volatilities) and market context (correlations).

Bank's VaR by types of risk in 2023 and 2022 amounts to:

(000) BAM

| 2023 | Minimum | Maximum | Average | 31 December |
|---|---|---|---|---|
| Interest rate risk | 260 | 541 | 354 | 398 |
| Foreign currency risk | 1 | 6 | 3 | 1 |
| Credit spread risk | 137 | 493 | 226 | 155 |
| Total | 398 | 1,040 | 584 | 554 |

(000) BAM

| 2022 | Minimum | Maximum | Average | 31 December |
|---|---|---|---|---|
| Interest rate risk | 219 | 929 | 553 | 321 |
| Foreign currency risk | 1 | 11 | 4 | 6 |
| Credit spread risk | 141 | 644 | 451 | 318 |
| Total | 361 | 1,584 | 1,008 | 645 |

### 59.3. Overview – market price risk

#### 59.3.1. INTEREST RATE RISK

The value at risk of the economic interest rate risk (including the interest rate risk of the trading book) for the Bank per 31.12.2023 is BAM 398 thousand (comparable VaR figure as at 31 December 2022: BAM 321 thousand).
The interest rate gap profile for the Bank contains all interest-rate-sensitive items (Assets, liabilities and off-balance-sheet items in the non-trading book) which are either contractually fixed, floating or based on behavioural assumptions. The stochastic cash flows are illustrated using uniform standards as well as local models for country-specific transactions. All interest sensitive items in the balance sheet are taken as the basis for calculating economic value and earnings-based measures, as well as other measures of IRRBB, based on the interest rate shock and stress scenarios. Any non-interest-sensitive items are not comprised in the interest risk calculation but dealt with in association with other risk factors, such as the participation risk.The following table shows the EVE change per scenarious.

(000 BAM)

| EVE change per scenarious | 31.12.2023 | 31.12.2022 |
|---|---|---|
| Parallel up 200bp | 20 | -925 |
| Parallel down 200bp | -4,068 | -935 |
| Parallel shock up BSBC | 143 | -790 |
| Parallel shock down BSBC | -4,140 | -1,015 |
| Steepener shock | 2,226 | 2,284 |
| Flattener shock | -4,148 | -4,798 |
| Short rates shock up | -3,280 | -4,538 |
| Short rates shock down | 1,445 | 2,343 |

Changes in interest risk mainly resulted from adjustments to rolling interest positions and the shortening of the terms of fixed-rate transactions.

Regulatory requirements state that impact on EVE of a sudden parallel +/-200 basis points shift of the yield curve in total own funds may not exceed 20% of Tier 1 capital (Local view - interest risk equity ratio amounted to 13% on average in 2023 as compared to 13% on average in 2022.

The change in present value of the banking book with a change in the interest rate curves by 1 base point in all maturity bands and currencies as at 31 December 2023 amounts to BAM 9 thousand (entire aggregated effect of this interest rate simulation) – the aggregated effect in 2022 was BAM 9 thousand also.

### 59.3.2. FOREIGN EXCHANGE RISK

The main foreign exchange risk drivers are the currencies. The total volume of open currency positions as at 31 December 2023 is roughly BAM 1,87 million (volume per 31 December 2022 of approx. BAM 4,44 million), with the majority attributed to the currencies. The value at risk for foreign exchange risk was approximately BAM 1,1 thousand per day as at 31 December 2023 (value at risk as at 31 December 2022: BAM 3,3 thousand), at a confidence interval of 99%.The limit of BAM 17.6 thousand was adhered to as at 31 December 2023.

*Sensitivity analysis*

The following table indicates the currencies to which the Bank had significant exposure at 31 December 2023 and 31 December 2022, considering that the Bank represents the main segment of the consolidated financial statement. The Euro was not analyzed since the exchange rate of BAM is linked to the Euro exchange rate.

(000) BAM

| Currency | FX Open position 31 December 2023 | 10% increase | 10% decrease | FX Open position 31 December 2022 | 10% increase | 10% decrease |
|---|---|---|---|---|---|---|
| USD | 3 | 0 | 0 | -499 | -50 | 50 |
| CHF | 67 | 7 | -7 | 106 | 11 | -11 |

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

### 59.3.3. EQUITY RISK

With year end and during 2023 the Bank did not have stocks in its portfolio. In that sence the value at risk for the equity risk at the Bank is amounted to BAM 0 thousand as at 31 December 2023 with a one-day holding period and a confidence level of 99%.

59.3.4. CREDIT SPREAD RISK

The credit spread risk within the Bank stood at BAM 155 thousand at 31 December 2023 with a one-day value at risk and a confidence level of 99% (value at risk as at 31 December 2022: BAM 318 thousand). The limit of BAM 743 thousand was adhered to as at 31 December 2023. The greatest influencing factor in credit spread risk is the holding of liquidity reserves in the form of securities at the Bank. In addition to monitoring VaR in respect to the credit spread risk, the Bank also monitors concentration risks within the bond portfolio – within the respective risk reports concentrations on the bank level of the bond portfolio are monitored as well as concentrations of bonds within the categories of government bonds, financial bonds as well as corporate bonds.

## (60) Liquidity risk

### 60.1. Definition

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

### 60.2. General requirements

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

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

### 60.3. Risk control

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

In 2023, the Liquidity Coverage Ratio (LCR) has been moving between its lowest level of 374% in March 2023 and its peak of 562% in April 2023.

Per December 2023, the counterbalancing capacity at the Bank was structured as follows:

(000 BAM)

| Liquidity Buffer | 31.12.2023 | 31.12.2022 |
|---|---|---|
| Securities eligible for Central Bank | 214,406 | 45,285 |
| Securities eligible for Repo | 0 | 165,537 |
| Credit Claims eligible for Central Bank or Repo | 0 | 0 |
| Obligatory Reserves (countable) | 0 | 0 |
| Cash Reserves at Central Bank (locked) | 0 | 0 |
| **Counterbalancing Measures** | 0 | 0 |
| Other liquefiable Assets (short-, medium-term) | 0 | 0 |
| Committed/Required Credit Lines | 0 | 0 |
| New Issuance and Securitization | 0 | 0 |
| **Total Counterbalancing Capacity** | 214,406 | 210,822 |

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

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

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

### 60.4. Overview – liquidity situation

The liquidity situation of the Bank in 2023 was characterised by a liquidity surplus. Any capital market activities were therefore not necessary.

During the financial year, the Bank recorded a stable level of deposits around BAM 916,475 thousand.

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

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

(000) BAM

| 31.12.2023 | Carrying amount | Contractual cash flows | daily due or without maturity | up to 3 months | from 3 months to 1 year | from 1 year to 5 years | > 5 years |
|---|---|---|---|---|---|---|---|
| Financial liabilities measured at amortized cost | 916,475 | 921,443 | 686,449 | 0 | 7,764 | 188,339 | 38,891 |
| Deposits of customers | 896,136 | 900,480 | 677,033 | 0 | 7,039 | 177,517 | 38,891 |
| Deposits of credit institutions | 7,410 | 7,483 | 1,034 | 0 | 0 | 6,449 | 0 |
| Borrowings from banks | 2,934 | 3,288 | 0 | 0 | 0 | 3,287 | 0 |
| Other financial liabilities | 9,995 | 10,193 | 8,382 | 0 | 725 | 1,086 | 0 |
| Loan commitments | 0 | 66,172 | 66,172 | 0 | 0 | 0 | 0 |
| Financial guarantees | 0 | 18,376 | 18,376 | 0 | 0 | 0 | 0 |
| Other commitments | 0 | 107,377 | 107,377 | 0 | 0 | 0 | 0 |
| **Total** | **916,475** | **1,113,368** | **878,401** | **0** | **7,764** | **188,339** | **38,891** |

