INTESA SANPAOLO BANKA
Bosna i Hercegovina

2023 Annual Report

Bank of INTESA SANPAOLO

“Panta Rhei, the aphorism attributed to Heraclitus, captures my artistic ethos - that everything flows and changes, nothing stands still and that all things are in a state of flux - perfectly”.

Alfredo Pini was born in Mirandola in 1958. Despite graduating with a diploma from vocational business school, in 1985, he devoted himself entirely to his true passion in life: painting. He moved to Ferrara, where he opened the Lacerba art gallery, visited the studios of various artists and enrolled in a number of painting courses. This led him to connect with a number of prominent contemporary artists, including Primo Conti, Bruno Cassinari, Mario Schifano, Bruno Ceccobelli, Concetto Pozzati and Omar Galliani.

In 1987, he began exhibiting work and enrolled in the DAMS (Drama, Art and Music Studies) degree programme at the University of Bologna, whose teachers included Renato Barilli, Umberto Eco and Alfredo De Paz.

Through his work as a painter, he established increasingly close collaborative ties with various galleries in cities in Italy, Spain and the United States, where he continues to present his works in solo and group exhibitions today.

Pini is a figurative artist whose style is characterised by rapid and expressive brush-strokes that capture the movement and vitality of the subjects he depicts.

Alfredo Pini
(Mirandola, 1958)
Landscape, 20th century
oil on canvas, 49 × 68 cm

While this piece from the Intesa Sanpaolo collection retains the artist’s signature pulsating energy, it shows him adopting a slower and more reflective approach. Featuring stunning mountains with patches of snow in the background and a light blue sky populated with white clouds, which - much like the cerulean blue vein-like stream coursing down the mountainside - provides a subtle hint that spring is imminent, this landscape painting depicts a natural setting that, while imposing, is not oppressive.

Enlivened by small touches of colour provided by the cloths hung out to dry in the open air and the bell tower of the small church flanked by soaring green conifers, the small village in the middle of the composition is painted with heart-felt affection. Here, a quiet rural community reliant on hard work and household tasks lives and breathes.

A lone figure, portrayed from behind, ascends a white path cutting through the middle of a grassy expanse caressed by the wind and sun.

In this painting, there is a sense of a memory evoking a simple, tranquil and almost meditative life created by brushstrokes that, in contrast to the excitable and synthetic ones of the artist’s best-known works, are vibrant yet robust. The “flux” captured in this work is not that synonymous with the hectic, breakneck pace of the modern cities that Alfredo Pini often depicts on his canvases, but rather a slow and natural one that conveys the passing of the seasons and our ancient relationship with planet Earth.

Index

LETTER FROM THE PRESIDENT OF THE SUPERVISORY BOARD

On behalf of the Supervisory Board of Intesa Sanpaolo Banka Bosnia and Herzegovina, I am honoured to present the business results of the Bank for the year 2023.

In Bosnia and Herzegovina, in line with the expectations and following 1Q +1,7% and 2Q23 +1,2% y/y GDP growth, over the 3Q economy strengthened both on a quarterly (+0,8%) and annual level (+1,9%), thus wrapping up YTD GDP growth at +1,6% y/y. Available 4Q high frequency data indicates continued positive trends in real retail trade, with somewhat less negative industrial production trends. Full Year 2023 GDP projection growth rate is around +1.6% y/y. Strong inflation pressure started in 2022 in Bosnia and Herzegovina (+14%), largely contributed by the strong rise in the prices of energy, food and production materials, slowed down during 2023 and expected to finish 2023 at +6.5%. Labour market indicators indicated the continuation of the improving trend. Consequently, there are already visible signs of a spiral between nominal wages and inflation, due to the increasing trade unions pressure and a fall in the citizens' standard of living, still far from Euro Zone average levels. Public Debt of BiH (as of September 2023) reached to 12,7bln BAM or 26,31% of GDP. Compared to the end of previous year, it decreased by -2,1% or -268mln BAM largely owing to lower external debt (-883mln BAM) ending at the 8,9 billion BAM. In 2023, the CBBH confirmed its commitment to the harmonization of the reserve requirement policy with the policy of the European Central Bank (ECB), taking into account the differences in the primary objective of the monetary policies of the ECB and the CBBH, trends in the domestic banking sector and the macroeconomic environment. The international rating agency Standard and Poor›s (S&P) increased the credit rating of BiH in August 2023, from ‹B› to ‹B+›, with a stable outlook.

The main indicators of the banking system improved in 2023, overperforming previous year results.

The banking system achieved higher growth rates of loans and deposits than in 2022. Loans to private sector increased by +6.4% vs BoY, though mainly in short term loans indicating still low investment activity of BH Corporate sector. Loans to households increased by 7.4% vs BoY, with the leading role in credit growth on the consumer loans, which contributed to almost 80% of the growth.

Private sector deposits grew by 10.1% vs BoY, as a result of 10.2% increase of households` deposits, mainly a'vista funds, and strong growth of 9.9% vs BoY of deposits from companies, which confirmed conservative approach in investments policy.

On the wake of the improved economic environment in the country in 2023 the Bank delivered positive results.

Gross Loans to customers amounted to 1,766 mln BAM, significantly overperforming level of previous year (+6,2%). This result is due to positive performance of all segments. Retail Loans increased by 5.7%, almost equally contributed by growth of general purpose and housing/mortgage loans. Still affected by low appetite for new investments, legal entities loans increased by 6.5% vs BoY, mainly from the strong increase of short term loans.

During 2023 Non-performing portfolio decreased by 8,2 mln BAM or 13,2% ending 2023 with NPL share at the level of 2,96% (67bps lower than at the end of 2022). Decrease of NPL is driven mainly by Retail segment with decrease of 4,6 mln BAM or 9,9%, while Legal entities segment decrease by 3,6 mln BAM or 25,7%. These data confirm the healthy risk profile of the Bank's portfolio and the sound approach to credit risk assessment and management established from past years.

Customers deposits increased by +10.0% vs BoY, with the strong increase of term deposits in all segments, as a result of overall Bank strategy for improvement and widening of deposits customer base. Retail Deposits recorded increase of +12.0%, while legal entities deposits achieved growth rate of +8.5% compared to the end of previous year. Term Deposits increased by +164mln BAM or +38.0% vs BoY, where legal entities term deposits growth contributed with more than 63%. Slight increase of rates in the market improved clients' appetite for deposits with longer maturities.

The Bank in 2023 recorded a Net Profit of 27.4 mln BAM and is higher by 1.4 mln BAM compared to previous year. The increase in net profit is the result of increased Operating Income by 8.4%, while Operating Costs increased by more than 11%, influenced by inflation impacts but also in line with the Bank's strategy of support employees' purchasing power.

Strong increase of Operating Income is coming mainly from significantly higher Net Interest Income, as a result of higher interest rates on Money Market placements and Central Bank reserves. Interest Income on Performing Loans remained stable, where decrease of average rates is compensated with higher average volumes. The slight increase of Net Commission takes into consideration the cancellation of fees related to average balances of Legal Entities in line with movement of rates by Central Bank.

Operating Costs recorded increase compared to the previous year, mainly as a result of higher Personnel Expenses, where the Bank continuously align with labor market conditions and salary increases, as well with inflation support measures for employees, while General and Administrative Expenses recorded growth in almost all categories as result of inflation trends in the Country.

It is important to mention that 2023 Net Profit is highly impacted by significant amount of Provisions for Risk and Charges, for a specific case of Value Added Tax (VAT) control performed by Indirect Taxation Authority for all Banks in the market, where services that Banks receive from global card companies should be considered as fully taxable.

The Bank`s enjoys a sound and stable liquidity position, with all indicators far above prescribed regulatory limits (LCR at 199%). Capital adequacy ratio according to local methodology is at 19.45% (excluding net profit of the year), far above total minimum requirements of 15.5%.

Looking ahead, more relevant challenges are awaiting the bank. The economic context to face is characterized by low level of economic growth, inflation slowdown, uncertainties related to the conflict in Ukraine and Israel and still restrictive monetary policies. In this context, continuous attention to asset quality, deposit structure and liquidity positions, careful monitoring of operating costs and maintaining an optimal product mix will be essential. The bank has repeatedly demonstrated, even in the recent past, its ability to surf in turbulent waters, preserving credit quality, ensuring sound liquidity level and achieving adequate economic results. I firmly believe that the Bank has the ability to overcome the challenges facing us in the short term.

On behalf of the Supervisory Board, I would like to express my gratitude and appreciation to the Management and all the employees of the Bank for their commitment and valuable contribution.

Report on Supervisory Board activities of Intesa Sanpaolo Banka d.d. Bosna i Hercegovina for 2023

During the year 2023, the Supervisory Board of Intesa Sanpaolo Banka d.d. Bosna i Hercegovina (hereinafter:" the Bank") held 15 meetings on the following dates: 27.01.; 20.02.; 08.03.; 23.03.; 28.04.; 31.05.; 20.06.; 29.06.; 21.07.; 25.07.; 18.09.; 26.10.; 16.11.; 13.12.; 15.12. and which were recorded under sequential numbers from 1 to 15.

The Supervisory Board of the Bank carried out its activities in conformity with the Law, the Bank's Articles of Association and Rules of Procedure of the Supervisory Board of the Bank along with the significant support by the Management Board, Audit Committee, Risk Committee, Nomination Committee and Remuneration Committee.

At the meetings held, the Bank's Supervisory Board considered, analysed and discussed all the processes within its competence, including policies and procedures, prepared internally but also received from Intesa Sanpaolo and PBZ. During the whole year, the Supervisory Board analysed and discussed Bank's financial reports and followed up internal and external auditors' activities.

The Supervisory Board of the Bank adopted modifications to General Terms & Conditions periodically proposed by the Bank's functions and Management Board. The Supervisory Board also paid special attention to AML activities and reports, provided by the AML Department.

During 2023, special attention was paid by the Board to the assessment of the adequacy of the internal control system of the Bank, in general and in specific operational areas, receiving information from the Management Board and all control functions (Internal Audit Department Risk Management department, Compliance Department and AML Department) on potential and identified weaknesses and the progress in implementation of the necessary remedial actions.

As per local regulatory requirement, Supervisory Board also received and considered information related to the assessment of the effectiveness of the control functions in the Bank, including the appropriateness of processes. The Supervisory Board confirmed the soundness of the activities carried out by these functions.

The Supervisory Board of the Bank, through adoption of Operational Reports and Report of independent External Auditors acknowledged work of the Management Board, assessing it as compliant with laws, internal acts, decisions, policies, procedures and programs. During 2023, the Supervisory Board members analysed the findings of the Agency on the performed supervisions, the plans of remedial actions defined by the Bank and provided recommendations in their respect.

The Supervisory Board of the Bank performed and implemented all the required activities through its subcommittees: Audit Committee, Risk Committee, Nomination Committee and Remuneration Committee that held their regular meetings during the year and duly informed the Supervisory Board of their activities.

Significant involvement of the Supervisory Board of Intesa Sanpaolo Banka d.d. Bosna i Hercegovina in all Bank's activities contributed to stability and maintenance a good position of the Bank in the market, thus, achieving sound financial results.

The composition of the Supervisory Board of Intesa Sanpaolo Banka d.d. Bosna i Hercegovina throughout the 2023 was: Mr. Dario Massimo Grassani (Chairman), Mr. Petak Sopek (Deputy Chairman), Mr. Jadranko Grbelja, Ms. Ivana Jović, Ms. Michela Boiocchi, Mr. Alden Bajgorić (independent member) and Mr. Massimo Malagoli (independent member). The composition of Supervisory Board of the Bank facilitated effective resolution of various topics brought up, as members with expertise in different areas collaborated to provide comprehensive insights and solutions.

Pursuant to the Decision on assessment of members of Bank›s bodies by Banking Agency of the FBiH and its amendments, ("the Policy") the Nomination Committee performed necessary assessments in accordance with the Policy, confirming that all the assessed persons do satisfy the prescribed requirements and are suitable for given positions in the Bank's Bodies and control functions.

In accordance with the best practices, the Supervisory Board of the Bank recognized the importance of regulatory amendments, to enhance compliance and ensure the Bank's adherence to evolving standards what is reflected also in Regulator's recommendations. This reflects on the following documents: Rules of Procedure of General Shareholders' Meeting, Rules of Procedure of Supervisory Board, Rules of Procedure of Risk Committee (Risk Committee Charter), Rules of Procedure of Audit Committee (Audit Committee Charter), Rules of Procedure of Nomination Committee, Rules of Procedure of Remuneration Committee and Rules of Procedure of Management Board.

The Supervisory Board will propose to the Bank's General Shareholders' Meeting the following for adoption, which will be formally assessed by the Supervisory Board itself in a meeting preceding the summoning of the GSM:

- Decision on adoption of the Rules of Procedure of General Shareholders Meeting of Intesa Sanpaolo Banka d.d. BiH
- Decision on adoption of Financial Statements of Intesa Sanpaolo Banka d.d. Bosna i Hercegovina for the period 01.01. – 31.12.2023 prepared in accordance with the FBA Reporting Standards together with the Report of External and Internal Auditors, Report on Supervisory Board Activities and Report on Audit Committee Activities
- Decision on adoption of Annual Statements of Accounts for the period 01.01. - 31.12.2023 and Distribution of Profit for 2023
- Decision on adoption of Budget 2024
- Decision on adoption of Financial Plan 2024-2027
- Decision on adoption of Capital Plan 2024-2027
- Decision on adoption of Liquidity and Funding Plan 2024-2027
- Decision on adoption of the Reports on agreements concluded between the Bank and persons in a special relationship with the Bank as of 30.09.2023 and 31.12.2023
- Information for the GSM of the Bank, related to salaries, benefits and all other earnings of the members of the Supervisory Board, Management Board and of Top Management of the Bank
- Decision on suitability of the Members of Supervisory Board of Intesa Sanpaolo Banka d.d. Bosna i Hercegovina for 2023
- Decision on adoption of the Supervisory Board Self-assessment results for 2023
- Decision on acknowledgment of submitted Property Statements of the Supervisory Board Members for 2023.

MANAGEMENT BOARD'S REPORT ON BANK'S OPERATIONS FOR 2023

The Management Board is honoured to present you the Annual Report and Financial Statements of Intesa Sanpaolo Banka d.d. Bosna i Hercegovina (hereinafter `the Bank` or `Intesa Sanpaolo Banka BiH`) for the year ended on 31 December 2023.

The recovery of key macroeconomic indicators in 2023, after the crisis caused by the COVID-19 pandemic and by the war in Ukraine, resulted with the GDP growth rate of 1.6%, significantly lower inflation rate of slightly above 6% compared to remarkable 14% recorded in 2022 and decrease of Public Debt. The banking sector was significantly influenced by the movement of reference interest rates on international markets, but still overperformed growth rates of loans and deposits than in previous year. In an uncertain macroeconomic environment and all the challenges presented in the economy, the Bank achieved solid results, achieving key goals outlined in the business plan.

Net Profit amount to 27.4 mln BAM and is higher by 1.4 mln BAM (+5.3%) compared to previous year. The increase in Net Profit is the result of significant growth of Net Interest Income and solid growth of Net Commissions that more than offset increase of Operating Expenses.

Net Interest Income ended at 65.4 mln BAM and increased by 8.8 mln BAM (15.6%) versus 2022, where Interest Income recorded increase of 8.1 mln BAM, while Interest Expenses decreased by 0.8mln BAM. Growth of interest income is mainly driven by increase of net interest income from placement with foreign Banks, Central Bank BiH (CBBiH) and Securities as a result of favourable movements in interest rates. Income from loans grew by 0.7mln BAM and is driven by increase of loan portfolio volumes which offset the decrease of average interest rates. Interest Expenses decrease compared to previous year is fully result of recovered CBBiH rates on Mandatory Reserves from negative recorded during 2022 to positive during 2023. Significant growth of term deposits resulted with strong growth of Interest Expenses on Customer Deposits.

Net Commissions ended at 29.7 mln BAM, higher by 0.6 mln BAM or 2.0% compared to 2022. Growth of Net Commissions is result of strong increase in number and volume of POS and Card transactions and sale of CPI following growth of sales in retail loans. Such increase offset cancelation of fees for high average balances on the legal entities transaction accounts. The contribution of net income from commissions in operating income is 29%.

Trading Income reached 4.3 mln BAM, decreasing by 1.3 mln BAM compared to previous year that was impacted by extraordinary transactions in specific currency by one Large Corporate client recorded during 2022.

Operating Expenses amount to 61.4 mln BAM and increased by 6.2 mln BAM (11.1%) compared to 2022. The increase of Personnel Expenses is driven by increase of fixed salaries as the Bank implemented salary increases to align with labour market conditions and took inflation support measures for employees. Other administrative costs and depreciation increased by 2.6mln BAM (8.5%) which is mainly driven by drag in effect from strong inflation pressure in 2022 of 14% and continued inflation of 2023 (more than 6%).

Net Provisions at 9.2 mln BAM are lower by 0.4 mln BAM compared to previous year as a result of lower net adjustments to loans driven by further improvement of portfolio quality and decrease of NPL portfolio.

The overall Bank`s balance sheet increased by 2.2%, reaching the level of 2.614 mln BAM, mainly due to strong increase of Loans to Customers and continued inflows of new Customer Deposits, in both Segments: Retail and Corporate.

Loans to Customers (gross) reach the level of 1,766 mln BAM at the end of 2023 and increased by more than 100mln BAM or 6.2% compared to previous year, similarly contributed by both segments. Excellent performance was recorded in loans to Individuals which grew by +7.3% backed by strong growth of housing and personal loans. Corporate and SME recorded growth in 2023 reflects increase of demand in the market, but mainly in short term loans, while long term loans are still affected by low appetite for new investments. The cautious risk policy aimed at preventing new low-quality loans and portfolio quality deterioration resulted with further decrease of NPL, bringing NPL ratio below 3%. When it comes to the market share in the total loans of the FBiH banking sector, at the end of 2023 the Bank remained at slightly above 10%, keeping strong 4th market position.

Customers Deposits amount to 1.949 mln BAM and increased by 10.0% compared to 2022, reflecting the trust that customers have continued to place in the Bank and Intesa Sanpaolo Group as a reliable partner. Deposits from Individuals increased by 11.9%, mainly in term deposits as a result of the overall Bank strategy for widening of deposits customer base and improvement of deposits maturity structure. Legal Entities deposits recorded strong growth of 8.5% with excellent performance in improving maturity structure by shifting from current accounts to term deposits.

The Bank enjoys a sound and stable liquidity position, with all liquidity indicators far above prescribed regulatory limits and is sufficient to sustain a further expansion of credit portfolio. The Bank has significant amounts of contracted undrawn new credit lines, with the focus on ESG eligible financing, which clearly indicates the stability of the liquidity position as well as a sufficient basis for the growth of the credit portfolio in the coming period.

The Bank's capital (excluding net profit of the year) amounts to 316 mln BAM, increased by 8.2 mln BAM compared to previous year. Capital adequacy according to local methodology at 19.45% is far above minimum requirements of 15.5%.

CONCLUSIONS. The Bank delivered positive financial performance preserving asset quality, ensuring stable liquidity position and strictly managing operating costs. The Bank can readily face challenges and at the same time take advantage of certain market opportunities. A strong and stable capital base, secure sources of financing and a good liquidity position enable the Bank to adequately deal with potential market uncertainties and support stable sustainable growth in the coming period.

Business description of Intesa Sanpaolo Banka BiH

Intesa Sanpaolo Banka d.d. BiH was established in Sarajevo in 2000, as UPI Banka d.d. Sarajevo. In 2007, Intesa Sanpaolo Holding S.A Luxembourg became main shareholder with 94.92% of ownership. In July 2007, the Bank finished the merger process with LT Gospodarska Banka d.d. Sarajevo. In 2008, the Bank changed its name to Intesa Sanpaolo Banka d.d. Bosna i Hercegovina. As a part of equity investment portfolio re-organization within mother company Intesa Sanpaolo Italy, in July 2015 ownership of Intesa Sanpaolo Banka d.d. BiH was taken over by sister company Privredna Banka Zagreb d.d. During 2017 Privredna Banka dd Zagreb overtook the shares of minor shareholders of the Bank, thus becoming the Bank's owner with 99.99% of shares. The Bank is part of Gruppo Intesa Sanpaolo – the largest Italian banking group and one of the most significant financial institutions in Europe.

The bank performs general banking business with Retail and Corporate clients offering whole array of product packages and commercial services commonly traded in the industry at Bosnia and Herzegovina level.

The Bank maintains its commercial presence on the territory of Bosnia and Herzegovina through its branches and ATM network and further strengthens its cooperation with merchants and clients with the expansion of POS network.

As of December 2023, the Bank is ranked 6th in Bosnia and Herzegovina by Total Assets with a market share of 6,7%. Business operations are mainly concentrated in the Federation of Bosnia and Herzegovina (95 percent of Total Assets), where the Bank ranks 4rd in total assets, total loans and total deposits, with respective market shares of 9.0 percent in Total Assets, 10.1 percent in loans and 8.5 percent in Deposits. Intesa Sanpaolo Banka BiH services approximately 150.000 customers in the country, using a well-dispersed network of 43 branches and modern digital banking channels. Total number of employees at the end of 2023 was 566.

RETAIL DIVISION

Mission of Retail Division is to serve Retail clients and Small Business by building, developing and managing sustainable business relations, with the goal of creating lasting values.

Retail Division covers the entire territory of Bosnia and Herzegovina, with a network of 5 regional centers and 43 branches, that represents 6% of the total number of branches in Bosnia and Herzegovina banking sector. Federation of Bosnia and Herzegovina is covered with 37 branches, Republika Srpska with 5 and Brčko District with 1 branch.

Individuals are divided in three main segments: Mass, Affluent and Private. Mass segment represents the predominant component of total customer base. Primary channels for Individual and Small Business customers are still branches and ATM's.

During 2023, Retail's mission was to continuously use available resources, through expanding and improving the offer, price and quality of services for clients, while maintaining the highest level of services, in order to improve overall business.

Strong growth of Loans was achieved with similar contribution by secured and unsecured loans as a result of continuous implementation of commercial and CRM campaigns, with introduction of ESG products in accordance with the Intesa Sanpaolo Group strategy.

Overall Bank strategy for diversification of deposits customer base and strengthening of liquidity position resulted with strong collection activities and growth of individuals term deposits by more than 20% during 2023.

Implementation of new distribution model continued in 2023, with the increase in the sales force and the introduction of new commercial roles in the network. The optimization of the business network was reflected in closure of two agencies.

During 2023, the product offer for the Retail customers has been enriched with several new products and services: new ESG loans products, ATM cash withdrawal on instalments, implementation of ATM contactless functionalities, Google Pay, CPI bundled with housing loans, contracting accident policies via mobile banking etc. Strong focus was on insurance products, where the number of insurance policies increased by 35%.

CORPORATE & SME DIVISION

The Corporate and SME Division offers a wide range of products and services to businesses in the domestic and international markets, by its well-organized network and powered electronic channels, which makes the Bank an attractive partner to corporate clients.

Product offer encompasses deposits and different forms of short/long-term financing, payment services in the country and abroad, Global Transaction Banking products, trade finance services (issuance of guarantees in the country/abroad, issuance of letter of credits, confirmation of guarantees and letters of credit etc.), factoring with and without recourse and POS acquiring and e-commerce.

Thanks to the whole array of services offered to legal entities and its presence in both entities and the Brčko District, Intesa Sanpaolo Banka BiH is one of the leading banks in the BiH market and is recognized for his ability to provide integrated financial solutions designed to satisfy the individual requirements of our clients. In 2023, we would especially emphasize further promotion of ESG products, which has positioned the Bank as one of the market leaders in this segment. The Bank supported its customers also through utilization of state guarantee program covering 50% of disbursed amounts and exploiting supranational institutions ESG eligible credit lines financing.

Corporate Governance

In accordance with the Banking Law and the Bank's Articles of Association, the bodies of the Bank are the General Shareholders Meeting, the Supervisory Board, and the Management Board. The mentioned acts regulate also their duties and responsibilities.

Supervisory Board

During 2023 and up to the date of this Report the Supervisory Board had the following composition: Dario Massimo Grassani chairman, Petar Sopek deputy chairman, Ivana Jović, member, Jadranko Grbelja member, Michela Boiocchi member, Alden Bajgorić independent member, Massimo Malagoli independent member.

Audit Committee

During 2023 and up to the date of this Report, the Audit Committee had the following composition: Andrea Nani chairman, Ana Jadrešić member, Massimiliano Masturzo member, James Vason permanently invited person and Davor Vodanović permanently invited person.

Management Board

The Management Board consists of the president and two members who performed their duties during the year in question and up to the date of this report, as follows:
Marco Trevisan, President of the Management Board, Michele Castoro, Management Board Member responsible for Finance Division and ICT and Operation Division, and Edin Izmirlija, Management Board Member and Head of Risk Division.

REPORT ON OPERATIONS

as of December 31, 2023

Prepared by CFO Division

Index

MACROECONOMIC ENVIRONMENT AND BANKING SECTOR

External environment

GDP and Inflation

GDP in the CEE and SEE areas will continue on a recovery path in the coming months, albeit still a relatively modest one, mainly as a result of weaker-than-previously-expected economic dynamics in Euro Area countries. These performances are further due to the monetary restrictions implemented by policy authorities, which are weighing on financing conditions of economic agents.

The September baseline scenario projected GDP growth for the CEE area at 2.6% yoy in 2024, but slightly downwardly revised to 2.5%. The GDP dynamic in the SEE area has also been downwardly revised (to 2.3% from 2.9%). The forecasts for the following year have been confirmed for both the CEE area and SEE regions (to 2.8% and 3.2%, respectively).

The assumptions behind these projections include hypotheses on fuel and nonfuel commodity prices, which are assumed to decrease in 2024 and 2025. However, the prevailing risks to the economic outlook are negative.

Inflation could be more persistent than expected, renewed COVID-19 epidemic outbreaks could occur, and lockdowns could dampen economic activity, the wars in Ukraine and in the Middle East could escalate, and tighter global financing conditions could hamper economic recovery. Inflation is projected to be on a declining path, even if it were to remain high in the coming months and above central banks' targets in both the CEE and SEE areas – in particular, in those countries where wage dynamics have strengthened significantly. The end-of-period inflation forecasts for 2024 have been confirmed (at 3.0% in the CEE area and at 4.2% in the SEE area) and are expected to move closer to CB targets in the following year.