(000) BAM

| 31.12.2022 | Carrying amount | Contractual cash flows | daily due or without maturity | up to 3 months | from 3 months to 1 year | from 1 year to 5 years | > 5 years |
|---|---|---|---|---|---|---|---|
| Financial liabilities measured at amortized cost | 828,479 | 831,446 | 613,160 | 33,031 | 74,161 | 110,385 | 709 |
| Deposits of customers | 808,982 | 811,948 | 603,414 | 33,031 | 73,499 | 101,295 | 709 |
| Deposits of credit institutions | 10,765 | 10,765 | 2,540 | 0 | 0 | 8,225 | 0 |
| Other financial liabilities | 8,732 | 8,733 | 7,206 | 0 | 662 | 865 | 0 |
| Loan commitments | 0 | 75,663 | 75,663 | 0 | 0 | 0 | 0 |
| Financial guarantees | 0 | 20,485 | 20,485 | 0 | 0 | 0 | 0 |
| Other commitments | 0 | 92,459 | 92,459 | 0 | 0 | 0 | 0 |
| **Total** | **828,479** | **1,020,053** | **801,767** | **33,031** | **74,161** | **110,385** | **709** |

## (61) Operational risk

### 61.1. Definition

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

### 61.2. General requirements - Operational risk management framework

Operational risk management is at the core of a bank's operations, integrating risk management practices in processes, systems and culture. As a pro-active partner to senior management, value of operational risk management lies in supporting and challenging senior management (B1 heads) to align the business control environment with the bank's strategy by measuring and mitigating risk loss exposure, contributing to optimal return for stakeholders.

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

The comprehensive data collection, which the framework supports, allows analysis of complex issues and facilitates tailored risk mitigation actions.
Operational risk management is a continuous cyclic process which includes risk and control self-assessment, risk decision making, scenario analysis and implementation of risk controls, which results in acceptance, mitigation, or avoidance of risk.

### 61.3. Risk monitoring

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

### 61.4. Exposure & capital overview

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

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

## (62) Sustainability (Environmental, Social and Governance – ESG) Risks

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

As described in the Report for the year 2022 Addiko takes into account the environmental, social and governance (“ESG”) risks, associated with the activities of customer companies and pays particular attention to in-depth analysis of sustainability issues related to sectors which are considered sensitive. Addiko does not treat the ESG risks as a separate risk type but integrates them in the existing risk classification and into the existing risk management framework, as drivers for other risk types (e.g. credit risk or operational risk).

In line with regulatory expectations, Addiko puts a special focus on climate-related and other environmental risk (C&E risk) management. In this context Addiko considers both physical and transition risks:

- Physical risk refers to the direct impact from climate-related or environmental changes, which can be “acute” (e.g. extreme weather events such as hurricanes, floods and wildfires) or “chronic” in case of progressive changes, such as sustained higher temperatures, heat waves, droughts and rising sea levels.

- Transition risk refers to the potential losses resulting from the adjustment towards a lower-carbon and more environmentally sustainable economy (e.g. e.g. changes to laws and regulations, litigation due to failure to mitigate or adapt, and shifts in supply and demand for certain commodities, products and services due to changes in consumer behaviour and investor demand).

Addiko performed an assessment of climate-related and other environmental risks in two consecutive steps. In a first step Addiko assessed the impact of climate and environmental changeconsidering various scenarios for the short, medium and long-term. In a second step Addiko analysed how the impact identified in the first step will transmit onto the Bank. Based on this analysis, Addiko concluded that in particular its credit risk can be impacted by climate-related and other environmental risk drivers. While due to the granularity and diversification of Addiko's  loan portfolio, there is no immediate material threat to the quality of assets of Addiko, the potential impact on the economy in the area of Addiko operation drives the systemic risk Addiko is exposed to. In this context it is evident that acute and chronic climate and environmental risks already do impact macroeconomic indicators, whereby the severity of this impact over the medium- to long term is highly dependent on the measures taken to curb climate change. Consequently, Addiko also considered the impact from climate-related transition risks in the macroeconomic financial forecasts used in the calculation of the Expected Credit Loss, thus, directly impacting the risk provisions of the loan book.

While no immediate danger for Addiko was identified in the assessment of climate-related and other environmental risks, the urgency and uncertainty of the matter require continuous monitoring. Addiko focuses in particular on the strict limitation of any idiosyncratuic C&E risk. In this context, Addiko has identified industries which are and might in the future be impacted by climate and environmental risk, and set prudent limits on the maximum exposure to these limits, which are diligently tracked. Furthermore, within the operational credit-granting process, Addiko has defined measures to recognise the potential impact of climate and environmental risk on the asset quality of the clients. Proper assessment is necessary in order to prevent potential financial, legal or reputational consequences for the bank that might appear in case that bank supports financing of the respective company.

## (63) Legal Risk

In order to collect receivables on loans, guarantees, letters of credit or other bases, the Bank has a total of 5.476 active legal disputes with a total value of BAM 120,262  thousand led by Credit Risk Management Division.

Loans with CHF foreign currency clause
For the purpose of resolving loan portfolio with the CHF foreign currency clause, the Bank initiated the CHF project on 8 March 2016.

In March 2016, the Bank offered incentives to retail customers with foreign currency clause loans in Swiss franc, which are reflected in the reduction of credit commitments by 30% accompanying the conversion into local currency at current exchange rate and a fixed interest rate of new loans of 5.99%. The project officially ended in December 2016, but the Bank has continued to consider and realize received offers during 2018. The Bank incurred losses on this basis for 2018 in the amount of BAM 1.5 million.

The Bank identified 2,544 retail loan parties as the scope of the project, which the Bank had as at 29 February 2016. The project officially ended on 5 December 2016, given that the Bank continued with realization of incoming requests, and all subsequent client requests are considered individually as a part of regular activities.

As at 31 December 2017, 1,617 requests were realized (64% of total parties), while a certain number of parties was closed by regular repayment during the project, i.e. with no use of reliefs (219 parties). The outstanding number of retail parties with CHF foreign currency clause in Bank's portfolio is 708 as at 31 December 2017.

As at 31 December 2018, 1,755 requests were realized (69% of total parties), while a certain number of parties was closed by regular repayment during the project, i.e. with no use of reliefs (260 parties). The outstanding number of retail parties with CHF foreign currency clause in Bank's portfolio is 529 as at 31 December 2018.

As at 31 December 2019, 1,858 requests were realized (73% of total parties), while a certain number of parties was closed by regular repayment during the project, i.e. with no use of reliefs (289 parties). The outstanding number of retail parties with CHF foreign currency clause in Bank's portfolio is 397 as at 31 December 2019.

As at 31 December 2020, 1,915 requests were realized (75% of total parties), while a certain number of parties was closed by regular repayment during the project, i.e. with no use of reliefs (299 parties). The outstanding number of retail parties with CHF foreign currency clause in Bank's portfolio is 330 as at 31 December 2019.

As at 31 December 2021, 1,981 requests were realized (78% of total parties), while a certain number of parties was closed by regular repayment during the project, i.e. with no use of reliefs (308 parties). The outstanding number of retail parties with CHF foreign currency clause in Bank's portfolio is 255 as at 31 December 2021.

As at 31 December 2022, 2,343 requests were realized (92% of total parties), while a certain number of parties was closed by regular repayment during the project, i.e. with no use of reliefs (321 parties). The outstanding number of retail parties with CHF foreign currency clause in Bank's portfolio is 201 as at 31 December 2022.

As at 31 December 2023, 2,391 requests were realized (94% of total parties), while a certain number of parties was closed by regular repayment during the project, i.e. with no use of reliefs (338 parties). The outstanding number of retail parties with CHF foreign currency clause in Bank's portfolio is 153 as at 31 December 2023.

Total amount of write-offs for balance sheet receivables is BAM 53,519 thousand (BAM 16,004 thousand for performing clients and BAM 37,515 thousand for non-performing clients. Total amount of write-offs for off-balance sheet receivables is BAM 49,770 thousand.

**Passive legal disputes**

As of 31 December 2023, there were 114 open court proceedings against the Bank, with total nominal value of BAM 57.8 million, excluding contingent penalty interest. This amount includes 3 claims with nominal value of BAM 0.09 million according to which the claims have been already paid in previous periods, hence they do not represent an additional risk of losses but are in the state of open court proceedings based on legal remedy. In addition, this amount includes 16 claims with nominal value of BAM 0.8 million, which are, in accordance with contracts on ceding receivables (Brush), within the responsibility of underwriters of receivables with whom they are related, and they represent no risk for the Bank. These proceedings representing no risk for the Bank (already paid or risk transferred to transferee) are not recorded in accounting records. The overall number of passive legal disputes decreased in 2023.

The largest number of proceedings is related to claims connected to CHF currency clause and increase of interest margin – total of 42 claims with nominal value of BAM 0.7 million, and 1 claim with nominal value of BAM 2.2 million, which combined the claims for damages in addition to CHF currency clause and increase of margin.

Of the most significant court decisions made in favour of the Bank in 2023, we have listed: 1 decision on damage claim proceedings (SARA Kompani BAM 2.2 million – First instance court's decision on rejection of the plaintiff's claim), 1 decision at declarative claims, without payment risk (TMTI Trade d.o.o. Grude BAM 0.5 million – Second instance court's decision on rejection of the plaintiff's appeal), 7 final judgments of the Cantonal court by the lawsuits of individuals that confirmed the legality of the currency clause in CHF and 1 Supreme court's decision, which also confirmed the legality of the currency clause in CHF and loan processing fee.

The Bank regularly assesses the amount of provisions for expenses for litigations. The assessment is based on the estimated probability of future cash flows, arising from the past legal or constructive obligations. The Bank provisioned BAM 4.9 million for litigations and claims as of 31 December 2023, which the Management of the Bank believes to be sufficient amount.During 2023, the Bank continued with intensified activities for resolving claims and litigations, and management of associated legal risk. The strategies for court proceedings, the adequate legal representation and coordination of Bank's defense is established, as well as the process of out-of-court settlement of disputes, recording and reporting on litigations and claims. This resulted in the aforementioned and other court decisions in favor of the Bank, and completion of certain proceedings.

Besides the Legal data base, where data can be seen on a daily level, regular reports on the local legal situation and the latest developments in the pending legal proceedings, as well as ad-hoc reports on each new legal dispute are actively being delivered to the Group's Legal department.As a result of described very strong management of the passive legal disputes in last years, the Bank collected BAM 0.3 million from the passive legal disputes in 2023 which collection had positive P&L effect fully.

The following is overview of court proceedings as of 31.12.2023

| Type of case | Number of cases | Value of cases (in BAM thousand) | Provisions (in BAM thousand) |
|---|---|---|---|
| Currency clause/margin | 42 | 708 | 436 |
| Currency clause/margin/compensation for damages | 1 | 2,213 | 267 |
| Compensation for damages | 22 | 38,522 | 3,591 |
| Labor dispute | 5 | 117 | 618 |
| Other/Declaratory | 44 | 16,272 | 32 |
| *** Total** | **114** | **57,832** | **4,944** |

* Above table includes 3 claims with nominal value of BAM 0.09 million according to which the claims have been already paid in previous periods and 16 claims with nominal value of BAM 0.8 million, which are in the responsibility of third parties-Brush cases, which are not risk relevant.

## Supplementary information required by IFRS

### (64) Analysis of remaining maturities

(000) BAM

| Analysis of remaining maturity as at 31.12.2023 | daily due | up to 3 months | from 3 months to 1 year | from 1 year to 5 years | > 5 years | up to 1 year | over 1 year | Total |
|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 232,069 | 89,080 | 0 | 0 | 0 | 321,149 | 0 | 321,149 |
| Financial assets held for trading | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financial assets at fair value through other comprehensive income | 218 | 14,887 | 41,497 | 159,101 | 0 | 56,602 | 159,101 | 215,703 |
| Financial assets at amortized cost | 40,404 | 45,704 | 105,238 | 234,726 | 124,740 | 191,346 | 359,466 | 550,812 |
| Tangible assets | 0 | 0 | 0 | 17,066 | 0 | 0 | 17,066 | 17,066 |
| Intangible assets | 0 | 0 | 0 | 5,407 | 0 | 0 | 5,407 | 5,407 |
| Tax assets | 0 | 0 | 102 | 4,325 | 0 | 102 | 4,325 | 4,427 |
| Current tax assets | 0 | 0 | 102 | 0 | 0 | 102 | 0 | 102 |
| Deferred tax assets | 0 | 0 | 0 | 4,325 | 0 | 0 | 4,325 | 4,325 |
| Other assets | 1,415 | 0 | 0 | 0 | 0 | 1,415 | 0 | 1,415 |
| Non-current assets held for sale | 2,185 | 0 | 0 | 0 | 0 | 2,185 | 0 | 2,185 |
| **Total** | **276,291** | **149,671** | **146,837** | **420,625** | **124,740** | **572,799** | **545,365** | **1,118,164** |
| Financial liabilities measured at amortized cost | 687,207 | 14,164 | 92,841 | 121,548 | 715 | 794,212 | 122,263 | 916,475 |
| Provisions | 0 | 0 | 0 | 7,598 | 0 | 0 | 7,598 | 7,598 |
| Other liabilities | 7,325 | 0 | 0 | 0 | 0 | 7,325 | 0 | 7,325 |
| **Total** | **694,532** | **14,164** | **92,841** | **129,146** | **715** | **801,537** | **129,861** | **931,398** |

(000) BAM

| Analysis of remaining maturity as at 31.12.2022 | daily due | up to 3 months | from 3 months to 1 year | from 1 year to 5 years | > 5 years | up to 1 year | over 1 year | Total |
|---|---|---|---|---|---|---|---|---|
| Cash reserves | 187,452 | 77,991 | 0 | 0 | 0 | 265,443 | 0 | 265,443 |
| Financial assets held for trading | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financial assets at fair value through other comprehensive income | 211,758 | 0 | 0 | 0 | 0 | 211,758 | 0 | 211,758 |
| Financial assets at amortized cost | 50,313 | 42,403 | 99,475 | 206,979 | 107,585 | 192,191 | 314,564 | 506,755 |
| Tangible assets | 0 | 0 | 0 | 18,346 | 0 | 0 | 18,346 | 18,346 |
| Intangible assets | 0 | 0 | 0 | 5,628 | 0 | 0 | 5,628 | 5,628 |
| Tax assets | 0 | 0 | 1,418 | 5,520 | 0 | 1,418 | 5,520 | 6,938 |
| Current tax assets | 0 | 0 | 1,418 | 0 | 0 | 1,418 | 0 | 1,418 |
| Deferred tax assets | 0 | 0 | 0 | 5,520 | 0 | 0 | 5,520 | 5,520 |
| Other assets | 1,888 | 0 | 0 | 0 | 0 | 1,888 | 0 | 1,888 |
| Non-current assets held for sale | 2,406 | 0 | 0 | 0 | 0 | 2,406 | 0 | 2,406 |
| **Total** | **453,817** | **120,394** | **100,893** | **236,473** | **107,585** | **675,104** | **344,058** | **1,019,162** |
| Financial liabilities measured at amortized cost | 633,972 | 5,081 | 80,960 | 107,757 | 709 | 720,013 | 108,466 | 828,479 |
| Provisions | 0 | 0 | 0 | 8,752 | 0 | 0 | 8,752 | 8,752 |
| Other liabilities | 7,995 | 0 | 0 | 0 | 0 | 7,995 | 0 | 7,995 |
| **Total** | **641,967** | **5,081** | **80,960** | **116,509** | **709** | **728,008** | **117,218** | **845,226** |

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

### (65) Leases from the view of Addiko Bank as lessee

The Bank leases the majority of its offices and branches under various rental agreements. The Bank leases also equipment and vehicles. Most of the lease contracts are made under usual terms and conditions and include price adjustment clauses in line with general office rental market conditions. Rental contracts are typically made for fixed periods. Extension and termination options are included in a number of property and equipment leases. Several lease contracts have indefinite lease term and several contracts contain insignificant residual value guarantees. There are no restrictions placed upon the lessee by entering into these contracts. There are no lease contracts with variable payments other than that depending on an index or a rate. For further details regarding lease contracts please refer to note (8) Leases and to note (4) Use of estimates and assumptions/material uncertainties in relation to estimates.