Monetary policy and financial markets

Some EU countries have already started to ease monetary policy as Poland and Hungary. Czech Republic seems to have paused with regard to raising policy rates, although monetary actions continue to be guided "by data" and therefore, as inflationary pressures are declining, in our baseline scenario, a reduction in policy rates could start soon.

The profiles for long-term yields have been revised slightly downwards overall along the forecast horizon with respect to our September scenario in the CEE/SEE region, due to the forecast lower path for Bund yields. In FX markets, exchange rates are expected to move around the current values in the CEE/SEE area overall in 2023 and 2024.

Banking aggregates and interest rates

After rising in both CEE and SEE countries (by 3.8% and 10%, respectively) in 2022, loan growth is forecast to increase in 2023, by 2% in the former and 4.6% in the latter. Lending will be negatively affected by higher interest rates (mainly mortgages with variable interest rates). Furthermore, demand for credit could be affected by falls in real disposable incomes (slowing consumer lending) due to still-high inflation, despite decelerations in all countries. NPLs are expected to rise, given the deteriorating macroeconomic outlook, as indicated by current Stage 2 exposures (source: EBA), specifically where the increase in interest rates – and the associated rise in private sector debt servicing costs – has been particularly sharp.

Deposit forecasts have been revised upward in both the CEE (to 5.9% in 2023) and the SEE (to 7.3% in 2023) countries. On the other hand, uncertainties about the economy and the evolution of the war could support deposit growth, due to prudence. Deposits are expected to decelerate in CEE countries to 3.9% in 2024 and in SEE countries to 6.1% in 2024.

Source: Economic and Banking Outlook; December 2023; Intesa Sanpaolo Research Department

MACROECONOMIC ENVIRONMENT AND BANKING SECTOR (continued)

Macroeconomic environment

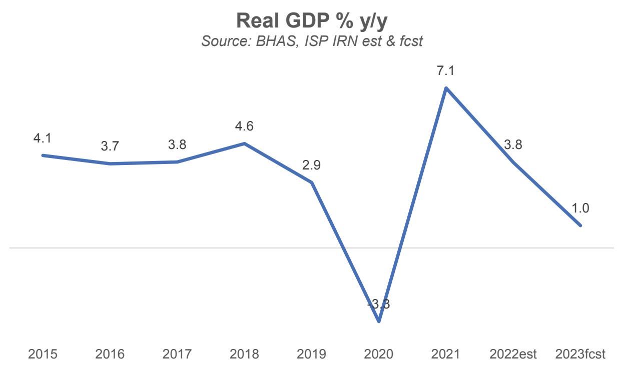
Economic activity

Overview and projections for Bosnia and Herzegovina

High frequency data for the third quarter of 2023 signal somewhat improved trends compared to the previous quarter, as industrial production increased by 0.7% qoq (stagnant on a yoy basis), with manufacturing rebounding by 2.2% qoq (-0.8% yoy), while electricity production declined on a quarterly basis (-4.7%) but increased on an annual basis (+7.8%).

Retail trade also recorded a strong performance, with volumes increasing by 5.1% qoq and 16.5% yoy. Exports remained weak (-10.5% yoy, similar performance to Q2).

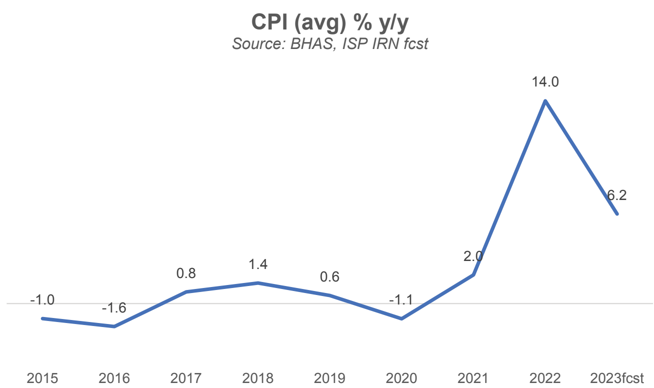
Thus, awaiting the end-December official release of third quarter data, available fourth quarter high frequency data indicates continued positive trends in real retail trade, with somewhat less negative industrial production trends. FY23 GDP projection was revised to around 1.6%.



Source: Forecasted data provided by Intesa Sanpaolo Research Department (December 2023).

Inflation

Strong inflationary pressure started in 2022 in Bosnia and Herzegovina (+14%), has slowed down during 2023, and is expected to finish 2023 at 6.3%, according to official data from the BiH Statistics Agency. The price level in December 2023 as compared to the same period of the previous year increased by 2.2%. The highest average increase of prices growth was recorded in division of Other goods and services by 8.4%, Restaurants and hotels by 7.0%, furniture by 5.2%, alcoholic beverages and tobacco by 4.8%, food and non-alcoholic beverages by 3.4%. At the same time, the decrease of proces on average was recorded in division of Clothing and footwear sectors by 6.2% and transport by 3.6%.



MACROECONOMIC ENVIRONMENT AND BANKING SECTOR (continued)

Macroeconomic environment (continued)

Wages and employment

Labour market indicators indicate the continuation of the improving trend, where a decrease in unemployment rate of 2.8% was recorded as of November 2023 compared to same month of previous year (Source: BHSA).

There are already visible signs of a spiral between nominal wages and inflation, due to the increasing trade unions pressure and a fall in the citizens' already low standard of living. Average net wage as of November 2023 recorded an increase versus same month of previous year by almost 11% which is mainly reflection of strong inflation pressure started in 2022 (+14%) and continued in 2023 (+6.5%).

Public debt

Public Debt of BiH (as of September 2023) reached to 12,7bln BAM or 26,31% of GDP, out of which external debt in amount of 8,9 billion BAM (70%) and internal debt in amount of 3,8 billion BAM (30%). Compared to the end of previous year, Public debt decreased by -2,1% or -268mln BAM largely owing to lower external debt (-883mln BAM) while share in GDP reduced by 229bps (Source: Ministry of Finance and Treasury of Bosnia and Herzegovina).

Foreign Trade

In 2022, very high growth rates of foreign trade values compared to the same period of the previous year were recorded mainly resulting from the growth of commodity prices in the international market. However, in 2023 the value of export in period January - December amount to BAM 16.7 billion, representing a decrease of 7.1%, while, in the same period, import amount to BAM 27.8 billion decreasing by 3.0%. deepening the trade deficit to BAM 11.7 billion. Coverage of import by export value is at 60.1%. *(Source: BHSA).*

Banking sector

As of December 2023, the banking system of Bosnia and Herzegovina is composed by 21 commercial banks, very close to regional average of SEE markets, out of which 13 operate in Federation of Bosnia and Herzegovina (F BiH) and 8 in Republika Srpska (RS). Three banks have head quarter in both entities: Addiko Bank, NLB Bank and UniCredit Bank. The banking sector displays high concentration, with the five largest lenders holding a market share around 64%, a considerable level which does not make easier further consolidation.

Banking sector is over-liquid and banks` reserves held at Central Bank of Bosnia and Herzegovina (CBBH) amounted to 6.6bln BAM as of November 2023 (historical peak in September 2022 was 7.3bln BAM).

Based on data published by Federal Banking Agency and Agency for Banking of RS (September 2023), total BIH market loans increased by +3.5 vs 2022 (FBIH: +3.9%; RS: +2.4%), while deposits recorded 3.7% growth (FBIH: +5.1%; RS: -0.7%).

Loan growth was contributed higher by Retail sector (+5.7%) while Corporate sector grew by +3.9%.

On the deposit side, Corporate deposits grew by +2.5% compared to the end of 2022 (FBIH: +5.1%; RS: -6.5%) while Retail increased by +7.3%. The composition of deposits continued to develop in favour of current accounts among households. Retail deposits developed solid, but clients are switching funds from TD's to Current Accounts, due to very low rates offered into the market (term deposits decreased by ca 1% while sight deposits/current accounts increased by +10%). Worth of mentioning that term deposits in RS increased by +5.7% vs -4.2% decrease in FBIH driven by higher interest rate in RS by ca 100bps.

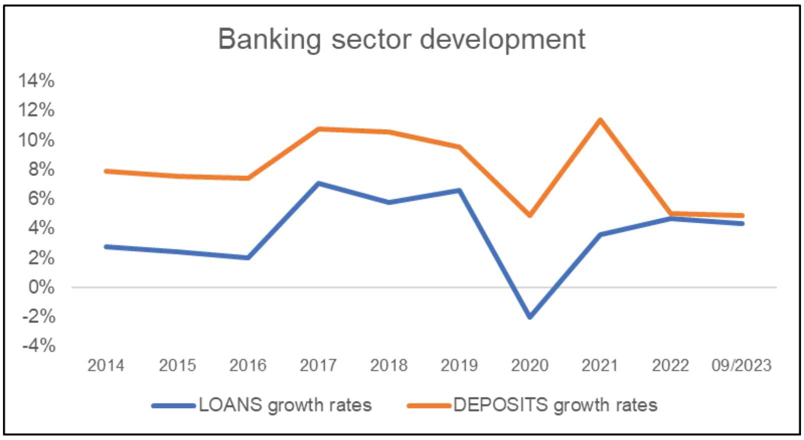
The level of NPL is at 4.0% and improved from December 2022 by -57bps.

The banking sector is well capitalized, with a total capital ratio of 19.34% in September 2023 (19.61% in 2022).

MACROECONOMIC ENVIRONMENT AND BANKING SECTOR (continued)

Macroeconomic environment (continued)

Banking sector (continued)



Long term trend of loans and deposits development is shown in the chart (source: Central Bank of BiH).

In 2023, the CBBH confirmed its commitment to the harmonization of the reserve requirement policy with the policy of the European Central Bank (ECB), taking into account the differences in the primary objective of the monetary policies of the ECB and the CBBH, trends in the domestic banking sector and the macroeconomic environment.

Consequently, in December 2022, the CBBH adopted a Decision on amending the Decision on establishing and maintaining mandatory reserves and determining compensation for the amount of the reserve, with the aim of harmonizing with the policy of the ECB and mitigating the impact of the increase in the ECB's reference interest rate on the operations of banks in Bosnia and Herzegovina, which entered into force on January 1, 2023. years. With this decision, a fee was calculated and paid at the rate of 25 basis points on required reserve funds based on the base in the domestic currency, BAM, while on funds required reserve based on the basis in foreign currencies and in the domestic currency with a currency clause - a fee was calculated and paid at the rate of 10 basis points.

Continued commitment to the harmonization with the policy of European Central Bank (ECB) and mitigating the impact of the increase in the ECB's reference interest rate on the operations of banks in Bosnia and Herzegovina, at the beginning of June 2023, the CBBH passed the Decision on increasing the fees for the mandatory reserve that it pays to commercial banks. With this decision, which is still in force, a fee of 50 basis points (0.50%) is paid to commercial banks on required reserve funds based on the basis in the domestic currency BAM, while on funds required reserves based on the basis in foreign currencies and in the domestic currency with a currency clause - paid fee at the rate of 30 basis points (0.30%).

In 2023, the international rating agency Standard and Poor's (S&P) increased the credit rating of BiH, from 'B' to 'B+', with a stable outlook. S&P analysts state in the report that the increase in the credit rating reflects their view of Bosnia and Herzegovina an economy that has proven resilient, despite recent impacts, including the COVID-19 pandemic, several episodes of political instability, and weaker external demand. BiH's real GDP has fully recovered from the pandemic, and the increase in the credit rating was also influenced by the favorable fiscal position of the consolidated general government. According to analysts' estimates, external debt servicing costs will be kept at an average of 2.5% of government revenues until 2026, which is a low level in global comparison. The rating increase is also based on the expectations of the S&P agency that there will be an easing of domestic political confrontations. The currency board arrangement, as stated in the report, is an important economic anchor and no changes to this arrangement are expected in the future.

In 2023, the reference interest rates of the ECB continued to rise, reaching a record level of 4%, which ultimately resulted in a reduction in inflation growth. Consequently, the reference rate of the average weighted cost of financing banks in Bosnia and Herzegovina recorded an increase of up to 3 basis points, observing maturities of 3, 6 and 12 months on BAM deposits, while for EUR deposits an increase of up to 7 basis points was recorded.

MACROECONOMIC ENVIRONMENT AND BANKING SECTOR (continued)

Macroeconomic environment (continued)

Banking sector (continued)

On the credit side, the interest rate on consumer loans for periods from 1 to 5 years recorded a significant growth of 163 basis points. Interest rates on housing loans over 10 years recorded a slight increase of up to 40 basis points.

Interest rates on loans to non-financial companies also recorded a significant increase in 2023. Depending on the amount and maturity, growth between 30 and 92 basis points is recorded.

Expectations for 2024

The projected growth rate of real GDP for 2024 is low at +2.2%. Private consumption – driven by strong wage growth, decelerating inflation and supportive labour market – will be the key growth driver, while, in turn, investments will remain subdued, reflecting an unfavourable business environment marked by political tensions and a track record of sluggish structural reforms. Positive support from foreign demand is also expected, but with this more pronounced in the second half of the year, as the growth of major trading partners strengthens. Inflation (average) is forecasted at 2.9% in 2024.

	Unit	2023 Forecasts	2024 Forecasts
Real GDP y/y	%	**1,6**	**2,2**
Nominal GDP	loc curr bn	**49,3**	**51,8**
Nominal GDP	EUR curr bn	**25,2**	**26,5**
GDP per head	Euro	**7.320**	**7.686**
Unemployment rate (avg)	%	**29,0**	**27,5**
Wages y/y (avg)	%	**13,0**	**8,58**
CPI y/y (avg)*	%	**6,3**	**2,9**
CPI y/y (eop)	%	**3,0**	**2,0**

Source: Projected data provided by Intesa Sanpaolo Research Department (December 2023)

Source:BHSA

Banking sector projection forecasts growth in lending activities and deposit collection in framework of positive macroeconomic scenario, with stable growth of GDP around 2.2%, decreasing unemployment rate and reducing inflation, after inflation blaze in 2022.

Lending activities towards households and non-financial corporations are projected to grow in 2024 by +4.1%, but with slightly higher growth rates for households versus non-financial corporations.

Deposit will grow by +4.5% in 2024, supported by growth of households which fully recovered from 2022 slowdown, while deposits of non-financial corporations kept growing constantly.

BANK`S STRATEGY AND PLANNED DEVELOPMENT

In line with its strategic orientation, Intesa Sanpaolo Banka d.d. Bosnia and Herzegovina continues to strenghten its position in the Bosnian banking sector, relying on stable growth and sustainable value creation, and actively contributes to the economic development of the country.

Strategic objectives for 2024-2027 are directed towards improving market position, and revenues growth capturing new business opportunities, while maintaining credit portfolio quality and cost discipline by simpifying business process and increasing efficiency. The bank affirms its ESG commitment with strong focus on social impact and climate and environmental initiatives, supporting the clients through the digital and climate transition. The main strategic initiatives are presented hereinafter:

BANK`S STRATEGY AND PLANNED DEVELOPMENT (continued)

Growth of lending business

Retail will focus on housing loans and non-purpose loans for affluent and upper-mass segments. The growth plan will also be accompanied by improvement of the existing and the launch of new products (including new ESG products) with distinctive futures and the extensive use of CRM to support promotional campaigns on target client's segments.

Small Business (SB) plans to increase loan portfolio by targeted selling campaigns, pre-approved loans for new and existing clients, use of favourable credit lines and onboarding loan program for new clients.

Corporate and SME will focus on MID and Upper SME. For SME segment target is to acquire new clients and continue the trend of growth, quantitative and qualitative growth on Multinational clients by improving synergies with the Intesa Sanpaolo Group Banks members and promoting joint initiatives and common business development. Loan volumes growth will be supported by utilization of Supranational Institutions credit lines, such as EIB credit facilities for socially responsible projects and development of ESG products and EBRD credit facilities targeting green component of ESG, as part of the implementation of the Group's (ESG - Sustainable Financing strategy).

In addition to above, the Bank will continue to exploit a HUB synergic approach to project finance, especially in renewable energy projects, where the Banks' front-end and sales skills would be coupled with business and underwriting specific expertise of the Parent company.

Development of fee-based business

Retail strategy will be focus on following drivers:

- Bank insurance, with introduction of new products for Individuals in partnership with primary insurance companies active on the domestic market;
- Enlargement of product catalogue with new products and services for VIP and Affluent segment (Visa Concierge), implementing Google Pay and Apple Pay, continuous implementation of new features for mobile banking;
- Focusing on new niche of clients, young people and students with a new package of services;
- Enlargement of product catalogue for Small Business with new business card Mastercard, SMS banking and new package of products for SB clients;
- Focus on customer growth with several initiatives: Bank@work, MGM and reactivation of inactive customers.

In Corporate and SME, key drivers for organisational and market growth are defined as: Strengthening the CRM and Network support Department which expect to bring efficiency through two streams:

1. Strong CRM function in order to provide clear deep dive analysis and potential paths in cross selling activities, covering all existing clients and prospects
2. Creating Network support section, so called as "Mid-office" which will gradually takeover most of administrative tasks from sales function (loan administration, transaction accounts administration and AML function).

So, in both segments (CORP and SME), income from interest and commission growth will be supported by CRM more extensive use to increase cross-selling and for uncovered market niches and sub-segments or previously neglected client groups. Global Transaction Banking will be the key pillar for boosting fee-based business, focusing on trade finance, international payments and international cross-border factoring with focus on Balkans, strengthening collaboration with Intesa Sanpaolo Group.

BANK`S STRATEGY AND PLANNED DEVELOPMENT (continued)

Improvement of distribution strategy

The adoption of new distribution model is aimed at increasing commercial salesforce through introduction of new roles in the network and maximize efficiency and lower cost-to-serve, mainly for low-value clients.

The new distribution will encompass relevant turnaround for implementation:

- Process simplification;
- Salesforce efficiency and productivity enhancement;
- HR enablement;
- Physical network review.

Modernization and Innovation

The Bank will continue its multi-years plan of modernization and digitalization focusing on three main areas:

1. *Developing systems and operational solutions that improve the commercial offer of products and services, while increasing the efficiency of processes already in place:*

- Upgrading core banking system and central application according to mandatory requirements and developing and upgrading interfaces to external applications systems;
- Implementation of digital signature;
- Open banking (like PSD2);
- Payment system integration (Sepa, Apple pay…);
- MS cloud solution

2. *Optimizing back-office and administration processes aimed at improving the effectiveness of customers services and the efficiency of decision-making processes that require timely information and data for faster response to market changes:*

- further automation and centralisation of back-office processes;
- implementation of Document Management and Digital Archive System;
- implementation of SW robotics capable to learn manual data and documents processing and replace people in process (bookings and execution of invoice payments, creating semi-manual reports etc.);
- enhance Management Information System (MIS) to become a managerial tool for profitability analysis by BUs, Branch, RM, product and client level and advanced reporting functionalities.

3. *Digital. Developing additional features in internet / mobile banking applications for boosting penetration for mobile banking waiting implementation of Digical to grow the business and stay competitive.*

Strengthen credit machine

Enhance internal process and decision-making autonomies to make credit processes more effective:

- New Loan origination workflow for Retail Individual customers;
- New Internal credit rating workflow for legal entity costumers;
- E-collection enhancements;
- Collateral and covenant management improvement.

ESG

ESG transformation program involving organizational coordination of all ESG-related activities and review of processes/product offerings, in line with recent developments in the ESG field (e.g., strengthening business with an "impact ESG funding" logic), for both Retail and Corporate businesses.

The Bank will continue with further improvement of existing and development of new ESG eligible products, exploiting a HUB synergic approach and business expertise of the Intesa Sanpaolo Group Banks members and Parent company (specifically for project financing in renewable energy projects through ESG clearing of specific debtors and financing deals).

Risk Management/Liquidity and Capital

The bank will continue keeping a careful approach in underwriting.

The bank will continue the optimization of balance sheet structure and the improvement of liquidity management / liquidity indicators, through active Asset and Liability Management, in order to ensure maintaining sound liquidity position and optimizing risk/return profile.

Capital management will focus on funding optimization in light of MREL requirement.

BUSINESS DESCRIPTION

Intesa Sanpaolo Banka d.d. Bosnia and Herzegovina was established in Sarajevo in 2000 as UPI bank d.d. Sarajevo. In 2006 the main shareholder became Intesa Sanpaolo Holding S.A Luxembourg, with 94.92 percent of ownership. In July 2007, UPI banka finished the merger process with LT Gospodarska banka d.d. Sarajevo. In 2008 the Bank changed its name to Intesa Sanpaolo Banka d.d. Bosnia and Herzegovina.

Part of Intesa Sanpaolo Group from Italy, the Bank's majority shareholding was purchased in July 2015 by former sister company Privredna Banka Zagreb, within the framework of an equity investments portfolio reorganization undertaken by the parent group, that during 2017 became 99.99 percent owner of the Bank.

The Bank maintains its commercial presence on the territory of Bosnia and Herzegovina through its agencies and ATM network and further strengthens its cooperation with merchants and clients with the expansion of POS network. Intesa Sanpaolo Banka d.d. Bosnia and Herzegovina performs general banking business with Retail and Corporate clients offering all ranges of products and commercial services commonly traded in the industry at Bosnia and Herzegovina level.

As of September 2023, Intesa Sanpaolo Banka d.d. Bosnia and Herzegovina is the 6th bank in Bosnia and Herzegovina by Total Assets, present in the country with 37 agencies in the Federation of Bosnia and Herzegovina, 5 agencies in Republika Srpska and 1 in Brčko District. Its business operations are mainly concentrated (95 percent of Total Assets) in Federation of Bosnia and Herzegovina, where the Bank ranks 4th in total assets, loans and deposits, with respective market shares of 9.0 percent in Total Assets, 10.1 percent in loans and 8.4 percent in Deposits.

RETAIL DIVISION

Retail Division mission is to serve Individuals clients and Small Businesses by building, developing and managing sustainable business relations, with the goal of creating lasting values.

Retail Division covers the entire territory of Bosnia and Herzegovina, with a network of 5 regional centers and 43 branches, that represents 5,8% of the total number of branches in Bosnia and Herzegovina banking sector. Federation of Bosnia and Herzegovina is covered with 37 branches, Republika Srpska with 5 and Brčko District with 1 branch.

Invididuals are divided in three main segments: Mass, Affluent and Private. Mass segment represents the predominant component of total customer base. Primary channels for Individual and Small Business customers are still branches and ATMs.

Retail division is organized in the following organizational units: Network Management Department, Mass clients Department, Affluent and Private clients Department, Small Business clients Department, Multichannel & Digital Marketing Department, Customer Satisfaction & Complaints Office, Contact Center office and Insurance office.

BUSINESS DESCRIPTION (continued)

RETAIL DIVISION (continued)

Network Management Department coordinates from commercial point of view Regions and other Network structures and is responsible for achieving the commercial goals of the Network, in cooperation with Segment Departments. Under Network Management Department, Contact Center Office manages all the requests of contact by the customers through different channels (calls, emails, mobile apps, social networks, etc...)

Mass clients department defines and implement business strategies and policies, products / services and value propositions for the segment.

Affluent and Private clients department defines and implements business strategies and policies, products / services and value propositions for the segment. Under this department a dedicate unit Insurance Office manages the development of new products, relations with Insurance companies and monitors sales activities.

Small Business clients Department defines and implements business strategies and policies, products / services and value propositions for the segment.

Multichannel & Digital Marketing Department coordinates the activity of Multichannel, CRM & Digital Analytics and Digital Marketing & Experience. They provide analyses and reports concerning market potential, behaviors and needs of specific target clients for business analysis. In Digital Transformation context, develops a multichannel service model and identifies valuable and innovative solutions, for customers and supports the evolution of the mobile offer and of digital payment products and services.

Customer Satisfaction & Complaints Office promotes the improvement of customer experience, the increase of customer satisfaction and loyalty for long-standing relationships, by monitoring service quality level and identifying customer satisfaction improvement actions and monitoring improvement plans. They also handle customers complaints, by monitoring and reporting on complaints causes, managing critical issues and handling customers suggestions.

Business in 2023

During 2023, Retail Division mission was to continuously use available resources, through expanding and improving the offer, price and quality of services for clients, while maintaining the highest level of services, in order to improve overall business.

In the Individuals segment,loans portfolio started continuous growth since January 2023 increasing by 7,30% YOY. Portfolio growth was mostly achieved with eaqual contribution from secured and unsecured loans, with development and introduction of new ESG products, in accordance with the Group's strategy and with continuous implementation of commercial and CRM campaigns.

Deposit portfolio has increased by 11.7% compared to the beginning of the year. Mostly on current accounts and time deposits.

In the course of 2023, the optimization of the business network was reflected in closure of two branches. There was an increase in the sales force, with the introduction of new commercial roles in the network. In 2024, adoption of new distribution model will continue, aimed at process simplification, saleforce efficiency and productivity enhacement, HR enablement and physical network review.

In the card business, 2023 was marked working on different new services: enabling customers to withdraw cash on installments and Google Pay service. There are several ongoing projects, such as: implementation of new business Mastercard, not only for SB segment, but for SME/Corporate segment and enrichment of Visa platinum card with new functionality Visa concierge. In order to optimize processes and decrease costs, during 2024 several projects will be opened: prolongation of card validation for debit cards and implementation of digical PIN.

In 2023 strong focus was on insurance products, where Bank increased number of insurance policies by 35% and increased Bank's revenues by 45% YoY. During 2023, Retail introduced new insurance product CPI bundeled with housing loans and improved process for contracting accident policies by enabling contracting it via mobile banking.

In 2024 Retail is planning further improvement of product catalog by introducing new stand alone product for Individuals "La Vita" and new product for Small Business segment "Key man protection".

BUSINESS DESCRIPTION (continued)

RETAIL DIVISION (continued)

Business in 2023 (continued)

During the whole 2023, the Bank continued developments in the area of digital channels, such as: introduction of Google Pay functionality in mobile banking, contracting insurance policies via mobile banking. Further improvement will continue in 2024.