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

The Bank had total cash outflows for leases of BAM 700 thousand in 2023.

As at 31 December 2023 the undiscounted maturity analysis of lease liabilities under IFRS 16 was as follows:

(000) BAM

| Maturity analysis - contractual undiscounted cashflow | 31.12.2023 | 31.12.2022 |
|---|---|---|
| up to 1 year | 725 | 661 |
| from 1 year to 5 years | 1,086 | 865 |
| more than 5 years | 0 | 0 |
| **Total undiscounted lease liabilities** | **1,811** | **1,526** |

As at 31 December 2023 the expense relating to payments not included in the measurement of the lease liability is as follows:

(000) BAM

| | 31.12.2023 | 31.12.2022 |
|---|---|---|
| Short-term leases | 770 | 720 |
| Leases of low value assets | 0 | 0 |
| **Total** | **770** | **720** |

### (66) Leases from the view of Addiko Bank as lessor

As at 31 December 2023 the future expected collections from operating leases were as follows for each of the years shown below:

(000) BAM

| | 31.12.2023 | 31.12.2022 |
|---|---|---|
| up to 1 year | 195 | 27 |
| from 1 year to 5 years | 0 | 808 |
| more than 5 years | 0 | 896 |
| **Total** | **195** | **1,731** |

Lease income in business year 2023 for the Bank amounts to BAM 154 thousand (YE22: BAM 154 thousand).

### (67) Assets/liabilities denominated in foreign currencies

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

(000) BAM

| | 31.12.2023 | 31.12.2022 |
|---|---|---|
| **Assets** | **1,118,164.0** | **1,019,162.0** |
| of which: EUR | 419,778 | 407,011 |
| of which: USD | 31,656 | 27,305 |
| of which: CHF | 5,968 | 5,873 |
| of which: BAM | 658,716 | 576,792 |
| of which: RSD | 43 | 44 |
| of which: HRK | 0 | 8 |
| of which: other currencies | 2,003 | 2,129 |
| **Liabilities** | **931,398** | **845,226** |
| of which: EUR | 261,624 | 274,192 |
| of which: USD | 31,749 | 27,697 |
| of which: CHF | 5,844 | 5,802 |
| of which: BAM | 630,408 | 535,301 |
| of which: RSD | 0 | 0 |
| of which: HRK | 0 | 1 |
| of which: other currencies | 1,773 | 2,233 |

The amount of liabilities denominated in foreign currencies does not include equity in foreign currency.

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

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

(000) BAM

| | 31.12.2023 | 31.12.2022 |
|---|---|---|
| Loan commitments, given | 66,172 | 75,663 |
| Financial guarantees, given | 18,376 | 20,485 |
| Other commitments, given | 107,377 | 92,460 |
| **Total** | **191,925** | **188,608** |

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

**Contingent liabilities in relation to legal cases**

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

## Fair value disclosures

Fair value is the price that would be received for the sale of an asset or paid to transfer a debt in an orderly transaction between market participants at the measurement date. Based on inputs to valuation techniques used to measure fair value, financial assets and financial liabilities are categorized under the three levels of the fair value hierarchy:

Quoted prices in active markets (level I)
The fair value of financial instruments traded in active markets is best established through quoted prices of identical financial instruments where these quoted prices represent market values/prices used in regularly occurring transactions. This applies above all to equity instruments traded on an active market, debt instruments traded on the interbank market and quoted derivatives.

Value determined using observable parameters (level II)
If there are no quoted prices for individual financial instruments, the market prices of comparable financial instruments or accepted measurement models applying directly or indirectly observable prices or parameters (interest rates, yield curves, implied volatilities and credit spreads) must be used to determine the fair value. This level includes the majority of the OTC derivatives and non-quoted debt instruments. A financial instrument is classified in Level II if all significant inputs in the valuation are observable on the market.

Value determined using non-observable parameters (level III)
This category includes financial instruments for which there are no observable market rates or prices.
The fair value is therefore determined using measurement models and unobservable inputs (typically internally derived credit spreads) appropriate for the respective financial instrument. These models make use of management assumptions and estimates depending on the pricing transparency and complexity of the financial instrument. A financial instrument is classified in level III if one or more significant inputs are not directly observable on the market.

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

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

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

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

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

### (69) Fair value of financial instruments carried at fair value

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

(000) BAM

| 31.12.2023 | Level I - from active market | Level II - based on market assumptions | Level III - based on non market assumptions | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Investment securities at FVTOCI | 177,793 | 37,692 | 218 | 215,703 |
| Equity instruments | 0 | 0 | 218 | 218 |
| Debt securities | 177,793 | 37,692 | 0 | 215,485 |
| **Total** | **177,793** | **37,692** | **218** | **215,703** |
| **Liabilities** | | | | |
| Financial liabilities held for trading | 0 | 0 | 0 | 0 |
| Derivatives | 0 | 0 | 0 | 0 |
| **Total** | **0** | **0** | **0** | **0** |

(000) BAM

| 31.12.2022 | Level I - from active market | Level II - based on market assumptions | Level III - based on non market assumptions | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Investment securities at FVTOCI | 187,015 | 24,529 | 214 | 211,758 |
| Equity instruments | 0 | 0 | 214 | 214 |
| Debt securities | 187,015 | 24,529 | 0 | 211,544 |
| **Total** | **187,015** | **24,529** | **214** | **211,544** |
| **Liabilities** | | | | |
| Financial liabilities held for trading | 0 | 0 | 0 | 0 |
| Derivatives | 0 | 0 | 0 | 0 |
| **Total** | **0** | **0** | **0** | **0** |

The reconciliation of the assets reported under level III as at 31 December 2023 was as follows:

(000) BAM

| 31.12.2023 | Balance at start of period (+) | Total gains/ losses | Changes in fair value reserve | Additions (+) | Disposals (-) | Transfer into level III | Transfer out of level III | Other (+/-) | Balance at end of period |
|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | |
| Investment securities at FVTOCI | 214 | | 4 | | | | | | 218 |
| Equity instruments | 214 | | 4 | | | | | | 218 |
| **Total** | **214** | | **4** | | | | | | **218** |

Equity instruments acquired during 2021 are recorded at 1 BAM in accordance with Banking Agency decision which prescribes according to which assets are registered at market value or net book value of the loan, whichever is lower. Then the adjustment to the market value is done and presented in the position Changes in fair value reserve.

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

(000) BAM

| 31.12.2022 | Balance at start of period (+) | Total gains/ losses | Changes in fair value reserve | Additions (+) | Disposals (-) | Transfer into level III | Transfer out of level III | Other (+/-) | Balance at end of period |
|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | |
| Investment securities at FVTOCI | 418 | | -204 | | | | | | 214 |
| Equity instruments | 418 | | -204 | | | | | | 214 |
| **Total** | **418** | | **-204** | | | | | | **214** |

**Measurement methods used to determine the fair value of level II and level III items**
The accepted measurement models according to IFRS 13 are the market approach, the cost approach and the income approach. The measurement method using the market approach is based on identical or comparable assets and liabilities. With the income approach, future cash flows, expenses or revenue are discounted at the measurement date. The fair value determined in this manner reflects current market expectations regarding these future amounts. It primarily includes present value models and also option price models used for the measurement of financial instruments or option-based cash flows. The cost approach is not used.
The fair value of financial instruments with short terms where the carrying amount is an adequate approximation of the fair value was not separately determined.

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

Present value of the future cash flows (discounted cash flow method)
Level II and III items that are not traded in active markets but where the date and amount of the cash flows are known are measured at the present value of the future cash flows. Discounting takes a risk premium into account. All significant input factors are observable for level II instruments while some significant parameters cannot be directly observed for level III.

Option measurement models
The existing portfolio of level III items includes cash flows with amounts tied to various market variables such as swap rates, stock market indexes and FX rates, or with dates that cannot be determined. Accepted interest and option measurement models calibrated daily with market data (swaption prices, market prices, FX rates) are used for the measurement of such cash flows.

**Non-observable input factors for level III items**
Volatilities and correlations
Volatilities are important input parameters for all option measurement models. The volatilities are derived from market data using accepted models.

Risk premiums
Credit risk premiums indicate the default risk of an issuer. They provide information about the expected loss if the issuer defaults and therefore reflect the loss given default and the probability of default. For some issuers, risk premiums can be observed directly in the market. When single-name CDS curves are not available for an issuer, the risk premiums have to be estimated based on similarities to other issuers or based on the issuer's country and sector. Increase (decrease) in the credit risk premiums would decrease (increase) the fair value.

Loss given default
The loss given default is a parameter that is never directly observable before an entity defaults.

Probability of default
Risk premiums and loss given default are used to estimate the probability of default, which is used for possible fair value adjustments.

**Fair value adjustments**

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

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

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

OIS discounting

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

## (70) Fair value of financial instruments and assets not carried at fair value

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

(000) BAM

| 31.12.2023 | Carrying amount | Fair Value | Difference | Level I - from active market | Level I - based on market assumptions | Level III - based on non market assumptions |
|---|---|---|---|---|---|---|
| Assets | | | | | | |
| Cash reserves | 321,149 | 320,700 | -449 | 0 | 0 | 320,700 |
| Financial assets at amortized cost | 545,654 | 551,991 | 6,337 | 0 | 0 | 551,991 |
| Loans and receivables | 545,654 | 551,991 | 6,337 | 0 | 0 | 551,991 |
| **Total** | **866,803** | **872,691** | **5,888** | **0** | **0** | **872,691** |
| Liabilities | | | | | | |
| Financial liabilities measured at amortized cost | 916,475 | 909,984 | -6,491 | 0 | 0 | 909,984 |
| Deposits | 903,546 | 896,969 | -6,577 | 0 | 0 | 896,969 |
| Borrowings | 2,934 | 3,020 | 86 | 0 | 0 | 3,020 |
| Other financial liabilities | 9,995 | 9,995 | 0 | 0 | 0 | 9,995 |
| **Total** | **916,475** | **909,984** | **-6,491** | **0** | **0** | **909,984** |

| 31.12.2022 | Carrying amount | Fair Value | Difference | Level I - from active market | Level II - based on market assumptions | (000) BAM Level III - based on non market assumptions |
|---|---|---|---|---|---|---|
| Assets | | | | | | |
| Cash reserves | 265,443 | 265,427 | -16 | 0 | 0 | 265,427 |
| Financial assets at amortized cost | 504,798 | 503,917 | -881 | 0 | 0 | 506,917 |
| Loans and receivables | 504,798 | 503,917 | -881 | 0 | 0 | 503,917 |
| **Total** | **770,241** | **769,344** | **-897** | **0** | **0** | **769,344** |
| Liabilities | | | | | | |
| Financial liabilities measured at amortized cost | 828,479 | 819,699 | -8,780 | 0 | 0 | 819,699 |
| Deposits | 819,747 | 810,967 | -8,780 | 0 | 0 | 810,967 |
| Other financial liabilities | 8,732 | 8,732 | 0 | 0 | 0 | 8,732 |
| **Total** | **828,479** | **819,699** | **-8,780** | **0** | **0** | **819,699** |

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

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

## Related party disclosures

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

a) enterprises that directly, or indirectly through one or more intermediaries, control the reporting company or are under its control, i.e. which the reporting entity controls together with other entities (including holding companies, subsidiaries and fellow subsidiaries);

b) associated persons - companies in which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;

c) individuals who directly or indirectly have the voting rights in the Bank that gives them significant influence over the Bank, as well as any other entity which is expected to influence, or be influenced by the relating individual in their dealings with the Bank;

d) executives in key positions, i.e. individuals having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank and members of their immediate families; and

e) companies in which any person described in (c) or (d) has a substantial interest in the voting rights or which is directly or indirectly owned by the mentioned individuals, or where the same may have a significant impact. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in both their company and in a same or similar positions at the Bank.

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

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

(000) BAM

| 31.12.2023 | ABH | ABS | ABC | ABSE | ABM | ABBL | Key personnel of the institution |
|---|---|---|---|---|---|---|---|
| Financial assets | 25,024 | 111 | 286 | 173 | 0 | 101 | 6 |
| Loans and advances | 0 | 0 | 2 | 0 | 0 | 101 | 6 |
| Placements | 25,024 | 111 | 284 | 173 | 0 | 0 | 0 |
| Derivatives | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other assets | 0 | 0 | 0 | 0 | 0 | 81 | 0 |
| Financial liabilities | 1,895 | 0 | 326 | 153 | 97 | 890 | 146 |
| Deposits | 1,872 | 0 | 32 | 20 | 97 | 871 | 146 |
| Other financial liabilities | 23 | 0 | 294 | 133 | 0 | 19 | 0 |
| Other liabilities | 4 | 0 | 0 | 0 | 0 | 0 | 0 |
| Loan commitments given | 0 | 0 | 0 | 0 | 0 | 0 | 31 |
| Commitments and guarantees given | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

(000) BAM

| 31.12.2022 | ABH | ABS | ABC | ABSE | ABM | ABBL | Key personnel of the institution |
|---|---|---|---|---|---|---|---|
| **Financial assets** | **12,161** | **1,518** | **2,485** | **103** | **9** | **9** | **56** |
| Loan and advances | 0 | 0 | 10 | 0 | 9 | 9 | 56 |
| Placements | 12,161 | 1,518 | 2,475 | 103 | 0 | 0 | 0 |
| Derivatives | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Other assets** | 0 | 0 | 0 | 0 | 0 | 84 | 0 |
| **Financial liabilities** | **3,735** | **0** | **333** | **11** | **33** | **2,360** | **217** |
| Deposits | 3,735 | 0 | 121 | 11 | 33 | 2,360 | 217 |
| Other financial liabilities | 0 | 0 | 212 | 0 | 0 | 0 | 0 |
| **Other liabilities** | **5** | **0** | **5** | **247** | **0** | **0** | **0** |
| **Loan commitments given** | **0** | **0** | **0** | **0** | **0** | **0** | **21** |
| **Commitments and guarantees given** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |

(000) BAM

| 31.12.2023 | ABH | ABS | ABC | ABSE | ABM | ABBL | Key personnel of the institution |
|---|---|---|---|---|---|---|---|
| Interest and similar income | 880 | 0 | 0 | 0 | 0 | 0 | 1 |
| Interest expenses | -194 | 0 | -11 | 0 | 0 | 0 | 0 |
| Fee and commission income | 0 | 0 | 2 | 0 | 0 | 0 | 4 |
| Fee and commission expenses | -10 | -1 | -132 | 0 | 0 | 0 | 0 |
| Other administrative expenses | -49 | 0 | -509 | -232 | 0 | -24 | -15 |
| Gains on derecognition of financial assets FVOCI | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other operating income | 0 | 0 | 3 | 0 | 0 | 0 | 0 |
| Credit loss expenses on financial assets | -404 | 7 | 10 | 0 | 0 | -1 | 0 |
| **Total** | **223** | **6** | **-637** | **-232** | **0** | **-25** | **-10** |

(000) BAM

| 31.12.2022 | ABH | ABS | ABC | ABSE | ABM | ABBL | Key personnel of the institution |
|---|---|---|---|---|---|---|---|
| Interest and similar income | 3 | 0 | 0 | 0 | 0 | 0 | 5 |
| Interest expenses | -27 | 0 | -17 | 0 | 0 | 0 | 0 |
| Fee and commission income | 0 | 0 | 2 | 0 | 0 | 1 | 3 |
| Fee and commission expenses | -12 | 0 | -61 | 0 | 0 | 0 | 0 |
| Other administrative expenses | -252 | 0 | -371 | -211 | 0 | -6 | -15 |
| Gains on derecognition of financial assets FVOCI | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other operating income | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Credit loss expenses on financial assets | -27 | -2 | -3 | 28 | 0 | 5 | 0 |
| **Total** | **-315** | **-2** | **-450** | **-183** | **0** | **0** | **-7** |

Remuneration received by Management Board and Supervisory Board members within the Addiko Bank are presented as follows:

(000) BAM

| | 31.12.2023 | 31.12.2022 |
|---|---|---|
| Management and Supervisory Board remunerations | 1,188 | 1,636 |
| Taxes and contributions on remunerations | 128 | 179 |
| **Total** | **1,316** | **1,815** |

## (71) Capital management

### 71.1. Own funds and capital management

In accordance with the Law on Banks (Official Gazette of Federation of BiH no. 39/98, 32/00, 48/01, 27/02, 41/02, 58/02, 13/03, 19/03, 28/03 and 27/17), the minimum amount of a bank's paid-in capital and the lowest level of the capital a bank has to maintain, cannot be lower than BAM 15,000 thousand. The Bank's subscribed capital amounted to BAM 100,403 thousand in line with these provisions.

Regulatory capital represents the sum of common equity (T1) and supplementary capital, after regulatory adjustments. The Bank's common equity (T1) is comprised of the sum of common equity tier 1 (CET1) after regulatory adjustments and additional tier 1 capital (AT1) after regulatory adjustments.

Items of common equity tier 1 (CET 1) of the Bank consist of equity instruments, premiums on shares, retained earnings, accumulated other comprehensive income and other reserves. The adjustments on common equity tier 1 (CET1) are profit of current financial year, intangible assets, deferred tax assets etc. The additional tier 1 capital (AT1) of the Bank consists of items of additional tier 1 capital after regulatory adjustments. The items of additional tier 1 capital are equity instruments and instrument-related premium accounts.

The Bank's supplementary capital consists of the Bank's supplementary capital items after deductions for regulatory adjustments. Supplementary capital cannot be more than one third of the core capital.

With regard to capital risk management, the Bank aims to:

- provide compliance with the Banking Agency requirements,
- provide compliance with Addiko Group standards,
- provide solid capital basis as a support for further development of Bank's operations,
- provide possibilities of long-term business operation while providing profit for shareholders.

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

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

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

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

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

### 71.2. Own funds and capital requirements

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

The regulatory minimum capital ratios including the regulatory buffers as of 31 December 2023 and 31 December 2022 amount to:

| | 31.12.2023 | | | 31.12.2022 | | |
|---|---|---|---|---|---|---|
| | CET1 | T1 | TCR | CET1 | T1 | TCR |
| Minimum capital requirement | 6.75% | 9.00% | 12.00% | 6.75% | 9.00% | 12.00% |
| Capital Buffer | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% |
| **Overall Capital Requirement (OCR)** | **9.25%** | **11.50%** | **14.50%** | **9.25%** | **11.50%** | **14.50%** |

The Bank is under obligation to maintain capital adequacy at the minimum of 12%, i.e. to harmonize the scope and the structure of its operations with the performance indicators that are defined by the regulations of the Banking Agency especially with the Decision on calculation of bank capital and other decisions of the Banking Agency in the field of supervision and control of bank operations, and the Law on Banks of Federation of BiH. In addition to minimum capital requirements the SREP requirement is set at 1.0% and should be comprised entirely of CET1 capital.

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

(000) BAM

| Ref1 | | 31.12.2023 | 31.12.2022 |
|---|---|---|---|
| | **Common Equity Tier 1 (CET1) capital: Instruments and reserves** | | |
| 1 | Capital instruments and the related share premium accounts | 100,403 | 100,403 |
| 2 | Retained earnings | 54,954 | 54,924 |
| 3 | Statutory reserves | 25,101 | 25,101 |
| 4 | Accumulated other comprehensive income (and other reserves) | -10,361 | -20,869 |
| **5** | **CET1 capital before regulatory adjustments** | **170,097** | **159,559** |
| | **CET1 capital: regulatory adjustments** | | |
| 8 | Intangible assets | -5,407 | -5,627 |
| 9 | Other deductions from common equity | -4,325 | -3,169 |
| **10** | **Total regulatory adjustments to Common Equity Tier 1 (CET1)** | **-9,732** | **-8,796** |
| **11** | **Common Equity Tier 1 (CET1) capital** | **160,365** | **150,763** |
| | **Tier 2 (T2) capital: instruments and provisions** | | |
| 12 | General credit risk allowances | - | - |
| 13 | Deductions from supplementary capital | - | - |
| **14** | **Tier 2 (T2) capital** | **-** | **-** |
| **15** | **Total capital (TC = T1 + T2)** | **160,365** | **150,763** |
| 16 | Amount of exposure weighted for credit risk / Total risk-weighted assets | 648,072 | 619,817 |
| 17 | Total amount of exposure for position, currency and merchandise risk | 9,916 | - |
| 18 | Weighted operating risk | 45,149 | 43,020 |
| **19** | **Total risk weighted assets** | **703,137** | 662,837 |
| | **Capital ratios and buffers %** | | |
| 15 | CET1 ratio | 22.81% | 22.75% |
| 16 | TC ratio | 22.81% | 22.75% |

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

Total capital remines at similar level like last year. Deviations can be seen in CET 1 capital before regulatory adjustments and in part of regulatory adjustment which can be explained by:

- increase in OCI in the amount of BAM 10.5 million is caused by decrease in fair value of debt instruments;
- increase in regulatory adjustment of BAM 1.2 million is related to the increase of recognized DTA for S1 and S2;

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

**Capital requirements (risk-weighted assets)**

Credit risk, operational risk, and market risk are in the scope of regulatory risks for RWA calculation. RWAs increased by BAM 40 million during the reporting period. The increase of RWAs for credit risk by BAM 28 million is due to increased new volumes. The Bank has fund requirement for market risk because net open foreign – exchange position is more than 2% of its total own funds resulting in a increase of RWAs for market risk by BAM 9.9 million. The RWA for operating risks increased by BAM 2 million.

**Leverage ratio**

The leverage ratio for the Bank, calculated in accordance with the FBA Decision on Minimum Standards for Bank Capital Management, was 13.51% at 31 December 2023, down from 13.82% at 31 December 2022. The fall was driven by increase in the total leverage exposure.