ATM network, as of 31st December 2023, has total of 108 ATMs, out of which number of Cash In ATMs was 19 and total number of Cash Out ATMs was 89. Average age of ATMs is 2,5 years. During 2023, two projects were successfully finished: ATM installment transactions and cash in deposits for legal entities. During whole year, Bank worked on implementation of contactless functionalities which will be finished in first quarter 2024. Optimization model of ATM network will continue in 2024 with introduction of new MTAs, in order to enable the transformation of cash transactions to alternative/electronic channels.

In the Small Business segment, after expected drop of loan portfolio at the beginning of the year, loan portfolio stabilized and thanks to good performance and large volume of new production in last two months of the year, credit portfolio of legal persons belonging to the segment of small legal entities increased by 11,2% compared to 31st December 2022.

In fee-based business, positive results were achieved as result of higher number and volume of transactions in both domestic and foreign payments, further recovering of POS business and targeted campaigns for sale of products and services of the Bank that clients had not contracted.

CORPORATE & SME DIVISION

The Corporate and SME Division offers a wide range of products and services to businesses in the domestic and international markets, by its well-organized network and powered electronic channels, which makes the Bank an attractive partner to corporate clients.

Product offer encompasses deposits and different forms of short/long-term financing, payment services in the country and abroad, Global Transaction Banking products, trade finance services (issuance of LGs in the country/abroad, issuance of LCs, confirmation of guarantees and letters of credit etc.), factoring with and without recourse and POS acquiring and e-commerce.

The Corporate and SME division is organized in the following organizational units: Large corporate department, SME department, Corporate Banking products department and CRM as support to the business network.

Large corporate department is in charge of managing banking operations with large corporate clients, multinational companies, public institutions and companies, as well as non-banking financial institutions. The main business activities include the sale of the Bank's products and services to existing, as well as potential clients and structuring transactions to obtain an optimal financing model for individual clients. Within the Large corporate department a Desk for Multinational Clients is established, which manages business relations with foreign-owned companies, as well as Desk for Institutional Clients, which is in charge of managing business with public companies owned by the central government and non-banking financial institutions.

SME department manages the business with SME clients and local government units. SME department is organized through 5 Regions and has good geographical coverage of the whole country. Given the structure of the economy in BiH, a special focus was on strengthening this organizational unit to increase market share.

Corporate Banking products department works to enable large and medium-size companies to be offered products and services from a central spot, considering customers` business operation and needs, and to improve the offer. The department is organized in several special units covering all products and services: transaction banking, credits, POS acquiring, factoring, documentary business.

Sales campaigns are managed by using CRM tools through the Bank's available communication channels. CRM enables the Bank to view the clients' opinions on certain products of the Bank and to work intensively on their improvement.

CORPORATE & SME DIVISIONT (continued)

CORPORATE & SME DIVISION (CONTINUED)

Business in 2023

Loan portfolio at the end of 2023 increased by 7% compared to the end of 2022, of which in segment of large legal entities department 9% and SME 4%.

In the credit area, during 2023, the Bank conducted following activities:

- Regular renewals and new placements for clients with an acceptable level of risk;
- Regular financing through a credit development program with a state guarantee in the amount of 50% of placements;
- Accelerated credit process for placements up to BAM 500,000.00 for clients with acceptable ratings and financial indicators;
- Development of ESG products as part of the implementation of the Group's strategy (ESG - Sustainable Financing).

For the year 2024, the Bank expects further development in ESG and D-Loan products and utilization of EBRD Go-Digital and EIB Social Impact credit lines.

In 2023, the Corporate segment overachieved the plan in fee-based business, as well as all other parameters of profitability. Increase in fee income is expected also in 2024, considering the following activities:

- Focus on international payments and confirming (international factoring);
- Active sales campaigns through CRM tools;
- Process optimization and improvement of cash deposit services with the aim of increasing the number of transactions in domestic and international payment transactions;
- Further growth of card acceptance revenues through the penetration of the use of e-commerce services due to market trends.

ALM & TREASURY DEPARTMENT

Treasury and ALM Department is responsible for managing the liquidity of the bank, the interest rate risk and the FX risks and the Bank`s securities portfolio. Department executes transactions on the money, foreign exchange and capital markets. Through its products, it provides foreign exchange market access services to the Bank's clients.

Treasury and ALM Department is organized in the following organizational units: ALM Office and Treasury and Customer Execution Office.

ALM office is responsible for optimizing the structure and management of the Bank's balance sheet in terms of liquidity, interest rate risk and foreign exchange risk, as well as the capital structure, so that the Bank achieves maximum income within acceptable risk. As the business segments make the main contribution to the added economic value in the Bank, ALM management process serves to achieve the optimal structure of the Bank's business activities with the aim of achieving the maximum added economic value through the correct and objective determination of internal prices (FTP) and through the management of the structure of the Bank's financing sources.

Treasury and Customer Execution Office is responsible for interbank foreign exchange trading and deposits, investing in securities, cash trading, as well as foreign exchange trading with the Bank's clients, through a wide range of products.

Business in 2023

Treasury & ALM Department recorded a significant increase in revenue in 2023 compared to the previous year. Department generates income/expense from foreign exchange trading, deposit placements on the money market and investing in securities.

BUSINESS DESCRIPTION (continued)

ALM & TREASURY DEPARTMENT (continued)

Business in 2023 (continued)

By trading foreign exchange in 2023, an income in the amount of BAM 4.29 million was realized, by placing deposits, an income of BAM 6.4 million was realized, while an income of BAM 1.15 million was realized by investing in securities.

It is important to note that in 2023, the Bank invested in securities of EU countries, but also in securities of the Federation of Bosnia and Herzegovina. As of 31.12.2023, the total portfolio of securities amounted to BAM 120.47 million.

The Directorate continued its activities with supranational entities to secure credit lines within ESG: Go Digital - loans from the European Bank for Reconstruction and Development (EBRD) intended for small and medium-sized enterprises (SME), and loans with social impact (Social Impact) of the European Investment Bank (EIB) for small and medium-sized enterprises and Midcap companies. Furthermore, in July 2023, Intesa Sanpaolo Banka signed an agreement on cooperation with the World Bank and the Development Bank of FBiH for the purpose of financing projects with social impact and projects in less developed regions of BiH. In addition, Department worked on the EBRD Risk Sharing Framework, which is in the final phase, and the EIF guarantees facility to small and medium-sized enterprises, which is in the negotiation phase. The signing of these agreements is expected in Q1 2024.

RESEARCH AND DEVELOPMENT ACTIVITIES

During 2023, the Bank˙s development activities in the Retail Division were directed to expand the offer and improve customer satisfaction for Individuals and Small Business segments, with the aim of better positioning of the Bank in the market, through the introduction of new products for sustainable financing and insurance, the enhancement of the offer of debit card functionalities and new services in payments area.

In detail, the most important research and development activities for Individual clients were the following:

- ✓ Introduction of new ESG credit products in accordance with the Group’s strategy;
- ✓ Continuous focus on insurance products, in cooperation with leading insurance companies on B&H market;
- ✓ New services in the field of transaction banking, which enable installment transactions on ATM devices;
- ✓ Introduction of innovative services/products, such as the Google Pay service;
- ✓ Increase in usage of direct distribution channels.
- ✓ Enabling cash in deposits for legal entitites.

For Small Business clients, the research and development activities were directed to the following:

- ✓ Introduction of SMS service for small enterprises;
- ✓ Introduction of first insurance policy for small business;
- ✓ Introduction of new product “packages” for small enterprises;
- ✓ Usage of favorable credit lines in ESG Framework;
- ✓ Pre-approved loans for new clients;
- ✓ Onboarding program for new clients with strong focus on core clients.

During 2023, the Bank˙s development activities in the Corporate and SME Division were directed to expand the offer of transaction banking services, improvement of ESG products, development of new services in payments and acquiring business.

In detail, the most important activities for Corporate and SME were the following:

- ✓ In 2023, it was possible to make payments for clients at cash-and-cash ATMs;
- ✓ The Group’s project - trade finance and vessel tracking (Trade Finance and Vassal Tracking) starting

RESEARCH AND DEVELOPMENT ACTIVITIES (continued)

with the beginning of 2024, which introduced the first level of control for cross-border Trade Finance Products.

- ✓ The installation of DNT in one branch to improve cash management indicators was completed in 2023, and production is expected in 2024;
- ✓ The introduction of import/export factoring/international confirmation-Confiming as the first international product of the Group started in 2023 and is expected to be implemented in 2024.Focus on multinational companies with the support of Group;
- ✓ Focus on multinational companies and companies operating within HUB PBZ, with the support of the Group;
- ✓ Further improvements of ESG credit products in accordance with Group's strategy:
- ✓ Further penetration of e-commerce following market trends;
- ✓ Soft POS project planned to start in the year 2023;
- ✓ Introduction of a new charge business card planned for 2024;
- ✓ Optimizing deposits through the introduction of the new Flexi deposit product;
- ✓ It is planned to expand credit services by introducing the framework level of indebtedness for several users.

FINANCIAL OVERVIEW AND BUSINESS PERFORMANCE

In 2023 the Bank recorded a Net Profit of 27.4 mln BAM and is higher by +1.4 mln BAM or +5.3% compared to previous year. The increase in profit is the result of significant increase in net interest income by +15.6% (mainly coming from placement to banks) and solid growth of commissions +2.0% (card business, insurance) which offset the increase of strong increase of costs by +11.1% (mainly impacted by strong inflation pressure).

Net interest income ended at 65.4 mln BAM and increased by +8.8mln BAM (+15.6%) versus PY due to higher interest income by +8.1mln BAM and lower interest expenses by -0,8mln BAM. Growth of interest income by +11.9% is mainly driven by increase of net interest income from placement to other banks and also funds held at CB BiH (+9.6mln BAM) and securities (+1mln BAM) which is mainly driven by favourable interest rates offered for placement in other banks (total interest rate on these placements increased by +278bps yoy) and increase of yields on bonds (+105bps). The revenues from funds held at CB was 0.7mln BAM in 2023 unlike the 2022 when the Bank recorded interest expenses of -3mln BAM (negative fee on MR in FC and above MR was applied in 2022). Income from loans grew by +0.7mln BAM and is driven by increase of loan portfolio volume by +6.2% which offset the decrease of total interest rate on loans by -4bps. Interest expenses increased by +0.4 mln BAM compared to previous year mainly due to higher interest expenses on customer deposits mainly driven by higher interest rate by 7bps and growth of volumes by +10%.

Net Commission amounted to 29.7 mln BAM and recorded 0.6 mln BAM growth or +2.0%% compared to 2022. The contribution of Net Commission on Total Operating Income is 29%. Increase of Net Commissions was achieved through higher income from card business by +0.9mln BAM and insurance business by +0.5mln BAM (higher CPI due to strong growth of sales in retail loans). Cards business recorded significant growth of revenues, which is mainly driven by higher revenues from POS (growth of number of transactions by +22%).

Net income from Trading decreased by -1.3mln BAM YoY and reached 4.3 mln BAM, while lower realisation is mainly due to high realisation of income from one large corporate client in 2022.

Operating costs reached 61.4 mln BAM and are higher by +6.2mln BAM or +11.1% YoY. The increase of Personnel costs by +3.6mln BAM (+14.3%) is driven by increase of fixed salaries as the bank implemented salary increases to align with labour market conditions and took inflation support measures for employees. Also, the number of employees increased by 17 versus December 2022.

Other administrative costs and depreciation increased by +2.6mln BAM (+8.5%) which is mainly driven by drag in effect from strong inflation pressure in 2022 (+14%) and continued inflation of 2023 at still high +6.3% *(Source: BHSA)*.

Total Impairments and provisions amounted to 9.2 mln BAM and decreased by -0.4 mln BAM compared to

FINANCIAL OVERVIEW AND BUSINESS PERFORMANCE (continued)

previous year, mainly due to lower net adjustments to loans which is driven by improvement of portfolio quality and decrease of NPL portfolio (NPL ratio improved by -67bps).

The Bank`s assets increased by 2.2% YOY, reaching the level of 2.614 mln BAM, mainly due to increase of loans to customers (gross loans grew by +102.9 mln BAM) on asset side and as result of continued inflows of deposits from Corporate and Retail customers (Customers deposits increased by +177.1mln BAM). The bank also increased its portfolio of securities (+17.7mln BAM) which coupled with growth of loans enabled reducing the above mandatory reserves held at CB by -65mln BAM.

Loans to customers (gross) amounted to 1,766 mln BAM and increased compared to previous year by +102.9mln BAM (+6.2%) as a result of increase in both Corporate and Retail. Also the level of non-performing loans was reduced by -8.1mln BAM or -13.4% which led to continuation of improving NPL ratio to only 2.96%.

Corporate and SME segment increase 2023 reflects increase of demand in the market by growing in volumes +8.4% and +4.0% respectively but the structure of portfolio in favour of short-term loans rather than long-term loans shows it is still affected by low appetite for new investments or postponement of capital expenditure (long-term loans at similar level as 2022). On the other side Small Business recorded growth of +11.2% mainly by growing in long-term loans. Excellent performance was recorded in loans to Individuals which grew by +7.3% (+49.6mln BAM), backed by strong growth of housing (+15.3%) and personal loans (+5.6%), while credit cards and overdrafts recorded a decline.

Bonds portfolio ended at 120.8mln BAM (+17.7mln BAM vs 2022) and is mainly formed by EU Bonds. Beside active role in the foreign market, the Bank also participated in local market auctions in Q4 2023 and purchased securities in amount of 14mln BAM of Minister of Finance of Federation of Bosnia and Herzegovina.

Customers deposits increased by +177.1mln BAM or +10.0% YOY and amounted to 1.949 mln BAM as a result of increase in both, Corporate and Retail deposits.

Corporate deposits increased by +8.5% with excellent performance in improving maturity structure by shifting from current accounts to term deposits (-17.8 mln BAM in CA; +104mln BAM in term deposits). Deposits of SME and Small business clients increased by +35.3% and +15.3% mainly by increase in current accounts but also with positive trend in term deposits.

Deposits of Individuals increased by +91.1 mln BAM YOY (+11.9%), of which by ca +60mln BAM in term deposits.

Deposit from Banks and FI decreased significantly by -114.1mln BAM or -54.9% YOY primarily due to reduction of short-term deposits from the Intesa Sanpaolo Group (-126.7mln BAM).

The Bank`s liquidity position remained solid and stable, with all liquidity indicators far above prescribed regulatory limits (LCR around 200%).

The Bank's capital (excluding net profit of the year) amounts to 316.2 mln BAM, increased by 8.2 mln BAM compared to previous year. Capital adequacy according to local methodology is at 19.45%, far above total minimum regulatory requirements of 15.5%.

PURCHASE OF OWN SHARES, SHARES AND CHANGES IN EQUITY

In the period 2023, the Bank did not repurchase its own shares or stakes. Shares with voting rights as of January 31, 2023 are owned by Privredna Banka Zagreb d.d. with a percentage of 99.99% (2022. 99.99%).

SEGMENT ANALYSIS

As part of its regular activity, the Bank's Management Board analyzes the results of operations and contribution of core segments. Business with Individuals, Legal entities and Financial Institutions are business lines that are identified as important business segments.

FINANCIAL OVERVIEW AND BUSINESS PERFORMANCE (continued)

SEGMENT ANALYSIS (continued)

Key performance and profitability indicators by segments:

in min BM	2023		
Balance sheet	**Retail**	**Corporate**	**Treasury**
Loans to customers	725,0	962,0	0,0
Bonds and T-Bills	0,0	0,0	120,8
Deposits from customers	851,9	1.097,2	0,0
Deposits from Banks and other FI	0,0	87,4	6,0

Corporate segment contributes with 57% in total loans (-9bps yoy) and 56% in customer deposits (-77bps yoy), while Retail contributes by 43% in loans and by 44% in deposits.

in min BM	2023		
Profit and loss	**Retail**	**Corporate**	**Treasury**
Operating Income	61,2	30,3	10,2
Operating Expenses	46,5	12,6	2,3
Impairment losses and provisions	-4,3	-4,5	-0,4
Profit before TAX	**10,5**	**13,2**	**7,5**

Retail segment produces 76% of operating expenses and contributes to operating income by 60%. Corporate segment produces 20% of operating expenses and contributes by 30% in operating income of the Bank.

All business segments recorded positive results in 2023. The highest growth of profit was recorded in Treasury for 6.9mln BAM, which is significantly higher than 2022., 0.6mln BAM. Main contributor to this result was increase of net interest income from placement to banks which grew by 8.6mln BAM yoy due to favourable interest rates for placement in banks in FC and also increase of interest rates from Central Bank of BiH (in 2022 the interest rate for mandatory and above mandatory reserves was negative).

Profit before tax of Corporate and Retail reasonable reduced due to overall increase of administrative and personal expenses on bank level (mainly indirectly distributed costs). The Bank significantly increased personal costs on bank level (increase of salaries) to normalize the salaries for the increase of cost of living and pressure of already present low living standard of the country. Administrative costs also grew significantly due to strong inflatory pressure which started in 2022 (+14% inflation) and continued in 2023 (+6.5%). Total operating expenses increased by 11% yoy or more than 6mln BAM. Consequently, the profit of the Retail and Corporate decreased by 2.7mln BAM and 2.4mln BAM respectively.

RISK MANAGEMENT SYSTEM

RISK MANAGEMENT POLICIES

Due to it's activities the Bank is exposed to various types of risk: credit risk, liquidity risk, market risk, operational risk and interest rate risk.

Risk management policies are documents by which the Bank, if necessary, concretizes and specifies the risk management strategy implementation. Policies are adopted for purpose of managing a single risk or several risks, primarily setting out guidelines for overcoming risk and basic limits and indicators in relation to which risk profile and risk exposure will be analyzed. At the same time, clear escalation procedures were determined for cases of exceeding the defined limits, depending on the type of exceeded limit.

RISK MANAGEMENT SYSTEM (continued)

RISK MANAGEMENT POLICIES (continued)

Credit risk management objectives and policies (continued)

Also, the risk management system is established at the Bank level and it implies harmonization and coordination of the activities of all organizational parts of the bank with regard to risk management.

Management Board of the Bank ensures the adequate application of the risk management strategy, defined in the risk management policies for:

- ✓ Credit risk;
- ✓ Operational risk;
- ✓ Market risks;
- ✓ Interest rate risk in the bank's book;
- ✓ Liquidity risk.

Credit risk management objectives and policies

The credit risk management system consists of an organizational structure, rules, processes, procedures, systems and sources directed at identifying, measuring /evaluating, managing, monitoring, and reporting on credit risk exposure, that is, overall credit risk management, which implies the existence of adequate corporate governance and credit risk management culture.

The basic elements of the Bank's credit risk management system are:

1. Risk management strategy and credit and related risk management policies that represent the concretization of the strategy with regard to the overall credit risk appetite, limits, and risk profile monitoring indicators.

2. Key processes of the credit risk management system are as follows:

- credit approval process;
- credit monitoring process (credit review process);
- early warning process (process of early detection of increased credit risk) - PCEM;
- process of asset classification as defined by the decisions of the FBiH Banking Agency (FBA) and the Intesa Sanpaolo Group Rules;
- collection process;
- collateral management process;
- portfolio analysis and credit risk monitoring process;

3. Roles and responsibilities in key credit risk management system processes are assigned to the following organizational units:

- Risk Management Department;
- Credit Department;
- Credit Management Department;
- Credit Portfolio Analysis and Administration Department;
- Internal Audit Department;
- Legal Department;

RISK MANAGEMENT SYSTEM (continued)

RISK MANAGEMENT POLICIES (continued)

Credit risk management objectives and policies (continued)

- Function of contracting placements that is organized in several organizational units.

The main strategic benchmarks of credit risk management are contained in the Risk Management Strategy and credit risk management policies. The risk management strategy is adopted in written form, in accordance with the Guidelines for the general risk management framework. With regard to credit risk management, it covers the following, at a minimum:

- the objectives and fundamental principles of credit risk taking;
- credit risk appetite, i.e. the level of risk that the Bank considers acceptable to take in achieving its business strategy and objectives in the current business environment.

Credit risk and related risk management policies represent a concretization of the Risk Management Strategy with the aim of simple and efficient management of the overall level of credit risk that the Bank is ready to take.

The direction and plan for the development of the Bank's loan portfolio in the subject business year is presented through the Policy, which is jointly prepared, on an annual basis, by business lines and risk functions and adopted by the Supervisory Board of the Bank. The policy includes the following:

- review of general guidelines and limits for credit portfolio management arising from the analysis of the environment and Risk Management Strategies. The Policy supplements and further elaborates and defines them;
- review of the rules and guidelines for respective business areas (retail and corporate business) and segments of clients that concretize credit risk taking and its management at the operational level.

The guidelines and rules defined by the Credit Risk Management Policy are further incorporated into the Bank's Credit Manuals that represent operational documents and instructions for all employees involved in credit processes. Thus, the Policy aims to provide guidance to the lower organizational parts on the manner of structuring transactions and achieving portfolio and budget goals, by which, it fulfils its role in educating and expanding the culture of credit risk management at all Bank's organizational levels.

Operational risk management objectives and policies

The operational risk management system includes principles, rules, procedures and methods for managing operational risk, and clearly defined roles and responsibilities at all levels of management established by the guidelines for the general framework of risk management, regulations, instructions, methodologies and procedures.

The main objective of operational risk management is identification and measuring (quantification) of risks, which enables monitoring and appropriate risk mitigation, in order to be compliant with the Bank's appetite to operational risk exposure.

Operational risk management levels are:

- Centralized management and supervisory level(Supervisory Board of the Bank; Subcommittees of Supervisory Board (Audit Committee, Risk Committee); Management Board of the Bank; Chief Risk Officer (CRO);Operational Risk Committee) in charge of establishing operational risk management systems and in charge of monitoring and surveillance of operational risk exposure and adequacy of operational risk management;
- Decentralized level of organizational parts' managers, processes and projects in charge of identification, recording, assessment and monitoring of identified operational risks;
- Risk control function in charge of coordination and controlling the collected data on operational risk data, analysis of historical and expected future operational risk events and quantification of their effects, as well as reporting to the Management and Supervisory Bodies of the Bank and the Group;

RISK MANAGEMENT SYSTEM (continued)

RISK MANAGEMENT POLICIES (continued)

Operational risk management objectives and policies (continued)

- All employees in their respective areas of competence actively participate in operational risk management and in integrating operational risk management into the day-to-day operations of the PBZ Group.

Identification, measuring and monitoring of risks are performed through the following processes:

- General methods, which are systematically and regularly applied to all operations;
- collection and analysis of internal loss data includes collection of data on events that occurred at the Bank;
- collection and analysis of external loss data includes the collection of data on events occurred in credit or financial institutions outside the PBZ Group and these events are related to the exposure of those institutions to operational risk and;
- self-diagnosis process that includes scenario analysis and assessment of the business environment. Assessment of the business environment (VCO) implies the identification of operational criticality, and assessment of operational risk. The self-diagnosis process also includes an assessment of the risk of information and communication technology (ICT risk) and an assessment of risk/loss that may result from partial methods of measuring operational risks (projects, products, outsourcing, changes in business processes, etc.);
- Partial methods, which are applied to certain situations: operational risk identification and assessment before: (a) introducing new products/services; (b) implementing significant business changes; (c) setting-up and during projects; (d) before and during outsourcing and similar. Partial mehods are integrated also in the analysis of the operational risk profile exposure.

The Bank measures/assesses identified operational risks in all its activities, products, processes and projects. The Operational risk management policy defines the appetite for operational risk, monitoring of operational risk exposure and limit utilization, escalation procedures in case of exceeding the limit and guidance and ways of operational risk overcoming.

Operational risk appetite, i.e. the inclination to take operational risk at the Bank level, represents the amount, that is, the level of risk that the Bank considers acceptable to take in achieving the business strategy and objectives in the existing and future environment. It is based on operational losses, collected in the data collection process and based on estimates of the total expected losses in the process of scenario analysis as the component of the self-diagnosis process.

Operational risk monitoring means regularly analyzing and structuring the results of identification and measurement/assessment of operational risk, analyzing risk profiles and information on activities to overcome operational risk.

Overcoming operational risk includes preventive and corrective activities for purpose of reducing exposure to operational risk, avoiding risk activities, improving and changing processes, introducing internal controls and transfer of operational risk to the third parties through insurance and other specific financial instruments. Operational risk overcoming is carried out for identified operational risks in all activities, products, processes and projects of the Bank.

The objective of reporting on operational is to provide support for effective operational risk management at all levels of responsibility.

The capital requirement for operational risk is calculated using a simple approach - BIA.

Market risk management objectives and policies

The main objective of the market risk management model is ensuring safe and correct activities of the Bank, with purpose of maintaining exposure to market risk within defined limits and thresholds.

RISK MANAGEMENT SYSTEM (continued)

RISK MANAGEMENT POLICIES (continued)

Market risk management objectives and policies (continued)

The Bank's market risk management framework includes the following elements:

- principles, rules, policies, procedures and methods aimed at market risk management defined in internal regulations;
- market risk management process including management, identification and measurement, monitoring, reporting;
- strictly defined managerial responsibilities and activities within the agreed standards and established limits;
- effective supervision of boards and management through a detailed and overall information flow system.

The Bank defines its appetite for risk, specifically in terms of unexpected loss (risk value VaR representing a potential maximum loss in a single day calculated with 99% certainty) by Market risk management policy as well as limited exposure, depending on the type of issuer (issuer limits).

Except VaR limit, risk appetite is also defined by limit depending on the type of issuer, as the total nominal limit for a specific type of issuer and for an individual issuer with respect to its rating.

The risk value and other limit are calculated and monitored on a daily basis and reported to all relevant business and risk management functions, including the Management Board of the Bank. The Bank's targeted market risk profile is defined in details in the Market Risk Management Policy that is approved by both Management Board and Supervisory Board.

Liquidity risk management objectives and policies

The main objective of liquidity management is ensuring safe and correct activities of the Bank with the aim of maintaining exposure to liquidity risk within defined limits and thresholds.