(000) BAM

| Ref1 | | 31.12.2023 | 31.12.2022 |
|---|---|---|---|
| 1 | Tier 1 capital | 160,365 | 150,763 |
| 2 | Total leverage ratio exposure | 1,186,701 | 1,090,715 |
| **22** | **Leverage ratio %** | **13.51%** | **13.82%** |

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

## (72) Auditing expenses

Auditing expenses can be shown as follows:

(000) BAM

| | 31.12.2023 | 31.12.2022 |
|---|---|---|
| Audit of year end financial statements | 98 | 85 |
| Audit of information system | 12 | 7 |
| **Total** | **110** | **92** |

In accordance with a contract to audit the 2023 annual report, Group reporting package and regulatory reports for Banking Agency of Federation of Bosnia and Herzegovina the Bank contracted with KPMG B-H d.o.o. the amount of BAM 98 thousand without VAT and expenses (2022: BAM 85 thousand without VAT and expenses).

In accordance with a contract for auditing of the information system for 2023 (obligatory reporting to Banking Agency of Federation of Bosnia and Herzegovina) the bank contracted with KPMG B-H d.o.o. the amount of BAM 12 thousand without VAT and expenses (2022: BAM 7 thousand without VAT and expenses).

The total amount spent on auditing and other assurance services in 2023 amounted to BAM 110 thousand without VAT and expenses (2022: BAM 92 thousand without VAT and expenses).

## (73) Events after the reporting date

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

## (74) Boards and Officers of the Company

From 1 January to 31 December 2023

### Supervisory Board

**Chairman of the Supervisory Board:**
Edgar Flaggl from 15.12.2021

**Deputy Chairman of the Supervisory Board:**
Maida Karalić from 8.2.2021

**Members of the Supervisory Board:**
Sanela Pašić, from 17.10.2022
Meliha Povlakić from 25.10.2017
Damir Karamehmedović from 25.10.2017

### Management Board
Jasmin Spahić, from 17.10.2022
Mario Ivanković, member of the Management Board from 8.12.2020
Selma Omić, Member of the Management Board from 1.10.2016 till 1.03.2023
Enver Lemeš, Member of the Management Board from 1.03.2023

### Audit Committee
Ana Dorić Škeva, Chairman of the Audit Committee from 5.2.2021
Mirela Salković, Member of the Audit Committee from 5.2.2021
Siniša Radonjić, Member of the Audit Committee from 29.05.2015 till 29.05.2023
Nedžad Madžak, Member of the Audit Committee from 29.05.2023

Addiko Bank

Sarajevo, 15. March 2024
Addiko Bank d.d.

MANAGEMENT BOARD

Jasmin Spahić
(Chairman)

ADDIKO BANK DD
1.3.1
SARAJEVO

Mario Ivanković
(Board Member)

Enver Lemeš
(Board Member)

# Statement of all legal representatives

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

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

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

Sarajevo, 15. March 2024
Addiko Bank d.d.

MANAGEMENT BOARD

Jasmin Spahić
(Chairman)

Mario Ivanković
(Board Member)

ADDIKO BANK DD
1.3.1
SARAJEVO

Enver Lemeš
(Board Member)

# Independent Auditors' report
# To the shareholders of Addiko Bank d.d. Sarajevo

### *Opinion*

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

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

### *Basis for Opinion*

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

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

KPMG

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

### *Key Audit Matters*

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

**Impairment of loans and advances to customers**

As at 31 December 2023, gross loans and advances to customers: BAM 584 million, related impairment allowance: BAM 39.7 million and, for the year then ended, impairment loss recognised in the profit or loss: BAM 3.2 million (31 December 2022: gross loans and advances to customers: BAM 557 million, related impairment allowance: BAM 52.5 million and, for the year then ended, impairment gain recognised in the profit or loss: BAM 0.3 million).

Refer to Accounting policies, Note 4 Use of estimates and assumptions/material uncertainties in relation to estimates, Note 40 Loans and advances and Note 56 Credit risk.

| Key audit matter | How our audit addressed the matter |
|---|---|
| Impairment allowances represent Management Board's best estimate of the expected credit losses ("ECLs") within loans and advances to customers (collectively, "loans", "exposures") at the reporting date. We focused on this area as the measurement of impairment allowances requires the Management Board to make complex and subjective judgements and assumptions.<br><br>The Bank calculates allowances for credit losses in accordance with the requirements of the Banking Agency of the Federation of Bosnia and Herzegovina ("FBA"), which combines the requirements of IFRS 9 "Financial Instruments" with the FBA-prescribed minimum requirements for provisioning.<br><br>The impairment allowances for performing exposures (Stage 1 and Stage 2 in the framework's hierarchy) and non-performing (Stage 3) exposures below BAM 100 thousand individually are determined by modelling techniques relying on key parameters such as the probability of default (PD), exposure at default (EAD) and loss given default (LGD), taking into account historical experience, identification of exposures with a significant deterioration in credit quality and forward-looking information (together, "collective impairment allowance"). | Our audit procedures in this area, performed, where applicable, with the assistance of our own financial risk management ("FRM") and information technology (IT) specialists included, among others:<br><br>• Inspecting the Bank's ECL methods and assessing their compliance with the relevant requirements of the regulatory and financial reporting frameworks. As part of the above, we identified the relevant models, assumptions and sources of data, and assessed whether such models, assumptions, data and their application are appropriate in the context of the said requirements. We also challenged the Management Board on whether the level of the methodology's sophistication is appropriate based on an assessment of the entity-level factors;<br>• Making relevant inquiries of the Bank's credit risk management, finance and IT personnel in order to obtain an understanding of the provisioning process, IT applications used therein, key data sources and assumptions used in the ECL model. Also assessing and testing of the Bank's IT control environment for data security and access;<br>• Testing the design, implementation and operating effectiveness of selected controls over the approval, recording and monitoring of loans, including those relating to the identification of significant increase in credit risk, loss events and default, appropriateness of the classification of exposures into performing and non-performing, calculation of days past due, collateral valuations and calculation of the impairment allowances. |

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

| Key audit matter *(continued)* | How our audit addressed the matter *(continued)* |
|---|---|
| Expected credit losses for individually significant Stage 3 (non-performing) exposures (equal to or above BAM 100 thousand) are determined on an individual basis by means of a discounted cash flows analysis. The process involves subjectivity and reliance on a number of significant assumptions, including those in respect of the expected proceeds from the realization of the related collateral and the minimum period for collateral disposal.<br><br>Incorporated into both the collective and individual assessment are also specific rules of the FBA regarding various minimum provisioning rates.<br><br>While the credit environment in 2023 reflected tightening conditions, with rising interest rates to combat inflation and economies experiencing slower economic growth putting pressure on borrowers, the outlook for 2024 remains uncertain.<br><br>In the wake of the above factors, including the significantly higher estimation uncertainty stemming from the current volatile economic outlook, we considered impairment of loans and advances to be associated with a significant risk of material misstatement in the financial statements, which required our increased attention in the audit.<br><br>Accordingly, we considered this area to be our key audit matter. | • For loss allowances calculated on a collective basis:<br>— Challenging the key parameters (PD, EAD and LGD) applied in the collective ECL model, by reference to the Bank's data on historical defaults, realized losses on those defaults, and loan amortization;<br>— Obtaining the relevant forward-looking information and macroeconomic projections used in the Bank's ECL assessment. Independently assessing the information by means of corroborating inquiries of the Management Board and inspecting publicly available sources;<br>— Evaluating key overlays to the ECL model used by the Bank, by applying our knowledge of its industry and our understanding of the current macro-economic situation;<br>• For impairment allowances calculated individually:<br>— For a sample of exposures, taking into account customer's business, market conditions and debt service; critically assessing, by reference to the underlying documentation (loan files) and through discussion with the loan officers and credit risk management personnel, the existence of any triggers for classification to Stage 2 or Stage 3;<br><br>• For loan exposures in totality:<br>— Assessing the adequacy of the recognized ECLs against various minimum provisioning requirements prescribed by the FBA;<br>— Critically assessing the overall reasonableness of the impairment allowances, including both the share of the gross non-performing exposures in total gross exposure and the non-performing loans provision coverage.<br>— Examining whether the Bank's loan impairment and credit risk-related disclosures in the financial statements appropriately address the relevant quantitative and qualitative requirements of the applicable financial reporting framework. |