The Bank's liquidity risk management framework includes the following elements:

- effective supervision of boards and management through detailed and overall information flow system;
- System for measuring, evaluating and reporting liquidity risk exposure;
- liquidity risk management documentation with a clearly defined framework, guidelines, models and assumptions that are used in the risk management process;
- strictly defined managerial responsibilities and activities within the agreed standards and established limits;
- stress testing, including a formal contingency plan for liquidity crises

External and internal standards are used for assessment and monitoring the Bank's liquidity risk exposure as follows:

External standards of the FBiH Banking Agency (FBA) represent regulatory limits prescribed by the FBA:

- ✓ Maturity structure of financial assets and liabilities;
- ✓ Mandatory reserve in the Central Bank of Bosnia and Herzegovina.
- ✓ Liquidity cover ratio (LCR);
- ✓ Net Stable Funding Ratio (NSFR)

Internal liquidity management standards in the Bank are the following basic models for measurement of

RISK MANAGEMENT SYSTEM (continued)

RISK MANAGEMENT POLICIES (continued)

Liquidity risk management objectives and policies (continued)

liquidity risks:

- ✓ monitoring within daily liquidity;
- ✓ measurement liquidity reserves;
- ✓ liquidity coverage ratio;
- ✓ Net stable finance ratio (NSFR);
- ✓ stress testing;
- ✓ survival period;
- ✓ concentration ratios;
- ✓ indicators of the liquidity crisis plan

The Bank's targeted liquidity risk profile is defined in details in the Liquidity Risk Management Policy approved by both Management and Supervisory Board.

The aim of liquidity risk reporting is to provide support for efficient liquidity risk management at all levels of responsibility. Reporting by corporate bodies of banks is performed on a daily, weekly, monthly, quarterly and annual level.

Interest rate risk management objectives and policies

The main objective of the interest rate risk management model is to ensure safe and correct activities of the Bank, with purpose of maintaining exposure to interest rate risk within defined limits and thresholds.

The Bank's interest rate risk management framework includes the following elements:

- System for measuring, evaluating and reporting interest rate risk exposure;
- Interest rate risk management documentation with a clearly defined framework, guidelines, models and assumptions used in the risk management process;
- strictly defined managerial responsibilities and activities within the agreed standards and established limits;
- effective supervision of boards and management through a detailed and overall information flow system.

The Bank applies both external and internal standards for the assessment and monitoring of interest rate risk exposure.

External standards of the FBiH Banking Agency represent regulatory limits prescribed by the FBiH Banking Agency and they refer to a sufficient level of regulatory capital of the Bank that would ensure coverage for the estimated change in the economic value of the bank's book.

Internal standards for the Bank's interest rate risk management consist of the following basic models for measuring interest rate risk:

- ✓ analysis of the gap for price re-formation;
- ✓ sensitivity to changes in fair value;
- ✓ net interest income sensitivity;
- ✓ stress-testing;
- ✓ basis risk assessment;
- ✓ Value at Risk (VaR).

RISK MANAGEMENT SYSTEM (continued)

RISK MANAGEMENT POLICIES (continued)

Interest rate risk management objectives and policies (continued)

In accordance with the risk measurement framework, the structure of the interest rate risk limit has aim to maintain a low level of exposure, which is in accordance with risk appetite. The limits of interest rate risk in the banking book are expressed both in terms of the sensitivity of the change in economic value (EVE), considering the relevance attributed to the management of the banking book in the medium term and in terms of the sensitivity of the change in net interest income (NII).

These limits are also prescribed in details in the Intesa Sanpaolo Banka BiH Guidelines for managing interest rate risk in the banking book and are periodically revised.

Use of risk reduction techniques

Since the capital requirement for credit risk makes the largest share in the overall regulatory requirement and that credit risk represents a key and most significant risk in the bank, credit risk reduction techniques (CRM) are presented hereafter.

Use of credit risk reduction techniques

Since the Bank applies a standardized approach when calculating credit risk-weighted exposure, it uses, for the purpose of calculating the capital requirement for credit risk, credit risk reduction techniques in accordance with the FBA Decision on calculating the bank's capital and its amendments.

Internal acts prescribe the methodology for calculating credit risk-weighted exposures for purpose of calculating the capital requirement for credit risk, the minimum criteria for the recognition of each individual insurance instrument, the manners and dynamics of initial and reassessments of the value of insurance instruments. The correct application in the process of calculating the capital requirement for credit risk is ensured by control points integrated into the calculation process itself.

Credit risk reduction techniques indicate techniques that can be used for purpose of reducing exposure-related credit risk.

The Bank includes, in the calculation of regulatory capital in the prescribed manner, only those collaterals that meet all the requirements of the Decision, whereby the credit risk-weighted amount of exposure, decreased due to the use of credit risk reduction techniques cannot be higher than the credit risk-weighted amount of exposure calculated for the same placement - without the application of credit risk reduction techniques.

The Bank uses several types of collaterals at the same time to cover one exposure. In such cases during the application of the standardized approach, the amount of exposure is divided into separate parts of which each is covered by one type of credit protection and subsequently, capital needs are calculated separately as prescribed by the Decision, for each part of the exposure.

The Bank, in calculating the amount of credit risk-weighted exposure (weighted risk assets), includes the impact of the maturity mismatch occurring when the remaining maturity of the agreed credit protection is shorter than the maturity of the protected exposure.

If there is a maturity mismatch, credit protection is not recognized in the following situations and credit risk reduction techniques are not used:

- ✓ If the remaining maturity of credit protection is less than three months
- ✓ If the agreed (original) maturity of the credit protection is less than one year.

According to the definitions from the Decision, for the purposes of calculating the capital requirement for credit risk standardized approach, the Bank may use the following types of credit protection:

- ✓ Tangible credit collaterals and
- ✓ Intangible credit collaterals.

RISK MANAGEMENT SYSTEM (continued)

RISK MANAGEMENT POLICIES (continued)

Use of risk reduction techniques (continued)

Basic types of tangible credit collaterals

- ✓ Cash deposit
- ✓ Debt securities, by the rating, in accordance with the Decision listed on the recognized stock exchange, shares listed on the recognized stock exchange.

Other tangible collateral

- ✓ Cash deposit at another creditor's bank;
- ✓ Life insurance policy (the value of the policy is its redemption value determined by the insurance company that issued the insurance policy).

In cases of other tangible credit protection, credit risk reduction techniques are used in such a way that the risk weight is applied to the insured part of the exposure, corrected depending on the credit protection provider's risk weight,

Intangible credit protection

Guarantees and guarantees (irrevocable and at first call) of eligible credit collateral providers:

(a) central government and central banks;

(b) regional government units and local authorities,

(c) multilateral development banks,

(d) international organizations whose exposures are allocated with weighting of 0%,

(e) public sector entities, receivables that have treatment of 'central government',

(f) institutions and

(g) other business companies, including parent and associated business companies, credit institutions provided that they have a credit rating in accordance with the rules for weighting exposures towards companies in accordance with the provisions of the Decision.

For the most parts, the Bank uses, for securing placements, guarantees issued by the central government and local government, while the remaining part relates to bank guarantees. In case of intangible collaterals, credit risk reduction techniques are used in such a way that the risk weight of the intangible credit protection provider is applied to the insured part of the exposure.

The objective of the collateral management process is to ensure a complete and accurate record of collaterals in the Bank's accounts with purpose of providing information on the degree of credit portfolio coverage (entirely or by individual segments) of credit collaterals and optimize their use.

The Bank has set up a robust credit exposure limitation system that considers a number of risk factors, specifically in the housing lending segment and available insurance instruments by allowing lending only in cases where loans are adequately covered by residential real estate. In this regard, the Bank anticipates the insurance instrument placement coverage ratio (LTV) by a very important risk reduction indicator, while at the same time, it directly manages the risk of default through already adequate lending standards.

THE BANK'S EXPOSURE TO MARKET, CREDIT, LIQUIDITY RISK AND OTHER RISKS PRESENT IN THE LEGAL ENTITY'S OPERATIONS, RISK MANAGEMENT STRATEGY AND ASSESSMENT OF THEIR EFFICIENCY

RISK MANAGEMENT STRATEGY

The Risk Management strategy is a document where the Bank, in accordance with business strategy establishes its risk appetite on an annual basis, basic strategic guidelines of the capital planning, risk

RISK MANAGEMENT SYSTEM (continued)

THE BANK'S EXPOSURE TO MARKET, CREDIT, LIQUIDITY RISK AND OTHER RISKS PRESENT IN THE LEGAL ENTITY'S OPERATIONS, RISK MANAGEMENT STRATEGY AND ASSESSMENT OF THEIR EFFICIENCY (continued)

RISK MANAGEMENT STRATEGY(continued)

management objectives and basic principles of the risk control, including the risks stemming from the macroeconomic environment where the Bank operates, and bearing in mind the status of the business cycle of the Bank.

Finally, having reflected to the 2023 fiscal year, we may conclude the following:

- There have been no changes in the entire risk profile. The credit risk in the coming period remains to be the most important risk having in mind that the loan portfolio is the largest part of the overall assets of the Bank and the uncertainty macroeconomic trends caused by the Russian-Ukrainian crisis, and the accompanying rise in inflation and interest rates;
- The Bank has recognized the relatively significant to the concentration risk as an integral part of the credit risk, thus it calculates the capital requirements considering individual and sectoral concentration. Considering the trend of interest rate growth, the Bank recognized the exposure to interest rate risk as one of the significant risks and allocated a relatively significant amount of capital for it;
- The Bank is well-capitalized: the regulatory capital and available internal capital are constituted mostly of the Tier 1 capital, which is generally considered as the high-quality capital;
- Monitoring and reporting activities have not found any serious violations of internal policies and rules;
- The Bank has complied with all key regulatory limits.

Exposure of the bank to the credit risk

The Bank is exposed to the credit risk, which is the risk of inability of the counterparty to settle the entire liability amount when it falls due. The Bank classifies the credit risk establishing limits to amounts of accepted risk expected to be continued regarding one loan recipients or a group of loan recipients and in some industries. It regularly follows the mentioned risks and re-examines them once a year or more frequently.

For the purpose of the risk-weighted assets calculation and expected loan loss calculation the Bank determines the status of default pursuant to Article 2, point ll), and Article 61 of the Decision on Calculation of Bank Capital and Article 178 of the Regulation (EU) (EU) no. 575/2013 of the European Parliament and the Council.

According to the International Financial Reporting Standards (IFRS), local regulatory regulations and practice of the credit risk management, the Bank creates provisions for the expected loan losses.

The entire management framework is based on IFRS9 (International Financial Reporting Standards 9), where the expected loan losses are calculated and recognized without waiting for a trigger event and with the forward-looking perspective.

In addition, under the IFRS 9 more detailed portfolio classification should be done in three credit risk levels according to pre-defined set of criteria:

- ✓ **Stage 1** includes the financial instruments which have not significantly worsened in the credit quality from the initial recognition;
- ✓ **Stage 2**, on the other hand, includes financial instruments which have significantly worsened in the credit quality from the initial recognition, but have no objective evidence of the loan loss event;
- ✓ **Stage 3** includes exposures, for which an objective evidence of impairment has been found.

For the instruments classified as Stage 2 and Stage 3, where the credit risk of a financial instrument has significantly increased from the first recognition, the lifetime expected loss has been recognized. The lifetime expected loss covers the expected loss for the entire residual financial instrument maturity. The 12-month

RISK MANAGEMENT SYSTEM (continued)

THE BANK'S EXPOSURE TO MARKET, CREDIT, LIQUIDITY RISK AND OTHER RISKS PRESENT IN THE LEGAL ENTITY'S OPERATIONS, RISK MANAGEMENT STRATEGY AND ASSESSMENT OF THEIR EFFICIENCY (continued)

Exposure of the bank to the credit risk (continued)

expected loss is calculated for the instrument classified as Stage 1.

When calculating the expected losses. Predictive elements are included into the PD/LGD estimate (macroeconomic conditioning), so as to take into consideration expectations of changes in the PD/LGD estimate resulting from changes in the macroeconomic environment which may occur in coming years in relation to the reporting date. Provisions are allocated and calculated on a collective basis, based on the estimate of losses on individual homogenous portfolios formed per similar characteristics, such as the type of client, placement and presence of the collateral.

Exposure of the bank market risk

The Bank is exposed to market risk which represents risk that there would be changes of fair value of future funds' flows of financial instrument due to change of prices in the market. Market risk arises from open positions of interest rate, foreign currency and capital products, which are all exposed to general and specific market trends and changes on the level of market rate variability and prices such as interest rates, foreign currency exchange rate and capital price.

The Management Board sets limits and instructions for supervision and decrease of market risks, which the Risk Management Department of the Bank regularly supervises.

Currency risk

The exposure to currency risk arises from credit, deposit, and trading activities and it is controlled daily, according to legal and internally determined limits per individual currency, and in total amount for all funds and liabilities denominated in foreign currency or relating to foreign currency. With the aim to manage currency risk efficiently, the Bank follows economic and other business changes in the environment, in order to predict possible changes in activities relating to foreign currencies, exchange rates and foreign currency risk.

The total exposure to foreign currency risk is measured within the Risk Management Department using techniques such as the Risk exposure method („Value at Risk" or „VaR") and Testing of stress resilience.

The exposure to currency risk is individual, precise, statistical measure of potential losses in portfolio. The value at risk (VaR) is measuring of loss in normal trends of risk factors in the market. It is estimated that the degree of probability of losses which are larger than value at risk is low.

Assumptions of the main model are:

- ✓ it is based on historical methodology,
- ✓ 99 percent as interval of confidence for calculation of value at risk,
- ✓ time period of retention is one day.

Model includes foreign exchange risk – which is valid for foreign exchange transactions and positions which are expressed in foreign currencies; which originate from the rate of changeability of foreign exchange rates.

Model can calculate value at risk on different levels of aggregation – from individual position to any sub-level of portfolio. Accordingly, model enables detailed analysis of risk profile of portfolio hierarchy on several levels and effects of diversity which come out. Furthermore, measuring of value at risk can be explained on the basis of risk sources (risk factors). These features of more detailed risk supervision enable determining of efficient structure of limits which can be compared over different organizational units.

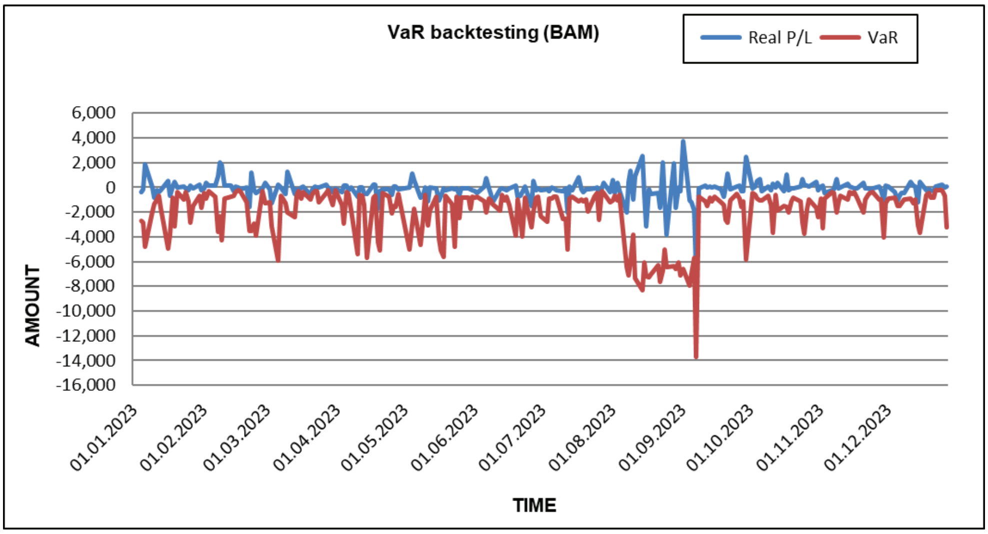
The quality of implemented model for measuring risk must be continuously estimated. The Bank applies backtesting comparing calculated measures of value at risk with actual profit and loss of the same time

RISK MANAGEMENT SYSTEM (continued)

THE BANK'S EXPOSURE TO MARKET, CREDIT, LIQUIDITY RISK AND OTHER RISKS PRESENT IN THE LEGAL ENTITY'S OPERATIONS, RISK MANAGEMENT STRATEGY AND ASSESSMENT OF THEIR EFFICIENCY (continued)

Exposure of the bank market risk (continued)

period.



During 2023, results of model testing have shown that the Bank recorded zero exceptions in model testing (2022: there were 5 exceptions), when the loss was larger than daily VaR amount.

The portfolio of the Bank is exposed to risk of change of foreign currencies, always when it contains funds' flows in foreign currency which differs from the base currency in the Bank, and there is not compliance of assets, liabilities and off-balance position in that currency. The exposure of portfolio to risk of change of foreign currency means portfolio volatility to changes in the level of foreign exchange rates. The risk degree of change of foreign currency depends on the amount of open positions as well as on the degree of potential change in foreign exchange rates.

Due to the fixed exchange rate of EUR in relation to the Convertible Mark, the Bank is not exposed to foreign exchange risk (1 EUR = BAM 1.95583). Exposure to foreign exchange risk is present for USD and CHF. The table below shows the Bank's sensitivity analysis based on a 10% increase or decrease in the foreign exchange rate against the domestic currency. A sensitivity rate of 10% is the rate used in internal reporting to key personnel on foreign exchange risk and represents the Management Board's assessment of reasonably possible changes in foreign exchange rates.

An overview of the balance sheet items and foreign exchange risk exposure can be found in Note 5.3.1 of the Bank's Financial Statements for 2023.

Exposure of the bank to liquidity risk

Liquidity risk is risk of losses which arises from the existing or expected inability of the bank to settle its due funds' liabilities.

Liquidity risks are considered as:

- ✓ Risk of funding liquidity

RISK MANAGEMENT SYSTEM (continued)

THE BANK'S EXPOSURE TO MARKET, CREDIT, LIQUIDITY RISK AND OTHER RISKS PRESENT IN THE LEGAL ENTITY'S OPERATIONS, RISK MANAGEMENT STRATEGY AND ASSESSMENT OF THEIR EFFICIENCY (continued)

Exposure of the bank to liquidity risk (continued)

- ✓ Risk of market liquidity

The aim of reporting on liquidity risk is providing support for efficient liquidity risk management on all levels of responsibility.

The daily monitoring of obligatory reserve, minimum liquidity ratio by maturity and liquidity coverage ratio, net stabile fund ratio are external requests which are regulated by the Banking Agency of the Federation of Bosnia and Herzegovina. Internal standards for liquidity management represent main models for measuring liquidity risk and encompass intraday monitoring of liquidity indicators, monitoring of liquidity reserves, liquidity coverage ratio, stable funding source ratio, stress testing, indicators of concentration and indicators for beginning of the plan of the proceeding in crisis situations. Beside the above mentioned metrics, tools are applied for monitoring of liquidity which are aimed at giving overall image of liquidity risk profile of the credit institution, taking into consideration the nature, the size and the complexity of property. The key metrics refer to analysis of the contracted maturities and relating incompliances, analysis of funding concentration by counterparty/product and concentration of liquidity reserves by issuer/counterparty, analysis of funding renewal, cost and duration of funding for the counterparty and analysis of concentration of the balancing capacity of the issuer/counterparty.

The Bank publishes the liquidity coverage ratio on the basis of the Instruction on manner of implementation of provisions of the Decision on liquidity risk management of the bank which refer to LCR components.

As at 31.12.2023 the liquidity coverage ratio amounted to 198,88%.

C 76.00.a - Liquidity coverage - Calculations		Value/Percentage
010	Liquidity buffer	548,595
020	Net liquidity outflow	275,849
030	Liquidity coverage ratio(%)	198,88%

Exposure to other risks

Interest rate risk represents exposure of the Bank to inconvenient changes of interest rates. The risk of change of interest rates impacts the current value of future funds' flows, and that by the net interest income and the other funds' flows volatile to change of interest rates.

Primary sources of risk of change of interest rates are the following:

- ✓ **repricing risk,** which arises from incompliance of positions of assets and liabilities by the remaining time period until change of interest rate,
- ✓ **yield curve risk** which arises from change of form and incline of yield curve;
- ✓ **base risk** which arises from instruments that have identical maturity, that are expressed in identical currency but that are based on different types of reference rates;
- ✓ **option risk** refers to options included in the property, liabilities and off-balance items.

For the purpose of measuring interest rate risk generated by the banking book on a monthly basis, volatility of economic value change is calculated (measures change of economic value of bank portfolio which arises from parallel shift of yield curve), volatility of change of net interest income (measures impact of interest rate shocks on net interest income), and Value at Risk- VaR which is used for the purpose of measuring FVOCI portfolio. Beside mentioned metrics, on the occasion of measuring interest rate risk in the banking book stress resilience tests are implemented on a monthly and quarterly basis (volatility of economic value change and net interest income in case of different scenarios of interest rate shift). In the framework of Risk

RISK MANAGEMENT SYSTEM (continued)

THE BANK'S EXPOSURE TO MARKET, CREDIT, LIQUIDITY RISK AND OTHER RISKS PRESENT IN THE LEGAL ENTITY'S OPERATIONS, RISK MANAGEMENT STRATEGY AND ASSESSMENT OF THEIR EFFICIENCY (continued)

Exposure to other risks (continued)

appetite limits for volatility of net interest income are additionally defined on the level of bank in the scenario of parallel growth of interest rates by 50 bp and parallel decline of interest rates by -50 bp for all foreign currencies and volatility of economic value change in the scenario of parallel yield curve shift of 100 bp. Also, in accordance with regulations of the local regulator the Bank follows regulatory limit as well which refers to assessment of change of economic value of the banking book at interest rate shock of 200 bp.

The Enterprise, Market and Financial Risks Office follows exposures to interest rate risk and compliance with limits on a monthly basis.

Change of economic value – parallel shift of 200 bp as at 31.12.2023

(000 BAM;%)

Limit Shift by FBA regulation	Change of EVE	Regulatory capital	Limit	Utiliz.%
Change of banking book economic value toward liable capital +200bps (min BAM,%)	7,406	309,777	20%	2,39%

CORPORATE GOVERNANCE

Intesa Sanpaolo Banka Bosnia and Herzegovina performs and develops its registered business activity in the territory of Bosnia and Herzegovina, complying with responsible and ethically based behavior as a necessary prerequisite for developing quality relationships and loyal competition between business partners and for efficient market functioning.

With that regard, the Bank develops and operates in accordance with good corporate governance practices, striving to contribute, with its business strategy, business policy and practice to transparent and efficient business operations. The Bank, through its business operations, consolidates corporate practice principles and organizational culture within the regulatory basis established at the entity level.

The basic principles of corporate governance are:

- ✓ Transparency of business operations;
- ✓ Clearly elaborated procedures for the work of governance bodies;
- ✓ Avoiding conflict of interests and
- ✓ Efficient internal audit and compliance system.

Transparency of Business Operations

The Bank provides timely disclosure and publicity information in accordance with legal acts and by-laws, as well as the regulated market rules in which the Bank participates and in accordance with the internal acts of the Bank, enabling shareholders and other stakeholders equal access to information.

Communication with the public is based on the principles of truth, accuracy, completeness of data, timeliness, equal availability, strengthening trust and economics, in order to inform shareholders and stakeholders in a true and objective manner with facts and events that are of material significance for the Bank's operations. The Bank prepares its financial statements in accordance with laws, by-laws and international financial reporting accounting standards.

CORPORATE GOVERNANCE (continued)

The publicity of information is achieved by publishing, delivering and providing insight into certain documents.

The Bank publishes its business reports and other information, whose publishing is prescribed, on the Bank's website and/or daily newspapers, as well as other media within the deadlines prescribed for publishing the reports.

Bank's Bodies

The Bank's bodies that provide implementation of the corporate governance good practice are:

- ✓ General Shareholders Meeting;
- ✓ Supervisory Board of the Bank and
- ✓ Management Board of the Bank.

In the process of electing and appointing members of the governance bodies, the Bank shall consider a wide range of candidates' qualities and competences in order to have represented different views and experiences, independent opinion and cautious decision-making.

The Bank promotes ensuring equal representation of persons with different characteristics, such as education, professional experience, gender and age, in order to prevent discrimination based on gender, race, color, ethnic or social origin, genetic characteristics, religion or beliefs, belonging to a national minority, property, birth, disability, age or sexual orientation.

General Shareholders Meeting

Bank's General Shareholders meeting is the body through which shareholders exercise their main management rights by deciding on matters within their competence. The competences of the Bank's General Shareholders Meeting are prescribed by the legal regulations and the Bank's Charter and they cannot be transferred to another body of the Bank.

The Bank, by its active treatment, enables shareholders to exercise their other rights too, especially rights related to the management of the Bank, depending on the amount of funds invested in share capital, distribution of profit, division of assets remaining after the bankruptcy or liquidation of the Bank and other rights.

Supervisory Board

The Supervisory Board performs supervisory function in accordance with legal regulations, regulations of the FBiH Banking Agency and RS Banking Agency and other regulations as well as in accordance with the Statute. The Supervisory Board consists of seven members, that are appointed and dismissed by the General Shareholders Meeting. The Supervisory Board shall have, in its composition, at least two independent members.

Members of the Supervisory Board shall be appointed to the period of four years, with the possibility of re-election and they must comply with the prescribed conditions and adequate standards regarding education, professional experience and reputation, in accordance with the applicable regulations and acts of the Bank. A person that has, at any moment, a good reputation, adequate expertise, abilities and experience necessary to fulfil the obligations within his/her competence can be appointed member of the Supervisory Board; such person must not have any conflict of interest in relation to the Bank, shareholders, members of the Supervisory Board, the Management Board and key functions' holders and has to be ready and able to devote sufficient time to carrying out obligations and responsibilities within the competences of the Supervisory Board.

Competencies of the Supervisory Board are prescribed by the legal regulations and by-laws as well as by the Charter of the Bank.

Professional support to the work of the Supervisory Board is provided by the specialized committees provide professional support to the Supervisory Board work, as follows:

- ✓ Risk Committee;

CORPORATE GOVERNANCE (continued)

- ✓ Nomination Committee and
- ✓ Remuneration Committee.

The Supervisory Board shall appoint the Audit Committee as the mandatory committee.

Management Board of the Bank

The Bank's Management Board organizes the work, governs the business operations and represents the Bank. The Bank's Management Board is responsible for the Bank's operations in accordance with the law, by-laws and decisions of the FBiH Banking Agency and RS Banking Agency. The Management Board of the Bank consists of at least three members of whom one is appointed as President of the Management Board.

The competences of the Bank's Management Board are prescribed by legal regulations and by-laws as well as by the Charter of the Bank.

Key Functions

The key functions are control functions and other functions in the Bank, which have a significant impact to the governance and business operations of the Bank.

The control functions that are established in the Bank are:

- ✓ Risk Management Functions;
- ✓ Compliance Function and
- ✓ Internal Audit Function

The Supervisory Board of the Bank, determines and establishes, by its decision and in accordance with the Law and decisions of the Agency, other key functions that have a significant impact to the governance and business operations of the Bank.

Conflict Interest Management

The Bank manages conflicts of interest, both existing and potential one, in such a manner to avoid abuse of the conflict of interest situation and violation of its obligations towards the clients as well as violation of applicable legal regulations.

Relevant persons and persons who are indirectly or directly related to the Bank are obliged to act, in carrying out their business operations, responsibly, fairly, conscientiously and impartially, by representing the interests of the Bank and clients, as well as to ensure not to damage the reputation and trust of the Bank with their actions. They must not use the activities of the Bank for their own interests and benefits, nor may they be dependent, in any relationships on persons who might influence their objectivity.

The mitigation of conflicts of interest is achieved through:

- ✓ Organizational structure;
- ✓ Existence of specific policies/internal acts and
- ✓ Code of Ethics, Code of Business Conduct and education.

Internal Audit and Compliance

In accordance with the legal provisions, the Bank established the Internal Audit Department as an independent organizational part that reports directly to the Audit Committee and the Supervisory Board. The main task of the Internal Audit department is to submit, to the Bank's Management Board, Audit Committee and the

Supervisory Board, an objective and impartial assessment of the quality and efficiency of internal control.

Compliance function is within the competence of the Compliance Department, which is independent in its work and does not carry out other functions in order to prevent conflicts of interest.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE TOPICS (ESG)

Intesa Sanpaolo Banka Bosna i Hercegovina focused even more in 2023 than in previous years on environmental, social and governance (ESG) activities, all with the aim to meet the increasing requirements for banks, imposed by the regulatory bodies and the market itself. The European Union implements the ESG criteria through the European Central Bank by adoption of a number of directives that are in turn being assumed and implemented by the entity-level banking agencies in Bosnia and Herzegovina. Thus, in 2023, the FBiH Banking Agency (FBA) has adopted its first ESG-related official document titled "Guidelines for the management of climate-related and environmental risks", instructing the banks in FBiH how to establish, measure, manage and control the climate-related and environmental risks, and to disclose data thereof.

In 2023, the Bank has realised several activities aimed at implementing the ESG principles and at positioning itself as a responsible financial intermediary amidst growing global challenges including mitigating climate change and reducing harmful environmental impacts, empowering marginalised communities, informal sector inclusion, ensuring gender equity, and working towards more accountability through transparent reporting.

Based on the identified needs, the Bank has accepted its role in environmental protection and social responsibility and accordingly adapted and expanded its product offer with green loans in Retail and Corporate segments, thus following the Parent Company guidelines.

In order to implement the ESG business principles, the Bank has established cooperation with international non-governmental organisations, such as the UNDP, as well as with the government bodies such as the City of Sarajevo.

The Bank has worked on the environmental aspect through its initiatives aimed at reducing the CO2 footprint, by planting the trees next to the tram line in Sarajevo, and decorating the green areas in the centre of Sarajevo. The reduction of the CO2 footprint was also realised by marking the European Mobility Week, using alternative forms of transportation, all in cooperation with the City of Sarajevo and the largest supplier of electric cars in Bosnia and Herzegovina - Porsche Sarajevo, as well as with the company that rents electric scooters.

The Bank has implemented the social aspect through a large number of donations to socially vulnerable persons, as well as to institutions taking care of socially vulnerable persons, such as the soup kitchen Stari Grad Sarajevo. The Bank demonstrated its social responsibility by participating in voucher donations for bicycle purchase to the citizens of Sarajevo. We have realised this initiative in cooperation with the City of Sarajevo.

In order to improve the governance system efficiency in the Bank, focused on sustainable development, and taking into account all requirements and rules of the governance system in the Intesa Sanpaolo Group (which has been actively working on ESG principles implementation worldwide in the past years), the Bank has introduced two new functions to its organisational structure in 2023, i.e. to the Bank's General Secretariat that exclusively deal with the ESG topics - the Advisor to the MB member and the Team Leader for ESG activities.

EVENTS AFTER THE REPORTING PERIOD

There have been no significant events after the reporting period, which would require disclosures in the Notes to the Financial Statements of the Bank as of and for the year ended 31 December 2023.

Financial Statements as of 31st December 2023

Content of the Financial Statements as of 31st December 2023

MANAGEMENT BOARD'S REPORT

The Management Board has pleasure in submitting its report for the year ended 31st December 2023.

Review of operations

The result for the year ended 31st December 2023 of the Bank is set out in the statement of profit or loss and other comprehensive income on page 9.

Supervisory Board, Management Board and Audit Committee

During the course of 2023 and up to the date of this report, the Supervisory Board comprised:

Supervisory Board	
Dario Massimo Grassani	Chairman
Petar Sopek	Vice-Chairman
Jadranko Grbelja	Member
Ivana Jović	Member
Michela Boiocchi	Member
Massimo Malagoli	Independent member
Alden Bajgorić	Independent member

During the course of 2023 and up to the date of this report, the Audit Committee comprised:

Audit Committee	
Andrea Nani	Chairman
Ana Jadrešić	Member
Massimiliano Masturzo	Member
James Vason	Permanent invitee person
Davor Vodanović	Permanent invitee person

As of 31st December 2023, the Management Board comprised a President and two Members, who served during the year and up to the date of this report as follows:

Management Board	
Marco Trevisan	President of the Management Board, responsible person for Retail Division, responsible person for Corporate Division
Michele Castoro	Deputy President of the Management Board, responsible MB member for Finance Division and ICT and Operation Division
Edin Izmirlija	Management Board Member and Head of Risk Division

On behalf of the Bank:

INTESA SANPAOLO BANKA d.d.
Bosna i Hercegovina

Marco Trevisan
President of the Management Board

Michele Castoro
Deputy President of the Management Board

Sarajevo, 15.02.2024.

RESPONSIBILITIES OF THE MANAGEMENT AND SUPERVISORY BOARDS FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS

The Management Board is required to prepare financial statements, which give a true and fair view of the financial position of the Bank and of the results of its operations and cash flows, in accordance with legal accounting regulations applicable on banks in Federation of Bosnia and Herzegovina 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.

The financial statements set out on pages 9 to 95 were authorised by the Management Board on 15 February 2022 for issue to the Supervisory Board, and are signed below to signify this, on behalf of the Bank, by:

For and on behalf of Management Board:

INTESA SANPAOLO BANKA d.d.
Bosna i Hercegovina

Marco Trevisan
President of the Management Board

Michele Castoro
Deputy President of the Management Board

Building a better working world

Ernst & Young d.o.o. Sarajevo
Vrbanja 1(SCC-Sarajevo City Center)
71000 Sarajevo
Bosna i Hercegovina

Tel: + 387 33 870 014
Fax: + 387 33 870 018
www.ey.com

Independent auditor's report

To the Shareholders of Intesa Sanpaolo Banka d.d. Bosna i Hercegovina

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Intesa Sanpaolo Banka d.d. Bosna i Hercegovina (the Bank), which comprise the statement of financial position as at 31 December 2023, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a material accounting policy 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 Legal accounting regulations applicable on banks in Federation of Bosnia and Herzegovina.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Federation of Bosnia and Herzegovina, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

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

Building a better
working world

Independent auditor's report *(continued)*

Key audit matters *(continued)*

Adequacy of the allowance for the expected credit losses

The carrying amount of loans to customers amounts to BAM 1,687,041 thousand (or 65% of total assets) as at 31 December 2023. As described in Note 5.1 Financial risk management - Credit risk. The allowances for expected credit losses are determined under application of Legal accounting regulations applicable on banks in Federation of Bosnia and Herzegovina.

This is a key audit matter as significant judgement is involved to determine the expected credit losses, on an individual and collective basis.

Key areas of judgement include the interpretation of requirements to determine impairment under application of Legal accounting regulations applicable on banks in Federation of Bosnia and Herzegovina, which is reflected in the Bank's expected credit loss model, the identification of exposures with a significant deterioration in credit quality, assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward looking macroeconomic factors as well as evaluation and assumptions used in the possible outcomes of individually assessed loans for impairment, as disclosed in Note 5.1 Financial risk management - Credit risk.

The possible outcomes are based on discounted cash flows for individually assessed loans and include judgement and complexity areas, such as impairment triggers, probabilities of relevant scenarios for cash flow forecasts and the cash flow forecasts themselves, including collateral realization.

Additionally, the Bank is obliged to observe regulatory requirements regarding credit risk prescribed by Banking Agency of Federation of Bosnia and Herzegovina and adjust internal methodology for expected credit loss models to be in line with these requirements.
Also, War in Ukraine had adverse effect on many industries, affected further increase in inflation, which, together with economic uncertainty, might adversely affect business performance of debtors in the current year. Uncertainty around those factors along with uncertain economic outlook resulted in more complex assessment of this effect onto the expected credit loss model.

We understood the processes and evaluated the design and operating effectiveness of related controls for collective impairment within the loan portfolios, as well as the impairment assessment processes for individually assessed loans.

We involved experts in the field of credit risk modelling and review of macroeconomic model, as well as IT experts for testing of effectiveness of IT application used for the expected credit losses calculation.

We assessed the modelling techniques and methodology against the requirements of Legal accounting regulations applicable on banks in Federation of Bosnia and Herzegovina and also the appropriateness of significant assumptions used in the models for calculating the expected credit losses. Also, we assessed if the Bank is compliant with regulatory requirements regarding expected credit losses calculation.

We examined a sample of loan exposures and performed procedures to evaluate the timely identification of exposures with a significant deterioration in credit quality and, classification of instruments in stages according to Legal accounting regulations applicable on banks in Federation of Bosnia and Herzegovina. We tested a sample of performing loans with characteristics that might imply an impairment event had occurred, to assess whether impairment events had been identified by management.
Our procedures included reassessment of the creditworthiness of clients, and review of input parameters such as probability of default, days past due, early warning system, credit rating, watch list, or restructuring, as well as impact of War in Ukraine and rising prices on those parameters.
We also re-performed management's impairment calculation on a sample of collectively impaired loans for mathematical accuracy.

We also examined a sample of clients from industries highly affected by the war in Ukraine and inflation, obtained the newest financial data from current year and evaluated if there are triggers for significant increase in credit risk (SICR) or default which may require client reclassification to stage 2 or stage 3.
We engaged risk modelling specialists to review forward looking information and input parameters used and to assess if war in Ukraine and inflation impact was adequately reflected on probability of default and forward-looking information.

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

Building a better working world

Independent auditor's report *(continued)*

Key audit matters *(continued)*

Adequacy of the expected credit losses

For further information, refer to Note 3t) Financial assets and financial liabilities and Note 5.1 Financial risk management - Credit risk of the accompanying financial statements.

For individually impaired loans, our procedures included assessing the identification of loss events and testing of assumptions used in the models on a sample basis. For a sample of individually impaired loans, we understood the latest developments at the borrower and the basis of measuring the loan loss provisions and considered whether key judgments were appropriate given the borrowers' circumstances.

In addition, we tested key inputs to the impairment calculation including the expected future cash flows and their timing and valuation of collateral held and discussed with management as to whether valuations were up to date, consistent with the strategy being followed in respect of the particular borrower and with the regulatory guidelines. We also re-performed management's impairment calculation for individually assessed loans for mathematical accuracy.

We assessed the adequacy of the disclosures included in Note 3 t) Financial assets and financial liabilities and Note 5.1 Financial risk management - Credit risk of the accompanying financial statements.

Other information included in the Bank's annual business report

Other information consists of the information included in the Annual Business Report other than the financial statements and our auditor's report thereon. Management is responsible for the preparation of other information in accordance with the Law on accounting and auditing in Federation of Bosnia and Herzegovina. Our opinion on the financial statements does not cover the Other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Building a better
working world

Independent auditor's report *(continued)*

Responsibilities of Management and Audit Committee for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Legal accounting regulations applicable on banks in 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.

Audit Committee is responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

Building a better working world

Independent auditor's report *(continued)*

Auditor's responsibilities for the audit of the financial statements *(continued)*

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

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

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

Sarajevo, 15th February 2024

DRUŠTVO ZA REVIZIJU ERNST & YOUNG SARAJEVO, d.o.o.

Dženita Kadrić

Danijela Mirković,
Procurist

Dženita Kadrić,
Authorized auditor

Ernst & Young d.o.o. Sarajevo
Vrbanja 1 (SCC-Sarajevo City Center)
71000 Sarajevo
Bosnia and Herzegovina

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

Statement of profit or loss and other comprehensive income for the year ended 31st December

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

PROFIT AND LOSS	Notes	2023	2022
Income from interest and similar income at the effective interest rate	*8*	75,616	67,553
Interest expenses and similar expenses at the effective interest rate	*9*	(10,187)	(10,951)
Net income/(expenses) from interest and similar income at the effective interest rate		**65,429**	**56,602**
Income from fees and commissions	*10*	39,341	38,301
Expenses from fees and commissions	*11*	(9,657)	(9,189)
Net income/(expenses) from fees and commissions		**29,684**	**29,112**
Impairments and provisions	*12*	(9,167)	(9,295)
Other gains and (losses) from financial assets	*13*	43	8
Gain (losses) from derivative financial instruments	*14*	388	-
Net positive/(negative) exchange rate differences	*14*	3,851	5,617
Gains and (losses) from long-term non-financial assets	*15*	(70)	(44)
Income from dividends	*16*	15	6
Other income	*17*	2,446	2,534
Personnel expenses	*18*	(28,577)	(24,996)
Depreciation costs	*27,28*	(5,485)	(5,299)
Other costs and expenses	*19*	(27,328)	(24,941)
PROFIT/(LOSS) FROM REGULAR BUSINESS BEFORE TAX		**31,229**	**29,304**
Current income tax		(3,925)	(3,386)
Deferred income tax		146	160
TOTAL TAX FOR THE YEAR	*20*	**(3,779)**	**(3,226)**
NET PROFIT FOR THE YEAR		**27,450**	**26,078**

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

Statement of profit or loss and other comprehensive income for the year ended 31st December

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

	Notes	2023	2022
Profit for the year		**27,450**	**26,078**
Other comprehensive income for the year			
Items that will not be reclassified to profit or loss			
Revaluation of property classified as IAS 16 Change in fair value *(Note 28)*		5	-
Items that may be reclassified subsequently to profit or loss			
Net loss from change in fair value of financial assets through other comprehensive income *(Note 24)*		2,566	(3,404)
Other comprehensive (expense)/income		**2,571**	**(3,404)**
Total comprehensive income for the year		**30,021**	**22,674**
Basic and diluted earnings per share (BAM)	21	**61.31**	**58.24**

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

Statement of financial position

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

ASSETS	Notes	31 December 2023	31 December 2022
Cash and cash equivalents	22	538,330	624,067
Financial assets at fair value through profit and loss	23	270	161
Financial assets at fair value through other comprehensive income	24	120,847	103,131
Financial assets at amortized cost	25	1,922,671	1,795,983
Derivatives financial instruments	26	4	-
Prepaid income tax		3,402	4,266
Deferred tax assets	33	779	616
Tangible assets	27	21,937	24,255
Intangible assets	28	3,938	3,661
Long-term assets for sale	29	-	5
Other assets and receivables	30	1,610	1,796
TOTAL ASSETS		2,613,788	2,557,941
LIABILITIES			
Financial liabilities valued at amortized cost	31	2,263,912	2,217,273
Derivative financial instruments	32	311	-
Deferred tax liabilities	33	76	60
Provisions	34	4,815	5,512
Other liabilities	35	1,024	967
TOTAL LIABILITIES		2,270,138	2,223,812
EQUITY			
Share capital	36	44,782	44,782
Share premium		57,415	57,415
Reserves		212,579	207,001
Revaluation reserves		1,424	(1,147)
Profit		27,450	26,078
TOTAL EQUITY		343,650	334,129
TOTAL LIABILITIES AND EQUITY		2,613,788	2,557,941

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

Statement of changes in shareholders' equity for the year ended 31st December 2023

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

	Issued share capital	Share premium	Reserves	Fair value reserves on Property	Fair value reserves on Assets at FVOCI	Profit	TOTAL
Balance as of 1st January 2023	**44.782**	**57.415**	**207,001**	**1.701**	**(2,848)**	**26,078**	**334,129**
General Assembly Decision – profit distribution	-	-	5,578	-	-	(5,578)	-
Dividend payment	-	-	-	-	-	(20,500)	(20,500)
Net profit for the year	-	-	-	-	-	27,450	27,450
	-						
Other comprehensive income							
Net profit from change in fair value in Property through other comprehensive income *(Note 28)*	-	-	-	5		-	5
Net profit from change in fair value of financial assets through other comprehensive income *(Note 24)*					2,566		2,566
	-						
Total other comprehensive income	-	-	-	5	2,566	-	2,571
Total comprehensive income	**-**	**-**	**-**	**5**	**2,566**	**27,450**	**30,021**
Balance as of 31st December 2023	**44.782**	**57.415**	**212,579**	**1.706**	**(282)**	**27,450**	**343,650**

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

Statement of changes in shareholders' equity for the year ended 31st December 2022

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

	Issued share capital	Share premium	Reserves	Fair value reserves on Property	Fair value reserves on Assets at FVOCI	Profit	TOTAL
Balance as of 1st January 2022	**44.782**	**57.415**	**200,971**	**1.701**	**(106)**	**30,692**	**335,455**
General Assembly Decision – profit distribution	-	-	6,692	-	-	6,692	-
Dividend payment	-	-	-	-	-	(24,000)	(24,000)
General Assembly Decision - Correction of FVOCI			(662)		662	-	-
Net profit for the year	-	-	-	-	-	26,078	26,078
	-						
Other comprehensive income							
Net loss from change in fair value of financial assets through other comprehensive income *(Note 24)*	-	-	-	-	(3,404)	-	(3,404)
	-						
Total other comprehensive income	-	-	-	-	(3,404)	-	(3,404)
Total comprehensive income	**-**	**-**	**-**	**-**	**(3,404)**	**26,078**	**22,674**
Balance as of 31st December 2022	**44.782**	**57.415**	**207,001**	**1.701**	**(2,848)**	**26,078**	**334,129**

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

Cash flow statement

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

CASH FLOWS FROM OPERATING ACTIVITIES	**Notes**	**31 December 2023**	**31 December 2022**
Interest inflows and similar inflows based on EIR		72,843	64,073
Interest outflows and similar outflows based on EIR		(10,566)	(10,086)
Fee and commission inflows		45,355	52,955
Fee and commission outflows		(12,209)	(16,527)
Gain/(losses) from derivative financial instruments	*14*	388	-
Inflows from repayment of principal and interest previously written-off		2,265	2,336
Outflows from payments to employees		(26,919)	(23,911)
Outflows from payments of operating costs and expenses		(25,775)	(22,095)
Other inflows from operating activities		560	479
Other outflows from operating activities		-	-
Payment of income tax		(3,078)	(3,961)
Cash flows from operating activities before changes in operating assets and operating liabilities		**42,864**	**43,263**
Net (increase) / decrease in mandatory reserve with Central bank		(21,501)	(6,184)
Net (increase) / decrease in placements with other banks		-	-
Net (increase) / decrease in loans and receivables from clients		106,788	9,360
Net (increase) / decrease in receivables from financial leases		-	-
Net (increase) / decrease in other assets and receivables		(6,204)	(4,881)
Net increase / (decrease) in deposits from banks and other fin, institutions		(114,148)	(2,403)
Net increase / (decrease) in deposits from clients		180,041	131,233
Net increase / (decrease) in other financial liabilities at amortized cost		6,056	2,892
Net increase / (decrease) in provisions		(593)	(1,519)
Net increase / (decrease) in other liabilities		127	208
Net cash flows from operating activities		**(20,146)**	**171,969**
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Purchases of debt instruments at fair value through OCI		(84,286)	(70,013)
Inflows from sales of debt instruments at fair value through OCI		68,716	42,808
Purchases of property, plant and equipment	*27*	(1,417)	(1,728)
Inflows from sale of property, plant and equipment		45	3
Purchases of intangible assets	*28*	(1,331)	(2,215)
Dividends received	*16*	15	6

Cash flow statement (continued)

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

Other inflows from investing activities		(207)	(146)
Other outflows from investing activities		140	294
Net cash flows from investing activities		**(19,325)**	**(30,991)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(20,500)	(24,000)
Inflows from loans granted by banks		17,062	14,682
Repayments of principal regarding loans granted by banks		(38,667)	(61,752)
Repayments of principal regarding loans granted by other fin, institutions		-	(6,628)
Repayments of principal regarding leases		(4,452)	(4,225)
Other inflows from financing activities		-	-
Other outflows from financing activities		-	(7,997)
Net cash flows from financing activities		**(46,017)**	**(89,920)**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		**(84,488)**	**51,058**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**624,067**	**572,870**
EFFECTS OF CHANGES IN CURRENCY EXCHANGE RATES OF CASH AND CASH EQUIVALENTS		**(1,251)**	**139**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**538,330**	**624,067**

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

Notes to the financial statements

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

1. GENERAL

Incorporation and registered activities

Intesa Sanpaolo Banka d.d. Bosna i Hercegovina ("the Bank") was registered in the Cantonal Court in Sarajevo on 20 October 2000. Its registered address is Obala Kulina Bana 9a in Sarajevo.

The Bank's main operations are as follows:

1. Accepting deposits from the public,
2. Granting short-term and long-term loans and guarantees to corporate customers, private individuals, local municipalities and other credit institutions,
3. Money market activities,
4. Performing local and international payments,
5. Foreign currency exchange and other banking-related activities,
6. Providing banking services through an extensive branch network in Bosnia and Herzegovina.

2. BASIS OF PREPARATION

Basis of accounting

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

- Law on Accounting and Auditing of FBiH determines the preparation of financial statements in accordance with International Financial Reporting Standards ("IFRS").
- The Law of Banks of FBiH determines the preparation of annual financial reports in accordance with the previous mentioned Law of Accounting and Auditing of FBiH, by this law, and bylaws enacted under both laws.
- The FBiH Banking Agency adopted the Decision on Credit Risk Management and determination of expected credit losses (the "Decision"), which applies from 1 January 2020 and which is resulted in certain differences, arising from the calculation of value adjustments for credit losses due to application of the minimum rates determined by the Decision, which are not required by IFRS 9: "Financial instruments" ("IFRS 9"). The decision also has an impact on the valuation of non-financial assets derived from credit transactions (acquired material assets whose valuation is within the scope of other relevant IFRS).
- The Rulebook on Chart of Accounts, Account Content and Application of Chart of Accounts for Companies (Official Gazette FBiH 81/21), Rulebook on Content and Form of Financial Statements for Companies (Official Gazette FBiH 81/21) and the Rulebook on Amendments to the Rulebook on the Content and Form of Financial Statements for Companies (Official Gazette FBiH 102/22) prescribe forms of statement of financial position, statement of comprehensive income, statement of cash flows and statement of changes in equity. These local regulations governing the measurement and presentation of financial statements take precedence over the requirements defined in this regard by IFRS published by the Association.

In accordance with the provisions of the Decision, the Bank formed higher value credit allowances for credit losses in the amount of 8,962 thousand BAM as of December 31, 2023 (10,159 thousand BAM as of December 2022) in relation to the amount obtained by calculation resulting from the Bank's internal model, as it is required by IFRS 9. This difference is due to the following reasons:

2. BASIS OF PREPARATION (continued)
Basis of accounting (continued)

- application of the minimal expected credit losses threshold determined in Article 23, of the Decision for level exposures credit risk 1 - difference in the amount of 3,564 thousand BAM as of December 31, 2023 (4,304 thousand BAM, as of December 2022)
- application of the minimal expected credit losses rates determined in Article 24, of the Decision for level exposures credit risk 2 - difference in the amount of 892 thousand BAM as of December 31, 2022 (489 thousand BAM, as of December 2022).
- application of the minimal expected credit losses rates prescribed in Article 25, of the Decision for level exposures credit risk 3 (non-performing assets) - the difference in the amount of 4,344 thousand BAM as of December 31, 2023, out of which the amount of 2,177 thousand BAM refers to exposures not secured by eligible collateral, the amount of 2,167 thousand BAM on exposures which are secured by acceptable collateral (5,218 thousand BAM as of December 2022, of which the amount of 3,696 thousand BAM refers to exposures not secured by eligible collateral, the amount of 1,525 thousand BAM on exposures which are provided with acceptable collateral).
- application of the minimum rates of expected credit losses rates determined in Article 26, of the Decision on receivables, receivables based on factoring and financial leasing and other receivables - difference in the amount of 162 thousand BAM as of December 31, 2023 (148 thousand BAM as of December 2022).
- Write-off of exposures to off-balance after the bank recorded the expected credit losses in the amount of 100% of the gross book value of that exposure and declared it fully due in the total amount of BAM 6,620 thousand (5,576 thousand BAM as of December 2022).

In accordance with Article 32 of the Decision, the banks are obliged, if not sell repossessed / acquired material property more than three years from acquisition date, to evaluate value to 1 BAM.

As presented below, the Bank formed impairments before new regulation, and for all assets acquired before three years already built impairments, so no impact of new regulation was recorded.