### *Other Information*

Management is responsible for the other information. The other information comprises the Key data, Letter from the CEO, Management Board of Addiko Bank Sarajevo and Management report included in the Annual Report of the Bank, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

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

### *Other Information (continued)*

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

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

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

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

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

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

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

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

### *Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

**KPMG B-H d.o.o. za reviziju** *15 March 2024*

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

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

# Glossary

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

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| | institutions of the European Union, the International Monetary Fund and the Bank for International Settlements |
| Gross disbursements | Disbursements include disbursements of term loans (Consumer- Mortgage and Housing loans and Corporate term loans, not including revolving loans) and internal refinancing which relates to intra – bank transactions |
| Gross exposure | Exposure of on and off-balance loans including accrued interest, gross amount of provisions of performing loans and-non performing loans |
| Gross performing loans | Exposure of on balance loans without accrued interest and no deduction of provisions of performing loans |
| GSS | Means "group shared services" and designates services that are aimed at providing economic or commercial value to Group members by means of enhancing or maintaining their business position, e.g. transaction banking, back office, digital banking. GSS do not relate to shareholder activities, i.e. activities performed solely because of a shareholding interest in one or more other Group members, and are provided and charged to the respective receiving Group member |
| Households | Individuals or groups of individuals as consumers and producers of goods and non-financial services exclusively for their own final consumption, and as producers of market goods and non-financial and financial services provided that their activities are not those of quasi-corporations. Non-profit institutions which serve households ("NPISH") and which are principally engaged in the production of non- market goods and services intended for particular groups of households shall be included |
| Large Corporates | The Segment Large Corporates includes legal entities and entrepreneurs with annual gross revenues of more than EUR 40 million |
| LCR | Liquidity coverage ratio; the ratio of high-quality liquid assets and net cash flows in the next 30 days |
| Leverage ratio | The ratio of Tier 1 capital to specific exposures on and off the statement of financial position calculated in accordance with the methodology set out in CRD IV |
| Loans and receivables | Gross carrying amount of loans and receivables less ECL allowance |
| Loan to deposit ratio | Indicates a bank's ability to refinance its loans by deposits rather than wholesale funding. It is based on net customer loans and calculated with loans to non-financial corporations and households in relation to deposits from non-financial corporations and households. Segment level: Loans and receivables divided by financial liabilities at amortised costs |
| Loss identification period (LIP) | The time span from the default of the client until the recognition of the default in the Bank |
| Net banking income | The sum of net interest income and net fee and commission income |
| Net interest income (segment level) | Net interest income on segment level includes total interest income related to effective interest rate from gross performing loans, interest income from NPE, interest like income, interest expenses from customer deposits, consideration of funds transfer pricing and allocated contribution from interest and liquidity gap |
| NIM | Net interest margin is used for external comparison with other banks as well as an internal profitability measurement of products and segments. It is calculated with net interest income set in relation to average interest-bearing assets (total assets less investments in subsidiaries, joint ventures and associates, intangible fixed assets, tangible fixed assets, tax assets and other assets) |
| Non-financial corporations | Corporations and quasi-corporations not engaged in financial intermediation but principally in the production of market goods and non-financial services according to the ECB BSI Regulation |
| NPE | Defaulted, non-performing exposure (Gross Carrying Amount). A default and thus a non-performing exposure applies if it can be assumed that a customer is unlikely to fulfill all of its credit obligations to the bank, or if the debtor is overdue at least 90 days on any material credit obligation to the bank |

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| NPE ratio | Is an economic ratio to demonstrate the proportion of loans that have been classified as defaulted non-performing in relation to the entire customer loan portfolio. The definition of non-performing has been adopted from regulatory standards and guidelines and comprises in general those customers where re-payment is doubtful, a realization of collaterals is expected, and which thus have been moved to a defaulted customer rating segment. The ratio reflects the quality of the loan portfolio of the bank and provides an indicator for the performance of the bank's credit risk management. Non-performing exposure/credit risk bearing exposure (on and off balance) |
| NPE coverage ratio | Describes to which extent defaulted non-performing exposure have been covered by impairments (individual and portfolio-based loan loss provisions) thus expressing also the ability of a bank to absorb losses from its NPE. It is calculated with impairment losses set in relation to defaulted non-performing exposure |
| NPE collateral coverage | Collaterals allocated to non-performing exposure / non-performing exposure |
| Option | The right to buy (call) or sell (put) an underlying reference asset at an agreed price with-in a specific period of time or at a fixed point in time |
| OTC | Over the counter; trade with non-standardised financial instruments directly between the market participants instead of through an exchange |
| Other financial corporations | All financial corporations and quasi-corporations other than credit institutions such as investment firms, investment funds, insurance companies, pension funds, collective investment undertakings, and clearing houses as well as remaining financial intermediaries, financial auxiliaries and captive financial institutions and money lenders |
| PI | Private individuals |
| POCI | Purchased or originated credit impaired assets |
| Public Finance | The Segment Public Finance includes all state-owner entities |
| Regular interest income | Regular interest income is related to nominal interest rate from gross performing loans excluding income from origination fees, penalty interests and funds transfer pricing |
| Rescue acquisitions | Emergency acquired assets, which are assets acquired during the foreclosure procedures of a loan |
| Retail (PI/Micro) | The Segment Retail includes the following categories: (i) PI, private individuals that are not representing a group, company, or organisation and (ii) Micro, includes private entrepreneurs and profit-oriented entities with annual gross revenues of less than EUR 0.5 million |
| Risk-weighted assets (RWA) | On-balance and off-balance positions, which shall be risk weighted according to (EU) Nbr 575/2013 |
| Return on tangible equity | Calculated as adjusted result after tax divided by the simple average of equity attributable to the owners of the parent for the respective period |
| SME | Within this corporate segment small & medium corporate businesses are included. The small business subsegment includes clients with an annual gross revenue up to EUR 8 million. The medium business subsegment includes corporate clients with an annual gross revenue between EUR 8 million and EUR 40 million. |
| Stage 1 | Impairment stage which relates to financial instruments for which expected credit loss model applies and for which no significant increase in credit risk has been recorded since their initial recognition. The impairment is measured in the amount of the 12-month expected credit loss |
| Stage 2 | Impairment stage which relates to financial instruments for which expected credit loss model applies and for which are subject to significant increase in credit risk has been recorded since their initial recognition. The impairment is measured in the amount of the lifetime expected credit loss |
| Stage 3 | Impairment stage which relates to financial instruments for which expected credit loss model applies and which are credit-impaired. The impairment is measured in the amount of the lifetime expected credit loss |

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| Total capital ratio (TCR) | all the eligible own fund, presented in % of the total risk according to Decision about capital management |
| Tier 2 capital | Own funds consist of the sum of Tier 1 capital, additional Tier 1 (AT1) and supplementary capital (Tier 2). |
| TLOF | Total liabilities and own funds |
| Viber | Viber is a free chat service for smartphones and desktop computers. The program enables IP telephony and instant messaging between Viber users via the Internet |
| Yield GPL (simply Ø) | Regular interest income / simply Ø gross performing loans |

# Imprint

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