Acquired material property	2023			2022		
	Gross amount	Impairment	Net amount	Gross amount	Impairment	Net amount
Assets which has been acquired in the last three years	16	16	0	5	0	**5**
Assets which has been acquired over a period of more than three years	18	18	0	23	23	**0**
Total	**34**	**34**	**0**	**28**	**23**	**5**

Previously described differences in credit losses between the legal accounting regulations applicable to banks in FBiH and requirements for recognition and measurement under International Financial Reporting Standards had to result in the following effects *:

	31 December 2023 IFRS	Effects of FBA Decision 31 December 2023	31 December 2023
Assets	(72,585)	(80,958)	(8,373)
Liabilities	1,590	2,179	589
Equity	(74,175)	(83,137)	(8,962)

2. BASIS OF PREPARATION (continued)
Basis of accounting (continued)

	31.12.2022 IFRS	Effects of FBA Decision 31.12.2022	31.12.2022
Assets	(72,371)	(81,786)	(9,415)
Liabilities	1,937	2,681	744
Equity	(74,308)	(84,467)	(10,159)
Financial result before tax for the year ended 31.12.2022 if IFRS methodology is used would be higher by 1,197			

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

a) Functional and presentation currency

These financial statements are presented in thousands of convertible marks ('000 BAM) which is the functional currency of the Bank.

b) The concept of going concern

The financial statements have been prepared on the going concern basis, which means that the Bank will continue in business for the foreseeable future and be able to settle its receivables and settle its liabilities in the ordinary course of business.

c) Use of estimates and judgments

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Results actually recorded upon settlement of transactions which were initially subject to estimates may eventually differ from those estimates.

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

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

d) Comparative figures

Financial statements for the year ended 31 December 2023 have been prepared in accordance with the requirements of the Rulebook on Chart of Accounts, Account Content and Application of Chart of Accounts for Companies (Official Gazette FBiH 81/21), Rulebook on Content and Form of Financial Statements for Companies (Official Gazette FBiH 81/21) and the Rulebook on Amendments to the Rulebook on the Content and Form of Financial Statements for Companies (Official Gazette FBiH 102/22, 99/23), and the instructions of the Banking Agency of the Federation of Bosnia and Herzegovina during 2023. Accordingly, the Bank has adjusted the comparative data for 2022 in the section Income and Expenses from interest at the effective interest rate (negative interest on assets measured through other comprehensive income was reclassified from the Interest Income to the Interest Expense in the amount of 1,199 thousand BAM , and in the section of Impairment and provisions and Other income (income from the collection of off-balance sheet claims and accounting write-offs was reclassified to the position of Impairment and provisions in the amount of 279 thousand BAM).

3. MATERIAL ACCOUNTING POLICY INFORMATION

(a) Foreign currency transactions

Transactions in currencies other than Convertible Marks ("BAM") are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities are translated at the rates prevailing on 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 profit or loss statement for the period.

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

31 December 2023	EUR 1= BAM 1.95583	USD 1 = BAM 1,769982
31 December 2022	EUR 1= BAM 1.95583	USD 1 = BAM 1,833705

(b) Net trading income

Net trading income comprises net gains and losses from foreign exchange trading, net gains and losses on financial instruments at fair value through profit or loss, and net gains and losses from the translation of monetary assets and liabilities denominated in foreign currency at the reporting date.

(c) Lease payments

At inception of contract, the Bank assesses whether a contract is, or contains a lease, A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. The Bank recognizes a right-of use asset and lease liability at the lease commencement date. The right-of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made before the commencement date, plus any initial direct cost incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises. The right of use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or, if that rate cannot be readily determined, the Bank's incremental borrowing rate, Generally, Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by analyzing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise of following: fixed payments, variable lease payments that depend on an index or a rate, amounts expected to be payable under a residual value guarantee, and the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

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

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(e) Lease payments (continued)

The Bank presents right-of-use assets in "Tangible assets including right-of-use assets" Note 27.

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

(d) Income tax expense

The income tax charge is based on taxable profit for the year and comprises current and deferred tax. Income tax is recognized in the profit or loss statement except to the extent that it relates to items recognized directly in other comprehensive income, in which case it is recognized in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantially enacted at the reporting date and any adjustments to tax payable in respect of previous years.

The amount of deferred tax is calculated using the balance sheet liability method whilst considering the temporary differences between the carrying amounts of assets and liabilities used for financial reporting purposes and amounts used for income tax purposes. Deferred tax assets and liabilities are recognized using the tax rates that are expected to apply on taxable income in the period in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the reporting date.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects at the reporting date to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or liabilities in the statement of financial position. Deferred tax assets are recognized only to the extent that it is probable that sufficient taxable future profits will be available against which the deferred tax assets can be utilized. At each reporting date the Bank reassesses unrecognized potential deferred tax assets and the carrying amount of recognized deferred tax assets for indications of potential impairment.

(e) Property and equipment

Recognition and measurement

Equipment is stated at historical cost less accumulated depreciation and impairment losses. The cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent cost is included in net book value or is accounted for as separate assets only if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The costs of day-to-day repairs and maintenance are recognized in the profit or loss statement as incurred.

Buildings are recognized at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Increases in carrying amounts arising from revaluation, including currency translation differences, are recognized in the asset revaluation reserve, unless they offset previous decreases in the carrying amounts of the same asset, in which case, they are recognized in profit or loss. Decreases in carrying amounts that offset previous increases of the same asset are recognized against the asset revaluation reserve. All other decreases in carrying amounts are recognized as a loss in the statement of comprehensive income.

Gains and losses on disposal are determined by comparing proceeds with the carrying amount and are included in the profit or loss statement as other income or operating expense.

Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives and is generally recognized in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Bank will obtain ownership by the end of the lease term, Land is not depreciated.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(e) Property and equipment (continued)

The depreciation rates used by the Bank are as follows:

	2023	2022
Computers	20%	20%
Furniture and equipment	10%-15%	10%-15%
Business premises	5%	5%
Leasehold improvements	20%	20%

Depreciation method and useful life are reviewed, and adjusted if appropriate, at each reporting date.

(f) Intangible assets

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

Amortization is provided on all intangible assets except assets in the course of construction on a straight-line basis at prescribed rates designed to write off the cost over the estimated useful lives of the assets. The amortization rates used by the Bank were applied consistently in 2022 and 2021:

Intangible assets – licenses	10% - 33.33 %
Intangible assets – software	20%

Amortization method and useful lives are reviewed and adjusted if appropriate at each reporting date.

(g) Assets repossessed from disbursement of loans

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

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

Classification and measurement of these assets depend on the scope for holding the property, More specifically, the asset may be classified according to IAS 16 (if the assets become instrumental), IAS 40 (if the property is held to earn rentals or for capital appreciation), IAS 2 (when the property has been acquired, in the ordinary course of business, exclusively with the intent to dispose of the asset in the reasonably short period of time). Classification under IFRS 5 is also possible when the conditions are met.

Following their initial recognition in the balance sheet at their fair value, the repossessed assets classified according to IAS 16, excluding property assets, shall be measured at cost (amortized and periodically tested for impairment). Repossessed property assets, such as functional property and valuable art collections (governed by IAS 16) and Investment property (governed by IAS 40) will be subsequently measured according to the revaluation model and fair value model respectively. Assets classified under IAS 2 shall be measured at the lower between cost and the net realizable value and shall not be amortized but only subject to the impairment test.

In accordance with Regulatory Banking Agency's Decision, assets repossessed from disbursement of loans should be registered at lower of following values:

a) Net carrying value of loan receivable. In addition, in circumstances where carrying value of loan receivables is equal to the expected credit loss provisions, the Bank shall recognize repossessed assets in value of 1 BAM,

b) Estimated fair value, decreased for expected costs of sale, estimated by independent valuator,

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(g) Assets repossessed from disbursement of loans (continued)

According to the regulatory requirements, in the case that the bank fails to sell the repossessed assets within three years from the date of their initial recognition in the bank's books, it shall reduce their value to BAM 1.

(h) Assets held for sale

Non-current assets are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets are generally measured at the lower of their carrying amount and fair value less costs to sell, Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognized in profit or loss.

Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortized or depreciated, and any equity-accounted investee is no longer equity accounted.

(i) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount, Impairment losses are recognized in the profit or loss statement.

The recoverable amount of other assets is the greater of their value in use and fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(j) Employee benefits

Short-term benefits

On behalf of its employees, the Bank pays pension and health insurance which is calculated on the gross salary paid as well as tax on salaries which are calculated on the net salary paid. The Bank pays the above contributions into the state pension and health funds according to statutory rates during the course of the year. In addition, meal allowances, transport allowances and vacation bonuses are paid in accordance with local legislation. These expenses are recorded in the profit or loss statement in the period in which the salary expense is incurred.

Obligations for contributions to defined contribution pension plans are recognized as an expense in profit or loss statement as incurred.

Long-term employee benefits: retirement severance payments and early retirement bonuses

The Bank pays to its employees' retirement severance benefits upon retirement in an amount representing three times the average salary of the respective employee in the period of the last three months.

The obligation and costs of these benefits are determined by using a projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the estimated interest rate on government bonds.

Share-based payments

Employees of the Bank receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments issued by the ultimate parent company. The Bank accounts for share-based payments as a cash-settled transaction.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(j) Employee benefits (continued)

The fair value of the amount payable to employees in respect of the ultimate parent company shares to be given to the employees is recognized as an expense with a corresponding increase in liabilities over the period in which the employees unconditionally become entitled to payments. The liability is remeasured at each reporting date and at the settlement date. Any changes in the fair value of the liability are recognized as a personnel expense in the profit or loss statement.

(k) Provisions for liabilities and charges

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

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

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

(l) Equity

Issued share capital

Issued share capital comprises ordinary and preference shares and is stated in BAM at nominal value.

Reserves

Reserves represent Reserves for unconditional, permanent and full coverage of potential future losses and other reserves as accumulation of net profits after appropriations to owners and other transfers.

Fair value reserve

The fair value reserve comprises changes in fair value of tangible assets and financial assets at fair value through other comprehensive income, net of deferred tax.

Other reserves

Other reserves mainly relate to accumulated appropriations from retained earnings in accordance with the shareholder's decisions.

Dividends

Dividends on ordinary shares and preference shares are recognized as a liability until payment to beneficiaries in the period in which they are approved by the Bank's shareholders.

(m) Off-balance sheet commitments and contingent liabilities

In the ordinary course of business, the Bank enters into credit-related commitments which are recorded off balance sheet and primarily comprise guarantees, letters of credit, undrawn loan commitments and credit-card limits. Such financial commitments are recorded in the Bank's statement of financial position if and when they become payable.

(n) Managed funds for and on behalf of third parties

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

(o) Segment reporting

A business segment is a distinguishable component of the Bank that is engaged in providing products or services, which is subject to risks and rewards that are different from those of other segments. A geographical

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)
(o) Segment reporting (continued)

segment is engaged in providing products or services within a particular economic environment distinguished from other segments engaged in providing products or services within other economic environments.
The Bank has identified 3 primary business segments: Retail, Corporate and Treasury. The primary segmental information is based on the Bank's internal reporting structure by business segment. Geographical concentration is not presented as the Bank's operations are concentrated in Bosnia and Herzegovina.

(p) Interest income and expense

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

(a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortized cost of the financial asset

(b) Financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortized cost (i.e. net of the expected credit loss provision).

(q) Fee and commission income and expenses

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

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

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

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

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

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

(r) Net income from other financial instruments at fair value through profit or loss

Net income from other financial instruments at FVTPL relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedging relationships, financial assets and financial

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(r) Net income from other financial instruments at fair value through profit or loss (continued)

liabilities designated as at FVTPL and, from 01 January 2018, also non-trading assets mandatorily measured at FVTPL. The line item includes fair value changes, interest, dividends and foreign exchange differences.

(s) Dividend income

Dividends on equity instruments designated as at FVOCI that clearly represent a recovery of part of the cost of the investment are presented in OCI.

(t) Financial assets and financial liabilities

1. Recognition and initial measurement

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

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

2. Classification and subsequent measurement

Financial assets

The Bank classifies its financial assets in the following measurement categories:

- Financial assets measured at amortised cost
- Financial assets measured through other comprehensive income
- Financial assets at fair value through profit or loss

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

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables.

Classification and subsequent measurement of debt instruments depend on:

(i) The purpose of managing financial assets (business model)

(ii) The contractual characteristics of cash flows (Solely Payments of Principle and Interest, further "SPPI test" or "SPPI")

Based on these factors, the Bank classifies its debt instruments into one of the following three measurement categories:

- **Financial assets measured at amortized cost**

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVTPL, are measured at amortized cost. After initial recognition, the carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured as described in Note 3(4). Interest income from these financial assets is included in "Interest income" using the effective interest rate method.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables occur when the Bank grants cash to customers without the intent to trade these receivables and includes placements and loans to banks, given loans and receivables from customers and assets with the Central Bank.

- **Financial assets measured through other comprehensive income**

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(t) Financial assets and financial liabilities (Continued)

2. Classification and subsequent measurement (Continued)

Fair value through other comprehensive income (FVOCI) financial assets, that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at fair value through other comprehensive income (FVOCI).

Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss.

When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in "Net trading income". Interest income from these financial assets is included in "Interest income" using the effective interest rate method.

- **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss have two sub-categories: financial instruments held for trading (including derivatives) and those designated by management as at fair value through profit or loss at inception. A financial instrument is classified in this category only if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term for the purpose of short-term profit taking or designated as such by management at initial recognition.

The Bank designates financial assets at fair value through profit or loss when:

- the assets are managed, evaluated and reported internally on a fair value basis;
- the designation eliminated or significantly reduced an accounting mismatch which would otherwise have arisen; or
- the asset contains an embedded derivative that significantly modified the cash flows that would otherwise be required under the contract.

Financial assets at fair value through profit or loss include derivative financial instruments classified as financial instruments held for trading and equity instruments designated by management at fair value through profit or loss.

Purpose of managing financial assets (Business model)

The business model reflects how the Bank manages the assets in order to generate cash flows.

Business models of the Bank are:

- Business model whose objective is to hold assets for the collection of contractual cash flows - it includes all financial assets held for the purpose of collection of contractual cash flows over the lifetime of the financial instrument. For the purpose of classification in this business model, financial assets goes through the SPPI (Solely payment of principal and interest) test, and the following financial assets are allocated to this model:
  - Deposits with banks,
  - Loans,
  - Other receivables.

Credit risk is the underlying risk that is managed under this business model.

- Business model aimed to collect the contractual cash flows and sale of financial assets – it includes financial assets held for the purpose of collecting the agreed cash flows and sale of financial assets.

The following financial assets are allocated to the business model for collection and sale:

  - Debt securities (pass SPPI test),
  - Equity securities (fail SPPI test).

Liquidity risk is the underlying risk that is managed under this business model.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(t) Financial assets and financial liabilities (Continued)

2. Classification and subsequent measurement (Continued)

- The business model within which financial assets are measured at fair value through profit and loss - combines all financial assets that are not held under the two previously mentioned business models. Financial assets in this business model are managed in order to realize cash flows by selling assets and making short-term profits.

Contractual cash flow characteristics (SPPI)

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

The SPPI test is performed:

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

- **Equity instruments**

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Bank subsequently measures all equity investments at fair value through profit or loss, except where the Bank's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Bank's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal, Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Bank's right to receive payments is established.

Gains and losses on equity investments at FVTPL are included in the "Net trading income" line in the statement of profit or loss.

- **Financial liabilities**

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

Designation at fair value through profit or loss

Financial assets

At initial recognition, the Bank has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

The Bank also designated certain financial assets as at FVTPL because the assets were managed, evaluated and reported internally on a fair value basis.

Financial liabilities

The Bank has designated certain financial liabilities as at FVTPL in either of the following circumstances:

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(t) Financial assets and financial liabilities (Continued)

2. Classification and subsequent measurement (Continued)

- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Note 23 sets out the amount of each class of financial asset or financial liability that has been designated as at FVTPL, A description of the basis for each designation is set out in the note for the relevant asset or liability class.

Loans and receivables from customers

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

- loans and receivables measured at amortized cost (see Note 25); they are initially measuring at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method.

Investment securities

The "investment securities" caption in the statement of financial position includes:

– debt securities measured at FVOCI; and

– equity investment securities designated as at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

– interest revenue using the effective interest method;

– ECL and reversals; and

– foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Bank elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

Financial guarantees and loan commitments

'Financial guarantees' are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions. Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured as follows:

– At the higher of the loss allowance determined in accordance with IFRS 9 (see Note 3(t) and the amount initially recognized less, when appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15,

The Bank has issued no loan commitments that are measured at FVTPL. For other loan commitments:

– The Bank recognizes a loss allowance

Liabilities arising from financial guarantees and loan commitments are included within provisions.

3. Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(t) Financial assets and financial liabilities (Continued)

3. Derecognition (Continued)

expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

4. Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.
If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

According to regulation prescribed by Federal Banking Agency of BiH from 01.01.2020. Decision on Credit Risk Management and determination of expected credit losses, modification can be:
1) triggered by the debtor’s current needs (e.g. effective interest rate reduction due to changes in the market, collateral swap, etc.), and not by the debtor’ financial distress,
2) triggered by the debtor’s current financial distress or distress that will arise soon, i.e. deterioration of their creditworthiness, timeliness in meeting of their obligations to the bank or other creditors.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(t) Financial assets and financial liabilities (Continued)

4. Modifications of financial assets and financial liabilities (Continued)

According to Intesa Sanpaolo Group Accounting Policies, modification can be:

- modification due to financial difficulties can be:
  - o without derecognition of previous loan (impact is recognized as gain/losses from contractual modification without derecognition, and later, time value reversal effect has to be recognized in the interest margin
  - o with derecognition (the modified asset is considered as a new financial asset
- modification due to commercial purposes will have no impact on the Income Statement.

Financial liabilities

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

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

- **Offsetting**

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

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

5. **Impairment**

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

Impairment of financial assets is recognized on the basis of the expected credit loss model (ECL) for assets subsequently measured at amortized cost and assets subsequently measured at fair value through other comprehensive income (other than equity instruments).
Regulatory decision requires entities to enter the expected losses at the level of losses expected in the next 12 months (Stage 1) from the initial entry of the financial instrument. The time horizon for calculating the expected loss becomes the entire remaining life of the asset that is the subject of the valuation where the credit quality of the financial instrument has experienced a "significant" deterioration in relation to the initial measurement (Stage 2) or in case the asset is partially or fully non-performing (Stage 3). More specifically, the introduction of new impairment provisions includes:

- Allocation of performing financial assets at different levels of credit risk ("staging"), corresponding to value adjustments based on expected losses over the next 12 months (the so-called "Stage 1") or lifetime for the entire remaining duration of the instrument (the so-called "Stage 2"), in the presence of a significant increase in credit risk;
- Allocation of partially or fully non-performing financial assets in the so-called "Stage 3", always with value adjustments based on expected losses over the entire duration of the instrument;
- Inclusion of Expected Credit Losses ("ECL") in the calculation, as well as the expected future changes of the macroeconomic scenario.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(t) Financial assets and financial liabilities (Continued)

5. Imparment (Continued)

The following table summarizes requirements for impairment under IFRS 9.

	Stage 1	Stage 2	Stage 3
Deterioration in credit risk	Initial recognition (non-performing loans a origination are included in Stage 3)	Credit risk has increased significantly since initial recognition and is not considered "low"	Credit risk has increased to the point where it is considered that the value of the instrument is impaired
Recognition of the provisioning in the balance sheet	12-month expected loss	Lifetime expected loss	Lifetime expected loss
Current classification	Performing	Performing	Non-performing
Current provision	Incurred loss	Incurred loss	Lifetime expected loss

Measurement of ECL

ECL are a probability-weighted estimate of credit losse. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i,e, the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);*
- *financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;*
- *undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and*
- *financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.*

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(t) Financial assets and financial liabilities (Continued)

5. Imparment (Continued)

Write-off (Continued)

Recoveries of amounts previously written off are included in "impairment losses on financial instruments" in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

The Bank wrote off a loan or an investment in debt security, either partially or in full, and any related allowance for impairment losses, when Bank's Credit determined that there was no realistic prospect of recovery.

Accounting Write-off

In July 2019, Federal Banking Agency adopted the Decision on Credit Risk Management and determination of Expected Credit Losses which is explained in Accounting Summary Policies – Impairment.

According to FBA Decision, Bank is obliged to perform write off of financial assets in time period of two years after the date on which total amount of expected credit risk had been registered in amount of 100% of the value of financial asset, and declared assets as completely due.

The Bank did not make an accounting write-off before January 1, 2020, years, Receivables in the Bank's books were recorded until collection or permanent write-off. Unlike to above explained Write-off, Accounting Write-off is part of Off-Balance Sheet records and in Financial Statement is part of movement of Impairments in Note 25.

(u) Derivative financial assets

A derivative is a financial instrument or other contract with all three of the following characteristics:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable (sometimes called the 'underlying'),
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors, and
- it is settled at a future date.

Typical examples of derivatives are futures and forwards, swap and option contracts. A derivative usually has a notional amount, which is an amount of currency, a number of shares, a number of units of weight or volume or other units specified in the contract.

Derivative financial instruments are initially recognised in the balance sheet in accordance with the policy for initial recognition of financial instruments. Subsequent to initial recognition, derivative financial instruments are measured at fair value. Fair values are obtained from quoted market prices, dealer price quotations, discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

(v) Cash and Cash equivalents

For cash flow reporting purposes, cash equivalents and cash include balances with maturity of less than three months from the date of acquisition, including money and funds that are not under restrictions of the Central Bank, other suitable securities, credits and loans given to banks, due receivables from other banks.

Cash represent monetary assets in domestic and foreign currencies in the treasury and cash registers Banks, funds on reserve accounts with the Central Bank of Bosnia and Herzegovina and funds on accounts with domestic and foreign banks with a maturity of up to three months.

(z) Borrowings

Borrowings are initially recognized at fair value, which is equal to historical cost less for transaction costs. Loan liabilities are subsequently reported at amortized value, all differences between the inflow of funds minus transaction costs and the amount of repayments. Interest expense is recognized in Profit& loss statements in the period of using the loan using the effective interest rate method.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

aa) Related parties transactions

According to the definition of IAS 24, related parties are parties that represent:

- companies that directly or indirectly through one or more intermediaries control the reporting company or are under his control, that is, which the reporting company controls together with another subjects;
- associated companies in which the Bank has significant influence and which are neither a related entity nor a joint venture investor investment;
- natural persons who directly or indirectly have the right to vote in the Bank, which allows them a significant influence on the Bank, as well as any other entity that is expected to influence or be influenced related persons in business with the Bank;
- managers in key positions, i.e. persons who have authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and key management.

When looking at any possible transaction with a related party, attention is focused on the substance relationship, and not just the legal form.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

ab) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following IFRS amendments which have been adopted by the Bank as of 1 January 2023:

- **IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)**
  The Amendments are effective for annual periods beginning on or after January 1, 2023. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. The amendments had no impact on the financial statements of the Bank.

- **IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)**
  The amendments become effective for annual reporting periods beginning on or after January 1, 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty, if they do not result from a correction of prior period error. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The amendments had no impact on the financial statements of the Bank.

- **IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)**
  The amendments are effective for annual periods beginning on or after January 1, 2023. The amendments narrow the scope of and provide further clarity on the initial recognition exception under IAS 12 and specify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement, having considered the applicable tax law, whether such deductions are attributable for tax purposes to the liability or to the related asset component. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.
  The amendments had no impact on the financial statements of the Bank.
- **IAS 12 Income taxes: International Tax Reform - Pillar Two Model Rules (Amendments)**
  The amendments are effective immediately upon issuance, but certain disclosure requirements are effective later. The Organization for Economic Co-operation and Development's (OECD) published the Pillar Two model rules in December 2021 to ensure that large multinational companies would be subject to a minimum 15% tax rate. On 23 May 2023, the IASB issued International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12. The amendments introduce a mandatory temporary exception to the accounting for deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules and disclosure requirements for affected entities on the potential exposure to Pillar Two income taxes. The Amendments require, for periods in which Pillar Two legislation is (substantively) enacted but not yet effective, disclosure of known or reasonably estimable information that helps users of financial statements understand the entity's exposure arising from Pillar Two income taxes. To comply with these requirements, an entity is required to disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. The disclosure of the current tax expense related to Pillar Two income taxes and the disclosures in relation to periods before the legislation is effective are required for annual reporting periods beginning on or after 1 January 2023, but are not required for any interim period ending on or before 31 December 2023. The amendments had no impact on the financial statements of the Bank.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(e) Property and equipment (continued)

ac) Standards issued but not yet effective and not early adopted

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**
  The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted, and will need to be applied retrospectively in accordance with IAS 8. The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities as either current or non-current. The amendments clarify the meaning of a right to defer settlement, the requirement for this right to exist at the end of the reporting period, that management intent does not affect current or non-current classification, that options by the counterparty that could result in settlement by the transfer of the entity's own equity instruments do not affect current or non-current classification. Also, the amendments specify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification. Additional disclosures are also required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period. The requirements of this standard are not expected to have a material impact on the Bank's financial statements.

- **IFRS 16 Leases: Lease Liability in a Sale and Leaseback (amendments)**
  The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The amendments are intended to improve the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction in IFRS 16, while it does not change the accounting for leases unrelated to sale and leaseback transactions. In particular, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use it retains. Applying these requirements does not prevent the seller-lessee from recognizing, in profit or loss, any gain or loss relating to the partial or full termination of a lease. A seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, being the beginning of the annual reporting period in which an entity first applied IFRS 16. The requirements of this standard are not expected to have a material impact on the Bank's financial statements.

- **IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments Disclosure - Supplier Finance Arrangements (Amendments)**
  The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The amendments supplement requirements already in IFRS and require an entity to disclose the terms and conditions of supplier finance arrangements. Additionally, entities are required to disclose at the beginning and end of reporting period the carrying amounts of supplier finance arrangement financial liabilities and the line items in which those liabilities are presented as well as the carrying amounts of financial liabilities and line items, for which the finance providers have already settled the corresponding trade payables. Entities should also disclose the type and effect of non-cash changes in the carrying amounts of supplier finance arrangement financial liabilities, which prevent the carrying amounts of the financial liabilities from being comparable. Furthermore, the amendments require an entity to disclose as at the beginning and end of the reporting period the range of payment due dates for financial liabilities owed to the finance providers and for comparable trade payables that are not part of those arrangements. The requirements of this standard are not expected to have a material impact on the Bank's financial statements.

- **IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability (Amendments)**
  The amendments are effective for annual reporting periods beginning on or after January 1, 2025, with earlier application permitted. The amendments specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. A currency is considered to be exchangeable into another currency when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations. If a currency is not exchangeable into another currency, an entity is required to estimate the spot exchange rate at the measurement date. An entity's objective in estimating the spot exchange rate is to reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

(a) Impairment losses on loans and receivables

The Bank continuously monitors the creditworthiness of its clients. The need for impairment of the Bank's balance sheet and off-balance sheet credit risk exposures is assessed on a monthly basis.

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following note 3(t).

(b) Taxation

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

(c) Regulatory requirements

The Agency is entitled to carry out regulatory inspections of the Bank's operations and to request changes to the carrying values of assets and liabilities, in accordance with the underlying regulations.
In addition to impairment allowances calculated and recognised in accordance with IFRS, the Bank also calculates impairment losses in accordance with the Agency regulations for capital adequacy calculation purposes.

In accordance with the Decision on credit risk management and determination of expected credit losses, the Bank applies the following rules of minimum coverage to define the ECL.

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

a) for low-risk exposures – 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 step 3 and 4 – 0,1 % in accordance with Article 69, of the Decision on calculating the bank's capital,

c) for exposures to banks and other financial sector entities for which there is a credit assessment by a recognized external institution for credit rating assessment, which is in accordance with Article 69 of the Decision on calculating the bank's capital is classified in credit quality step 1, 2 or 3 - 0,1 % exposure,

d) for other exposures - 0,5% of exposures,

For exposures allocated to credit risk level 2, the bank is obliged to determine and record the expected credit losses in the amount of more than the following:

a) 5% exposure,

b) the amount determined in accordance with the bank's internal methodology,

The Bank shall determine and record expected credit losses for exposures allocated to the level of credit risk 3 at least in the amounts defined in Table 1 or Table 2.

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

c) Regulatory requirements (Continued)

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

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

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

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

Exceptionally, if the bank has taken appropriate legal action and can document the certainty of collection from eligible collateral in the next three years, the increase in the level of expected credit losses is not required to exceed 80% of the exposure.

The estimate of future cash flows from eligible collateral reduced to present value must be greater than 20% of that receivable.

In case that the bank does not collect receivables in the specified period of three years, it is obliged to record the expected credit losses in the amount of 100% of the exposure.

The Bank shall determine the rates of expected credit losses for trade receivables, receivables from factoring and financial leasing, and other receivables at least in the amounts as shown in Table 3.

Table 3. Minimum rates of expected credit losses for leasing and other receivables

Number:	Days of delay	Minimum expected credit loss
1.	no delay in material significant amount	0,5%
2.	up to 30 days	2%
3.	from 31 to 60 days	5%
4.	from 61 to 90 days	10%
5.	from 91 to 120 days	15%
6.	from 121 to 180 days	50%
7.	from 181 to 365 days	75%
8.	over 365 days	100%

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

d) Litigation and claims

The total amount of litigations and claims amounts to BAM 10,048 thousand as of 31.12.2023 (31.12.2022: BAM 8,104 thousand).
The Ban performs an individual assessment of all court cases and creates provisions in accordance with the assessment. The assessment of risks and proposal for provisions for legal cases is performed by the Legal Affairs Department and Finance Division, and a decision on the creation of provisions is made by the Bank's management.
As stated in Note 34, the Bank provided BAM 1,653 thousand as of 31.1.2023 (31.12.2022: BAM 1,955 thousand), which management estimates as sufficient. Since the estimate is made considering the specifics of each individual case based on the likelihood and magnitude of an outflow of resources.

5. FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks: credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, and interest rate risk.

The Bank has established an integrated system of risk management by introducing a set of policies and procedures for analysis, evaluation, acceptance and risk management. Taking risk is core to the financial services business and the operational risks are an inevitable consequence of being in business.

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

Risk management is carried out by the Risk Management Division whose main purpose is to support financial operations, coordinate access to domestic and international financial markets, and oversee and manage financial risk through internal risk reports including analysis by size and level of the risk.

5.1 Credit risk

5.1.1 Risk limit control and mitigation policies

The Bank takes on exposure to credit risk which is the risk that the counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to industry segments. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest payment and capital repayment obligations and by changing the lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. 'Settlement risk' is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transaction, the Bank mitigates this risk by conducting settlements through a settlement/ clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free-settlement trades requires transaction-specific or counterparty-specific approvals from Bank Risk.

The limits of credit risk are determined in relation to the Bank's regulatory capital.

According to the Bank's policy, decision-making on exposure to credit risk is centralized and concentrated on the Credit Committee. Decisions of the Credit Committees are made upon consideration of proposals provided by the Underwriting Department. The terms for approval of each corporate loan are determined individually depending on client type, the loan's purpose, estimated creditworthiness and current market situation. Conditions for collateral are also determined according to client creditworthiness analysis, type of credit risk exposure, term of the placement as well as the placement amount.

Off-balance-sheet credit instruments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and letter of credits carry the same risk as loans and are secured with similar collateral as are loans.

5.1.2 Maximum exposure to credit risk before collateral held or other credit enhancement

The following table sets out information about the credit quality of financial assets measured at amortized cost, FVOCI debt instruments and debt instruments at amortized costs,.For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in Note 3 (t).

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (Continued)

5.1.2 Maximum exposure to credit risk before collateral held or other credit enhancement (Continued)

	2023				2022
	Stage 1	Stage 2	Stage 3	Total	Total
Cash and cash equivalents – Note 22					
Performing - Stage 1	538,841	-	-	**538,841**	624,671
Total Gross	538,841	-	-	**538,841**	624,671
Less: impairment allowance	(511)	-	-	**(511)**	(604)
Carrying amount	**538,330**	**-**	-	**538,330**	**624,067**
Reserves with Central Bank - Note 25.1					
Performing - Stage 1	224,766	-	-	**224,766**	203,265
Total Gross	224,766	-	-	**224,766**	203,265
Less: impairment allowance	(225)	-	-	**(225)**	(203)
Carrying amount	**224,541**	**-**	-	**224,541**	**203,062**
Loans and receivables from customers at amortized cost - Note 25.2					
Performing - Stage 1	1,563,430	-	-	**1,563,430**	**1,485,354**
Performing - Stage 2	-	150,345	-	**150,345**	**117,490**
Past due impaired	-	-	5,053	**5,053**	**6,419**
unlikely to pay	-	-	11,350	**11,350**	**17,758**
doubtful	-	-	35,959	**35,959**	**36,255**
Total Gross	1,563,430	150,345	52,362	**1,766,137**	**1,663,276**
Less: impairment allowance	(18,419)	(19,387)	(41,290)	**(79,096)**	**(80,060)**
Carrying amount	**1,545,011**	**130,958**	**11,072**	**1,687,041**	**1,583,216**
Oher financial assets at amortized cost -Note 25.4					
Performing - Stage 1					
Total Gross	12,198	-	-	12,198	10,623
Loss allowance	(1,109)	-	-	(1,109)	(918)
Carrying amount	**11,089**	**-**	-	**11,089**	**9,705**
Financial assets at FVOCI - Note 24					
Performing - Stage 1	120,847	-	-	120,847	103,131
Total Gross	120,847	-	-	120,847	103,131
Loss allowance	-	-	-	-	-
Carrying amount	**120,847**	**-**	**-**	**120,847**	**103,131**
Financial assets at FVPL- Note 23					

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (Continued)

5.1.2 Maximum exposure to credit risk before collateral held or other credit enhancement (Continued)

Performing - Stage 1	270	-	-	270	161
Carrying amount	**270**	**-**	**-**	**270**	**161**
Debt instruments at amortized cost - Note 25.3					
Performing - Stage 1	-	-	-	-	-
Total Gross	-	-	-	-	-
Loss allowance	-	-	-	-	-
Carrying amount	**-**	**-**	-	**-**	**-**
Total on-balance exposure	**2,440,088**	**130,958**	**11,072**	**2,582,118**	**2,523,342**

	2023				2022
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
Contingent liabilities - Note 38					
Stage 1	156,317	-	-	**156,317**	**155,785**
Stage 2	-	4,700	-	**4,700**	**7,017**
Stage 3	-	-	-	**-**	**-**
Total Gross	156,317	4,700	-	**161,017**	**162,802**
Less: impairment allowance	(344)	(132)	-	**(476)**	**(543)**
Carrying amount	**155,973**	**4,568**	**-**	**160,541**	**162,259**
Loan commitments - Note 38					
Stage 1	395,390	-	-	**395,390**	**370,729**
Stage 2	-	12,680	-	**12,680**	**9,392**
Stage 3	-	-	527	**527**	**699**
Total Gross	395,390	12,680	527	**408,597**	**380,820**
Less: impairment allowance	(1,153)	(280)	(270)	**(1,703)**	**(2,138)**
Carrying amount	**394,237**	**12,400**	**257**	**406,894**	**378,682**
Total off balance exposure	**550,210**	**16,968**	**257**	**567,435**	**540,941**
Total exposure to credit risk	**2,990,298**	**147,926**	**11,329**	**3,149,553**	**3,064,283**

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (Continued)

5.1.3 Collateral held and other credit enhancements

During the year the Bank obtains financial and non-financial assets by taking possession of collaterals it holds as security or calling on other credit enhancements, in case of failure by the debtors to repay their due amounts. Such process of foreclosure involves mainly real estate, equipment, vehicles and deposits. Repossessed items are presented as such in the statement of financial position once they meet the criteria for recognition according to IFRS and local law. The policy of the Bank is to sell repossessed assets; during the period of possession and pending their final sale to third parties, the assets can be temporarily used if they are functional to the Bank's standard operations, or leased operationally to third parties.

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period.

Residential mortgage lending

The following tables stratify credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio, LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices. For credit-impaired loans the value of collateral is based on the most recent appraisals.

	31 December 2023	31 December 2022
LTV ratio		
Less than 50%	52,158	44,271
51–70%	73,085	63,840
71–90%	60,383	56,015
91–100%	12,771	10,265
More than 100%	418	104
Total	**198,816**	**174,495**

Credit-impaired loans	2023	2022
Less than 50%	1,153	880
51–70%	507	542
More than 70%	890	1,114
Total	**2,549**	**2,536**

Assets obtained by taking possession of collateral

Details of financial and non-financial assets obtained by the Bank during the year by taking possession of collateral held as security against loans and advances and held at the year-end are shown below (Note 29).

	2023	2022
Property	34	28
Total	**34**	**28**

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (Continued)

5.1.4 Allowance for expected credit losses

(i) Significant increase in credit risk (SICR)

The Bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the quantitative or qualitative criteria have been met. Criteria for determining a significant increase in credit risk are defined for the proper allocation of exposure in “Stage 1” or “Stage 2”.

Elements that will be the main determinants which need to be considered for the purpose of assessing the “steps” between the various “stages” are the following:

- Probability of default change in relation to the moment of initial entry of the financial instrument in the financial statements. It is therefore an assessment implemented by adopting the “relative” criterion, which is configured as the main criteria;
- Eventual presence of due amount which remains overdue over 30 days. In the event of such case the credit risk of such exposure is considered “significantly increased” and is classified to Stage 2;
- Existence of “forbearance” measures;
- Qualitative information on credit quality deterioration due to which the client is included in the monitoring list;
- Certain indicators of the internal credit risk monitoring system and early warning system.

Determining whether the specific factor is relevant, as well as its significance in relation to other factors, depends on the type of products and characteristics of the financial instrument. Consequently, it is not possible to define a unique set of factors that determine whether there has been a significant increase in credit risk.

(ii) Definition of default

Staging criteria are selected in line with IFRS9, and based on risk parameters available in the Bank. Main indicators that are used are transaction classification. Days past due, Forbearance, PCEM (watch list) Indicator and/or Early Warning System (EWS) model for Micro Business, SME and Large Corporate portfolios as well as EWS indicators for Retail customers. Considering that, Stage 3 is equal to Non-performing status of the loan, the key element in Stage assignment is recognition of increasing credit risk of a financial instrument. Significant increase of credit risk could be highlighted by qualitative indicators as:

- Past Due days
- Forborne status
- Early warning signals and/or Proactive Credit Management watch list status of the customer

In addition, forbearance measures could represent a significant increase in credit risk since they consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments.

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (Continued)

5.1.4 Allowance for expected credit losses (Continued)

(ii) Definition of default (continued)

Stage assignment for Loans:

Stage 1	Stage 2	Stage 3
1. Performing exposures without days past due 2. Performing exposures with maximum 30 days past due according to the continuous counter of delays (in a materially significant amount)	*1. Performing exposures with more than 30 and less than 91 days of delay according to the continuous delay counter (**in a materially significant amount**) * 2. Performing exposures with a significant increase in the PD parameter compared to the initial approval 3. Forborne performing exposures 4. Exposures in the Forborne recovery period 5. Performing exposures to legal entities with early signs of deterioration (**) (orange, red or light blue color) or records on the PCEM Watchlist 6. Exposures to clients whose accounts in Intesa Sanpaolo Banka BiH were blocked on the reporting date (***) 7. Exposures to natural persons whose use of overdraft on a current account in the Bank has been terminated, and who have an overdue principal debt (****) 8. Performing exposures to natural persons that show signs of early credit quality deterioration based on internally determined behavioral indicators (*****) or the exposure is on the internal watch list due to a negative risk assessment at the time of approval*	*1. Exposures with a delay of more than 90 days according to the continuous delay counter (**in a materially significant amount**) 2. Exposures in the Default recovery period 3. Exposures in the Unlikely to Pay category 4. UTP Probation Period 5. Bad credit - Doubtful 6. Forborne bad loans NPV test>1% in case the Bank modified the exposure due to current financial difficulties of the debtor or difficulties that will arise soon*

Note: (**) The EWS model for legal entities includes the level or risk assessed on the basis of the client's financial statement, transactions executed on the client's account, account blocking, behavioral data, AQR triggers.

Note: (***) According to the FBA "Decision on credit risk management and assessment of expected credit losses" Article 19, point 4, point e), where

- For legal entities, any blockage is taken into account as part of the EWS model, while for
- Clients of natural persons, technical blocks are not taken into account, such as the one that happens when the client loses his debit card to prevent theft[1], they are not taken into account. Only external blocks resulting from court decisions are used as the trigger for Stage 2.

Note: (****) In cases where the client has no more inflows to his account, the automatic procedure cancels the overdraft and the client must return the entire amount of the overdraft on the current account. Until the overdraft is repaid, this is a signal of increased credit risk and all the client's exposure is classified is in Stage 2. The automatic procedure is performed once every three months, checking whether

- The client had less than 3 inflows on the account, and if
- there is an unauthorized overdraft due by the end of the current month.

If one of these two conditions is met, the procedure will cancel the use of the overdraft.

Note: (*****) Signs of increased risk are applied to natural persons who do not have a mortgage loan in the bank and have:

1) a quarterly average of more than 1% of the due amount for all exposures in the Bank and more than 110 BAMof the due amount on average for revolving products in the last month, or

2) average quarterly more than 1% of the due amount for all exposures in the Bank and more than 250 BAMof the due amount for all products on the reporting[2] date

In the event of a negative risk assessment when approving an exposure, in accordance with the FBA Regulation, it is necessary that all exposures approved despite a negative risk assessment be included in the internal monitoring list and classified in Stage 2. Internally defined period for being on the internal monitoring list is 9 months, followed by a 3-month trial period to return to Stage 1, and such exposures must spend a minimum of 12 months in Stage 2.

The introduction of internal rating as part of the IFRS9 methodology requires that PD (or rating class) is also used as an indicator of significant increase in credit risk (SICR).

[1] Other examples: Blocked account to prevent the use of a credit line before contractual obligations are fulfilled, blocked accounts with assets as collateral, etc.

[2] The indicators were selected using statistical analysis and showed the highest accuracy ratio for predicting default for the population among all analysed behavioural indicators

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (Continued)

5.1.4 Allowance for expected credit losses (Continued)

(ii) Definition of default (continued)

In the Retail segment, Intesa Sanpaolo Banka BiH uses a simple approach, which means that on each ECL (expected credit loss) calculation date, a comparison is made between the original rating class and the current rating class of the client, and in the event that there has been a significant deterioration in the rating, the observed exposure is classified in Stage 2.

During 2019, Federal Banking Agency adopted the Decision on Credit Risk Management and determination of Expected Credit Losses.

The FBA Decision regulates the rules for classification of financial instruments based of International Financial Reporting Standard 9: Financial Instruments (IFRS 9), with the introduction of some specific characteristics for the BiH market.

The key changes required by the Decision on Credit Risk Management and determination of Expected Credit Losses are in largely consistent with the Guidelines issued by the European Banking Supervisory Authority (EBA).

The Decision, like the Guidelines, prescribe automatically classification of clients who are significantly late in setting their financial obligations for more than 90 days into the default status.

Significant delay in settlement of financial liabilities according to FBA Decision is the total amount of receivables due from:

a) Individual - 200 BAMand 1% of total debtor balance exposure;

b) Legal entity - BAM1,000 and 1% of total debtor balance sheet exposure.

Significant delay in settlement of financial liabilities according to EBA Guidelines is the total amount of receivables due from:

a) Individual – 100 EUR and 1% of total debtor balance exposure;

b) Legal entity – 500 EUR and 1% of total debtor balance sheet exposure,

Intesa Sanpaolo Bank has applied unique materiality thresholds of € 100 and € 500 selecting more prudent approach.

Applying the lower absolute thresholds (100 Eur for Retail and 500 Eur for Corporate and similar portfolios), ensures that both requirements from FBA and ECB Regulations are satisfied.

(iii) Inclusion of forward-looking element

The projection of credit risk parameters under IFRS 9 requires the inclusion of expected future macroeconomic elements in the calculation of lifelong expected credit losses.

In Intesa Sanpaolo Banka BiH, in accordance with the methodology of Intesa Sanpaolo Group, the effect of this inclusion is based on the application of the coefficients of the EBA stress resistance test. The EBA Stress Test Coefficient is used to create scenarios for three years, relative to each bank's starting point. The stress test coefficients are multipliers for the following risk parameters: PD, LGD and LR-Loss. This step includes the calculation of the PD, which is conditioned by the EBA stress test coefficient, and the same is done for conditioning the LGD parameter, which uses the expected GDP rate for BiH.

As the European Banking Regulatory Agency (EBA) publishes the coefficients for the baseline and negative scenarios, the best-case scenario coefficients need to be estimated to include the "supplement" component in the lifetime PD, which is done using the normal standard distribution.

During 2023, in accordance with the forecasts published by the EBA, the Bank adjusted the future macroeconomic elements through the coefficients of the EBA stress resilience test.

In addition, recognizing objective difficulties in forming forward looking expectations in this particular year, the Bank has decided to implement the management overlays as additional conservative elements in calculation of IFRS9 allowances at the end of 2023 (considered as post-model management adjustments): Management overlay based on sensitivity analysis for Retail and Corporate portfolio with respect to the downside risks and uncertainties related to the expectations for 2024. "Management overlay" is estimated to BAM 2,65 million, based on sensitivity analysis in Retail portfolio is estimated to BAM 1,4 million, and BAM 1,25 million in Corporate portfolio, primarily related to the potential increase in NPL portfolio.

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (Continued)

5.1.4 Allowance for expected credit losses (Continued)

(iv) Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3(t).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Bank renegotiates loans to customers in financial difficulties (referred to as "forbearance activities") to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Bank Credit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators. Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 3(t)(4)), A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

(v) Expected Credit Loss Measurement

The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. In general, the Bank calculates ECL using three main components: a probability of default ("PD"); a loss given default ("LGD"); and the exposure at default ("EAD").
The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD, Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively.
Probability of default (PD) is the likelihood of a default over a particular time horizon. It provides an estimate of the likelihood that a borrower will be unable to meet its debt obligations. IFRS9 PD parameter is estimated starting from a set of matrices (at least three) that describe transitions between Stages of counterparties in the Bank's portfolio. These estimated matrices have 12 months' time horizon.
Loss given default (LGD) measures the expected loss suffered by the Bank in the event of counterparty's default. In Intesa Sanpaolo Banka BiH, LGD is estimated for Non-performing exposures, while for Expected loss estimation of Performing exposures, LGD is calculated as LGD Proxy – average provisioning level (LGD) of new defaulted NPI exposures in that particular Risk segment.
The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilitie.

The following tables show reconciliation from the opening to the closing balance of the loss allowance by class of financial instruments for Loans and advances to customers at amortized cost (Note 25.2).

5. FINANCIAL RISK MANAGEMENT (continued)
5.1 Credit risk (Continued)
5.1.4 Allowance for expected credit losses (Continued)
(v) Expected Credit Loss Measurement (continued)

	2023				2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balanace as at 1 January	20,224,	16,984	42,852	80.060	18,503	13.264	43,841	75,608
First time adoption of FBA Impairments		-	-	-	0	0	0	0
Transfers to Stage 1	6,445	-6,391	-54	0	5,737	-5,493	-244	0
Transfers to Stage 2	-1,392	3,113	-1,721,	0	-1,120	3,498	-2,387	0
Transfers to Stage 3	-5	-3,126	3,131	0	-245	-2,378	2,623	0
								0
Net remeasurement of loss allowance	8,458	4,785	2,286	15,529	7,892	2,121	2,872	12,855
New financial assets originated or purchased	-8,985	11,187	9,201	11,403	-5,551	10,828	10,596	15,873
Financial assets that have been derecognized	-6,326	-7,166	-9,248	-22,740	-4,992	-4,856	-9,428	-19,276
Total effect through Profit and Loss (Note 23)	-6,853	8,806	2,239	4,192	-2,651	8,093	4,040	9,482
Write off-s	**-**	**-**	**-5,126**	**-5,126**	**0**	**0**	**-4,626**	**-4,626**
Unwinding the discount	**-**	**-**	**-252**	**-252**	**-**	**-**	**-404**	**-404**
Sale and other move-ments	**-**	**1.00**	**221**	**222**	**0**	**0**	**0**	**0**
Balance as at 31 Decem-ber	**18,419**	**19,387**	**41,290**	**79,096**	**20,224**	**16,984**	**42,852**	**80,060**

All other financial assets are classified within Stage 1 and there have been no movements between stages in 2023.

The table below shows gross exposure per loans' segments and related ECL (*Note 25.2*):

31 December 2023	Stage 1	Stage 2	Stage 3	Total
Gross exposure				
Retail loans				
Consumer loans	382,521	35,891	32,671	451,083
Housing loans	254,669	15,903	6,411	276,983
Credit card loans and overdrafts	38,641	6,416	3,052	48,109
Total	675,831	58,210	42,134	776,175
Corporate loans				
Large	446,671	37,681	302	484,654
Other	440,928	54,454	9,926	505,308
Total	887,599	92,135	10,228	989,962
Total Gross exposure	**1,563,430**	**150,345**	**52,362**	**1,766,137**

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (Continued)

5.1.4 Allowance for expected credit losses (Continued)

(v) Expected Credit Loss Measurement (continued)

	Stage 1	Stage 2	Stage 3	Total
Impairment				
Retail loans				
Consumer loans	7,991	4,925	27,066	39,982
Housing loans	2,211	1,601	3,671	7,483
Credit card loans and overdrafts	734	464	2,528	3,726
Total	10,936	6,990	33,265	51,191
Corporate loans				
Large	4,499	4,739	213	9,451
Other	2,984	7,658	7,812	18,454
Total	7,483	12,397	8,025	27,905
Total Impairment	**18,419**	**19,387**	**41,290**	**79,096**
	1,545,011	**130,958**	**11,072**	**1,687,041**

The table below shows gross exposure per loans' segments and related ECL:

31 December 2022	Stage 1	Stage 2	Stage 3	Total
Gross exposure				
Retail loans				
Consumer loans	382,273	17,275	35,684	435,232
Housing loans	236,279	5,186	7,330	248,795
Credit card loans and overdrafts	43,344	3,043	3,603	49,990
Total	661,896	25,504	46,617	734,017
Corporate loans				
Large	403,738	39,154	3,048	445,940
Other	419,720	52,832	10,767	483,319
Total	823,458	91,986	13,815	929,259
Total Gross exposure	**1,485,354**	**117,490**	**60,432**	**1,663,276**
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Impairment				
Retail loans				
Consumer loans	10,410	4,614	28,380	43,404
Housing loans	2,124	726	4,004	6,854
Credit card loans and overdrafts	1,417	603	2,781	4,801
Total	13,951	5,943	35,165	55,059
Corporate loans				
Large	3,147	4,665	624	8,436
Other	3,126	6,376	7,063	16,565
Total	6,273	11,041	7,687	25,001
Total Impairment	**20,224**	**16,984**	**42,852**	**80,060**
Total Net Exposure	**1,465,130**	**100,506**	**17,580**	**1,583,216**

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (Continued)

5.1.4 Allowance for expected credit losses (Continued)

(v) Expected Credit Loss Measurement (continued)

Non-performing loans - Stage 3

The breakdown of the gross and net amount of the loans to customers that are impaired along with the estimated value of related collateral held by the Bank as security (presented up to the maximum amount of the related exposure), are as follows:

	Retail loans				Corporate loans		
	Consumer loans	Housing loans	Credit card loans and overdrafts	**Total**	Large	Other	**Total**
31 December 2023							
Gross exposure	32,671	6,411	3,052	**42,134**	302	9,926	**10,228**
Impairment	(27,066)	(3,671)	(2,528)	**(33,265)**	(213)	(7,812)	**(8,025)**
Net	5,605	2,740	524	**8,869**	89	2,114	**2,203**
Rate of impairment	*83%*	*57%*	*83%*	*79%*	*71%*	*79%*	*78%*
Estimated value of collateral							
Mortgage	185	2,737	-	**2,922**	-	1,605	**1,605**
Total	185	2,737	-	**2,922**	-	1,605	**1,605**

	Retail loans				Corporate loans		
	Consumer loans	Housing loans	Credit card loans and overdrafts	**Total**	Large	Other	**Total**
31 December 2022							
Gross exposure	35,684	7,330	3,603	**46,617**	3,048	10,767	**13,815**
Impairment	(28,380)	(4,004)	(2,781)	**(35,165)**	(624)	(7,063)	**(7,687)**
Net	7,304	3,326	822	**11,452**	2,424	3,704	**6,128**
Rate of impairment	*80%*	*55%*	*77%*	*75%*	*20%*	*66%*	*56%*
Estimated value of collateral							
Mortgage	75	3,293	-	**3,368**	952	3,487	**4,439**
Total	75	3,293	-	**3,368**	952	3,487	**4,439**

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (Continued)

5.1.4 Allowance for expected credit losses (Continued)

(v) Expected Credit Loss Measurement (continued)

The Bank accounts for counterparty risks arising from the loan portfolio by making allowances for impaired loans. At each reporting date, the Bank checks the existence of objective evidence of impairment of financial assets, as previously explained in Note 3.

Loans and receivables with renegotiated terms

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. The Bank renegotiates loans to customers in financial difficulties to maximise collection opportunities and minimise the risk of default (rescheduling). Rescheduling is mainly performed in response to initial deterioration of the clients' financial position or for the prevention of further deterioration of the clients' financial position. The revised terms usually include extending the maturity, changing the timing of interest payments and when possible, obtaining additional instruments of collateral. Following the restructuring the loans remain graded as restructured until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash-flows and there are no other indicators of impairment. Gross carrying amount of loans with renegotiated terms amount to BAM 9,277 thousand for corporate loans and BAM 14,510 thousand for retail loans as of 31st December 2023 (2022: BAM 20,620 thousand for corporate and BAM 15,131 for retail loans).

The breakdown of the gross and net exposure of renegotiated loans are as follows:

	Retail loans				Corporate loans		
	Consumer loans	Housing loans	Credit card loans and overdrafts	**Total**	Large	Other	**Total**
31 December 2023							
Gross exposure	13,431	1,050	29	**14,510**	752	8,525	**9,277**
Impairment	(8,680)	(218)	(18)	**(8,916)**	(40)	(2,104)	**(2,144)**
Net	4,751	832	11	**5,594**	712	6,421	**7,133**
Rate of impairment	*65%*	*21%*	*62%*	*61%*	*5%*	*25%*	*23%*

	Retail loans				Corporate loans		
	Consumer loans	Housing loans	Credit card loans and overdrafts	**Total**	Large	Other	**Total**
31 December 2022							
Gross exposure	13,841	1,290	-	**15,131**	4,069	16,551	**20,620**
Impairment	(8,930)	(265)	-	**(9,195)**	(699)	(3,019)	**(3,718)**
Net	4,911	1,025	-	**5,936**	3,370	13,532	**16,902**
Rate of impairment	*65%*	*21%*	-	*61%*	*17%*	*18%*	*18%*

For the purpose of credit monitoring and the management of credit risk, the Bank divides its credit portfolio into the following groups:

- Performing loans – loans that are neither past due nor impaired
- Past due but unimpaired loans
- Non-performing loans for which impairment has been recognised.

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (Continued)

5.1.5 Concentration of credit risk per geographic location

Geographic risk is highly concentrated on the state of Bosnia and Herzegovina. Geographic risk concentrations on net amounts of balance sheet exposure are as follows:

31 December 2023	Bosnia and Herzegovina	EU countries	Non-EU countries	Total
FINANCIAL ASSETS				
Cash and cash equivalents	429,021	99,047	10,262	538,330
Financial assets at fair value through other comprehensive income	20,151	100,696	-	120,847
Financial assets at fair value through P&L	-	270	-	270
Financial assets at amortized cost	1,917,060	5,611	-	1,922,671
TOTAL FINANCIAL ASSETS	**2,366,232**	**205,624**	**10,262**	**2,582,118**

31 December 2022	Bosnia and Herzegovina	EU countries	Non-EU countries	Total
FINANCIAL ASSETS				
Cash and cash equivalents	482,569	133,065	8,433	624,067
Financial assets at fair value through other comprehensive income	53	103,078	-	103,131
Financial assets at fair value through P&L	-	161	-	161
Financial assets at amortized cost	1,789,746	6,237	-	1,795,983
TOTAL FINANCIAL ASSETS	**2,272,368**	**242,541**	**8,433**	**2,523,342**

5.1.6. Decision on temporary measures to mitigate the risk of interest rate increase

On 28 September 2022 Federal Banking Agency issued new Decision on temporary measures to mitigate risk of interest rate increase as a measure related to mitigating the risk caused by a possible increase in reference interest rates, inflationary pressures and other disturbances that may have adverse effects on the BiH market. The primary Decision's objectives are to avoid a sudden increase in interest rates in the Federation of Bosnia and Herzegovina, i,e, to protect financial service users, stabilize the banking system in terms of the Decision's effects on the banks' loan portfolio quality and achieve macroeconomic balance. According to FBA decision the Bank prepared Plan of management of interest-induced credit risk that includes

- comparison of existing interest rate level to the interest rate level as of the reference date,
- projection of interest rate increases and its effects to the credit risk,
- measures to be taken by the bank to reduce the credit risk and any consequences thereof to the borrower,

Considering the fact that the Bank in the portfolio has a relatively small share of loans with a variable interest rate linked to EURIBOR in relation to the total loan portfolio, interest-induced credit risk is of low significance for the Bank, which was also determined during the annual risk identification during the ICAAP process.

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (Continued)

5.1.6. Decision on temporary measures to mitigate the risk of interest rate increase (Continued)

In order to further reduce the credit risk and the consequences for loan users, the Bank undertake the following measures:

- offer to the clients the possibility of modifying their credit exposure with the aim of continuing to meet their obligations to the bank in an orderly manner. Credit exposure modifications may include one of the following measures: interest rate correction, interest rate type change, loan maturity extension, repayment plan changes, etc, (or a combination of the proposed measures). The treatment of modifications in terms of determining the level of credit risk is defined by the Rulebook for the Classification and Measurement of Credit Exposures
- when changing existing credit agreements, caused by a significant increase in the interest rate, the Bank will not charge fees associated with changing existing credit agreements, nor charge other fees and costs related to the change of the contractual relationship, e.g. fee for early loan repayment
- when amending existing credit agreements, in the event of a change in the type of interest rate, caused by a significant increase in the interest rate, the Bank will offer clients a fixed interest rate in accordance with the currently valid market conditions, i.e. the interest rate that the Bank currently offers to clients with a similar risk profile and product characteristics
- The Bank started to implement a product with a combination of fixed and variable interest rates (fixed to variable), which in the first years of loan repayment would have a fixed interest rate, and after that period the interest would be variable so that in the first years of repayment during the existence of significant interest rate fluctuations rates on the market, clients were protected from interest-induced credit risk.
- The Bank also introduced additional monitoring and reporting by the Credit Risk Management Committee on the quality of the portfolio with a variable interest rate in order to recognize potential vulnerabilities and deterioration of the portfolio in time.

As of 31 December 2023, the Bank recorded 504 loans in total amount of BAM 55,901 thousand with significant increase of interest rate in comparison with reference date from the FBA decision (i.e.30.06.2022.)

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (Continued)

5.1.6 Decision on temporary measures to mitigate the risk of interest rate increase (Continued)

BA 103.00		Stage 1 loans with significant increase in interest rate				ECL for Stage 1 loans with significant increase in interest rate				Stage 2 loans with significant increase in interest rate				ECL for Stage 2 loans with significan increase in interest rate				Stage 3 loans with significant increase in interest rate				ECL[1]	
		No. Parties	Amount			Variable interest rate		Fixed interest rate		No. Parties	Amount			Variable interest rate		Fixed interest rate		No. Parties	Amount			Variable interest rate	Fixed interest rate
				Variable interest rate	Fixed interest rate	ECL[1]	ECL[2]	ECL[1]	ECL[2]			Variable interest rate	Fixed interest rate	ECL[1]	ECL[2]	ECL[1]	ECL[2]			Variable interest rate	Fixed interest rate		
		010	020	030	040	050	060	070	080	090	100	110	120	130	140	150	160	170	180	190	200	210	220
010	**Total (1+2)**	**488**	**54.663**	**30.853**	**23.809**	**339**	**684**	**190**	**517**	**13**	**1.008**	**704**	**304**	**113**	**113**	**47**	**50**	**3**	**230**	**213**	**16**	**148**	**10**
020	**1. Corporate loans**	**190**	**52.576**	**30.830**	**21.746**	**339**	**684**	**141**	**459**	**5**	**972**	**704**	**286**	**113**	**113**	**42**	**44**	**1**	**213**	**213**	**0**	**148**	**0**
030	1.1. Short-term loans	11	1.805		1.805	0	0	9	36		0								0				
040	1.2. Revolving loans	40	4.917		4.917	0	0	25	98		0								0				
050	1.3. Overdraft loans	48	741		741	0	0	17	24	2	28		28			2	3		0				0
060	1.4. Long-term loans	91	45.113	**30.830**	**14.283**	339	684	91	301	3	994	**704**	**240**	113	113	40	40	1	**213**	213		148	0
070	**2. Retail loans**	**298**	**2.087**	**24**	**2.063**	**0**	**1**	**49**	**58**	**8**	**36**	**0**	**36**	**0**	**0**	**5**	**6**	**2**	**16**	**0**	**16**	**0**	**10**
080	2.1. Housing loans		0								0								0				
090	2.2. Mortgage loans		0								0								0				
100	2.3. Consumer loans (general-purpose)	221	1.459	23	1.435	0	0	33	40	7	30		30			4	5	1	5		5		**4**
110	2.4. Consumer loans (substitute)	77	628	1	628	0	0	15	17	1	6		6			1	1	1	12		12		**6**
120	2.5. Conducting activities (Craftsmen)		0								0								0				
130	2.6. Other loans		0								0								0				

[1] Amount of expected credit losses calculated in accordance with the Decision on credit risk management and determination of expected credit losses (without applying the minimum provided by the Decision on temporary measures to mitigate the risk of interest rate growth)

[2] The amount of expected credit losses calculated in accordance with the Decision on temporary measures to mitigate the risk of interest rate growth (with the application of the minimum provided for in the Decision on temporary measures to mitigate the risk of interest rate growth)

5. FINANCIAL RISK MANAGEMENT (continued)

5.2 Liquidity risk management

Liquidity risk is a measure of the extent to which the Bank may be required to raise funds to meet its commitments associated with financial instruments. The Bank maintains its liquidity profiles in accordance with regulations laid down by the Banking Agency.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash-settled derivatives. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Bank sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The table below summarizes the maturity profile of the Bank's financial assets and the undiscounted cash flows of its financial liabilities as of 31st December 2023 and 31st December 2021, except for financial assets at fair value through other comprehensive income which have been classified in accordance with their secondary liquidity characteristic as maturing within one month and obligatory reserves which have been classified in the maturity period within one month. Other items of assets and liabilities that have no contractual maturities are classified as having a remaining maturity of over 5 years.

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
31st December 2023						
Financial Assets						
Cash and cash equivalents	538,330	-	-	-	-	538,330
Financial assets at fair value through profit and loss	-	-	270	-	-	270
Financial assets at fair value through other comprehensive income	9,981	19,849	37,463	53,395	159	120,847
Financial assets at amortized cost	327,426	123,940	517,366	680,132	273,807	1,922,671
Reserves with Central Bank	*224,541*	-	-	-	-	*224,541*
Loans and receivables from customers	*91,796*	*123,940*	*517,366*	*680,132*	*273,807*	*1,687,041*
Other financial assets at amortized cost	*11,089*	-	-	-	-	*11,089*
Prepaid profit tax	3,402	-	-	-	-	3,402
Total	**879,139**	**143,789**	**555,099**	**733,527**	**273,966**	**2,585,520**
Financial Liabilities						
Financial liabilities valued at amortized cost	1,430,490	65,665	274,380	450,551	42,826	2,263,912
Deposits from banks and other financial institutions	9,491	3,552	34,069	46,306	-	*93,418*
Deposits from customers	1,384,192	58,650	203,348	288,517	14,373	*1,949,080*
Liabilities for loans and other borrowings	271	3,053	35,058	109,268	27,920	*175,570*
Lease payables	203	410	1,905	6,460	533	*9,511*
Other financial liabilities valued at amortized cost	36,333	-	-	-	-	*36,333*
Total	**1,430,490**	**65,665**	**274,380**	**450,551**	**42,826**	**2,263,912**
Maturity gap	**(551,351)**	**78,124**	**280,719**	**282,976**	**231,140**	**321,608**

5. FINANCIAL RISK MANAGEMENT (continued)

5.2 Liquidity risk management (continued)

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
31st December 2022						
Financial Assets						
Cash and cash equivalents	624,067	-	-	-	-	624,067
Financial assets at fair value through profit and loss	-	-	161	-	-	161
Financial assets at fair value through other comprehensive income	1,106	9,767	53,220	38,885	153	103,131
Financial assets at amortized cost	287,680	128,324	448,137	664,385	267,457	1,795,983
Reserves with Central Bank	*203,062*	-	-	-	-	*203,062*
Loans and receivables from customers	*74,913*	*128,324*	*448,137*	*664,385*	*267,457*	*1,583,216*
Other financial assets at amortized cost	*9,705*	-	-	-	-	*9,705*
Prepaid profit tax	4,266	-	-	-	-	4,266
Total	**917,119**	**138,091**	**501,518**	**703,270**	**267,610**	**2,527,608**
Financial Liabilities						
Financial liabilities valued at amortized cost	1,418,505	173,031	194,249	375,972	55,516	2,217,273
Deposits from banks and other financial institutions	22,426	137,667	18,665	28,999	-	*207,757*
Deposits from customers	1,366,075	31,337	138,648	225,597	10,069	*1,771,726*
Liabilities for loans and other borrowings	271	3,613	34,982	113,661	44,110	*196,637*
Lease payables	206	414	1,954	7,622	1,337	*11,533*
Other financial liabilities valued at amortized cost	29,527	-	-	93	-	*29,620*
Total	**1,418,505**	**173,031**	**194,249**	**375,972**	**55,516**	**2,217,273**
Maturity gap	**(501,386)**	**(34,940)**	**307,269**	**327,298**	**212,094**	**310,335**

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total gross cash flows	Total carrying amount
31 December 2023							
Financial commitţmenţs and conţingencies							
Undrawn credit lines	15,719	27,395	155,046	210,437	-	408,597	408,597
Contigent liabilities	17,784	26,282	67,824	45,716	3,411	161,017	161,017
Toţal conţingenţ liabiliţies and commiţmenţs	**33,503**	**53,677**	**222,870**	**256,153**	**3,411**	**569,614**	**569,614**
31 December 2022							
Financial commitţmenţs and conţingencies							
Undrawn credit lines	9,638	25,356	136,723	209,103	-	380,820	380,820
Contigent liabilities	9,661	38,629	84,469	30,027	16	162,802	162,802
Toţal conţingenţ liabiliţies and commiţmenţs	**19,299**	**63,985**	**221,192**	**239,130**	**16**	**543,622**	**543,622**

5. FINANCIAL RISK MANAGEMENT (continued)

5.2 Liquidity risk management (continued)

Future cash flows for interest bearing liabilities

The estimated future cash flows for the Bank's interest-bearing liabilities, including expected interest as at 31 December 2023 and as at 31 December 2022 are shown in the following table:

	Total expected outflow						
	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total	Carrying value
31 December 2023							
Liabilities							
Due to banks and other financial institutions	9,496	3,757	35,347	48,312	-	**96,912**	**93,418**
Due to borrowings	322	3,117	36,800	112,764	28,196	**181,199**	**175,570**
Due to customers	1,383,752	59,874	206,217	299,764	14,929	**1,964,536**	**1,949,080**
Lease Liabilities	204	457	2,028	6,720	533	**9,942**	**9,511**
Total expected outflow	**1,393,774**	**67,205**	**280,392**	**457,560**	**43,658**	**2,252,589**	**2,227,579**

	Total expected outflow						
	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total	Carrying value
31 December 2022							
Liabilities							
Due to banks and other financial institutions	22,423	138,172	19,175	29,617	-	**209,387**	**207,757**
Due to borrowings	345	3,714	36,312	117,121	44,665	**202,157**	**196,637**
Due to customers	1,365,430	32,352	140,177	227,769	10,187	**1,775,915**	**1,771,726**
Lease Liabilities	207	458	2,073	7,944	1,337	**12,019**	**11,533**
Total expected outflow	**1,388,405**	**174,696**	**197,737**	**382,451**	**56,189**	**2,199,478**	**2,187,653**

5.3 Market risk

The Bank is exposed to market risk which is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, foreign currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

The Management Board sets limits and guidelines for monitoring and mitigating market risks which is regularly monitored by the Risk Management Department.

5.3.1 Foreign exchange risk

Exposure to currency risk arises from credit, deposit-taking and trading activities and is controlled on a daily basis in accordance with legal and internal limits for each currency as well as in total amounts for assets and liabilities denominated in or linked to foreign currencies.
In order to manage foreign exchange rate risk more efficiently, the Bank monitors economic and other business changes in the environment in order to predict possible changes in foreign currency activities, exchange rates, and foreign currency risk.

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 Market risk (Continued)

5.3.1 Foreign exchange risk (continued)

Overall exposure to foreign exchange risks is monitored within Risk Management Department using techniques such as Value-at-Risk ("VaR") and stress testing.

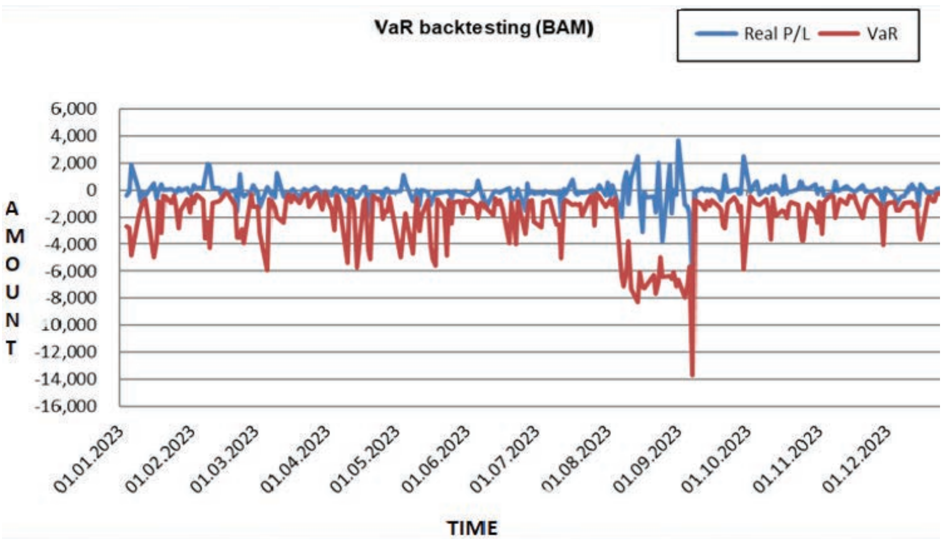
FX Value-at-Risk is an individual, concise, statistical measurement of possible losses in the portfolio, VaR is a measurement of loss under normal movements of risk factors on the market. The likelihood of losses higher than VaR occurring is expected to be low.

The main model assumptions are:
- Being based on the historical methodology
- 99 percent as a confidence interval for Value-at-Risk computation
- One-day held period

The model covers foreign currency risk – valid for foreign currency transactions and positions denominated on foreign currencies; resulting from foreign currency rate volatility.

The model can compute VaR at different aggregation levels – from a single position to any sub-portfolio level. Therefore, the model allows a detailed analysis of risk profiles for the multi-level portfolio hierarchy and diversity effects occurring. Furthermore, VaR measurement can be expounded based on risk source (risk factors). These features of a more detailed risk monitoring system allow the determination of an efficient limit structure which can be compared through different organisational units.

The quality of the implemented risk measurement model is constantly assessed. The Bank performs back-testing of the computed VaR measures with the actual gain and losses for the same period.



During 2023, the Bank improved the model for calculation of VaR in accordance with best practices and as a result, the Bank recorded zero exceptions (results for 2022: there was 5 exceptions) when actual losses exceeded the daily VAR amount.

The Bank is exposed to foreign currency risk when there is no matching between assets and liabilities and off-balance sheet positions due to cash flows denominated in foreign currencies. Portfolio exposure to foreign currency risk arises from portfolio sensitivity to fluctuations in exchange rate values. The degree of foreign currency risk depends on the amount of open positions and the degree of potential change in foreign currency rates.

The Bank considers that it is not currently exposed to foreign currency risk related to EUR due to the fact that Convertible Mark is pegged to EURO (1 EUR = BAM 1,955830). Exposure is more prominent for USD and CHF. The Bank performs stress testing based on the assumption of a 10% increase or decrease in foreign currency rates against the relevant local currency. The sensitivity rate of 10% is used when reporting internally to

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 Market risk (Continued)

5.3.1 Foreign exchange risk (continued)

key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. Stress testing is performed on an annual basis. The results of the most recent test performed are presented here below:

31st December 2023

Currency	Open position (in BAM)	Stress Test	
		10% Move Up	10% Move Down
CHF	(20,725)	(2,073)	2,073
GBP	770	77	(77)
USD	12,077	1,208	(1,208)
HRK	0	0	0
CAD	5,915	592	(592)
SEK	1,180	118	(118)
Other	3,708	371	(371)
EUR	1,415,990	-	-

31st December 2022

Currency	Open position (in BAM)	Stress Test	
		10% Move Up	10% Move Down
CHF	6,928	693	(693)
GBP	17,641	(1,764)	1,764
USD	(5,607,393)	560,739	(560,739)
HRK	51,039	5,104	(5,104)
CAD	3,370	(337)	337
SEK	6,885	(688)	688
other	29,509	(2,951)	2,951
EUR	4,780,806	-	-

The analysis outlined above is based on the open foreign currency position of the Bank, which includes all asset and liability and off-balance-sheet positions.

If the currency position of a foreign currency is "long" (assets exceeding liabilities) and the exchange rate for this currency increases/(decreases) in relation to the BAM, the Bank will experience a foreign exchange gain/(loss).

If the currency position of a foreign currency is "short" (liabilities exceeding assets) and the exchange rate for this currency (increases)/decreases in relation to BAM, the Bank will experience a foreign exchange (loss)/gain.

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank monitors its foreign exchange (FX) position for compliance with the regulatory requirements of the Banking Agency of the Federation of Bosnia and Herzegovina established in respect of limits on open positions. The Bank seeks to match assets and liabilities denominated in foreign currencies to avoid foreign currency exposures.

5. FINANCIAL RISK MANAGEMENT (continued)
5.3 Market risk (Continued)
5.3.1 Foreign exchange risk (continued)

Foreign exchange position

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2023 and 31 December 2022. Included in the table are the Bank's assets and liabilities at carrying amounts categorised by currency. The Bank has a number of agreements governed by a foreign currency clause. The BAM value of principal in such agreements is determined by the movement in foreign exchange rates. The principal balance of the related exposure is included in the table below in the column "EURO linked".

The Bank had the following significant currency positions:

	EUR	EUR Linked	EUR Total	USD	Other FX	BAM	Total
31st December 2023							
Financial Assets							
Cash and cash equivalents	83,203	-	83,203	9,556	23,404	422,167	538,330
Financial assets at fair value through profit and loss	270	-	270	-	-	-	270
Financial assets at fair value through other comprehensive income	106,935	-	106,935	-	-	13,912	120,847
Financial assets at amortized cost	7,255	564,604	571,859	-	-	1,350,812	1,922,671
Reserves with Central Bank	-	-	-	-	-	*224,541*	*224,541*
Loans and receivables from customers	-	*564,604*	*564,604*	-	-	*1,122,437*	*1,687,041*
Other financial assets at amortized cost	*7,255*	-	*7,255*	-	-	*3,834*	*11,089*
Prepaid profit tax	-	-	-	-	-	3,402	3,402
Total	**197,663**	**564,604**	**762,267**	**9,556**	**23,404**	**1,790,293**	**2,585,520**
Financial Liabilities							
Financial liabilities valued at amortized cost	665,541	171,932	837,473	29,010	23,414	1,374,015	2,263,912
Deposits from banks and other financial institutions	*2,629*	*79,051*	*81,680*	-	-	*11,738*	*93,418*
Deposits from customers	*482,691*	*92,881*	*575,572*	*28,298*	*23,379*	*1,321,831*	*1,949,080*
Liabilities for loans and other borrowings	*175,570*	-	*175,570*	-	-	-	*175,570*
Obligations based on leases	-	-	-	-	-	*9,511*	*9,511*
Other financial obligations valued at amortized cost	*4,651*	-	*4,651*	*712*	*35*	*30,935*	*36,333*
Total	**665,541**	**171,932**	**837,473**	**29,010**	**23,414**	**1,374,015**	**2,263,912**
Maturity gap	**(467,878)**	**392,672**	**(75,206)**	**(19,454)**	**(10)**	**416,278**	**321,608**

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 Market risk (Continued)

5.3.1 Foreign exchange risk (continued)

	EUR	EUR Linked	EUR Total	USD	Other FX	BAM	Total
31st December 2022							
Financial Assets							
Cash and cash equivalents	*109,534*	-	*109,534*	*24,791*	*13,154*	*476,588*	***624,067***
Financial assets at fair value through profit and loss	*161*	-	*161*	-	-	-	***161***
Financial assets at fair value through other comprehensive income	*103,078*	-	*103,078*	-	-	*53*	***103,131***
Financial assets at amortized cost	*6,237*	*678,341*	*684,578*	-	-	*1,111,405*	***1,795,983***
Reserves with Central Bank	-	-	-	-	-	*203,062*	***203,062***
Loans and receivables from customers	-	*678,341*	*678,341*	-	-	*904,875*	***1,583,216***
Other financial assets at amortized cost	*6,237*	-	*6,237*	-	-	*3,468*	***9,705***
Prepaid profit tax	-	-	-	-	-	*4,266*	***4,266***
Total Assets	**219,010**	**678,341**	**897,351**	**24,791**	**13,154**	**1,592,312**	**2,527,608**
Financial Liabilities							
Financial liabilities valued at amortized cost	752,18	145,893	898,073	30,379	13,022	1,275,799	2,217,273
Deposits from banks and other financial institutions	*140,631*	*42,654*	*183,285*	-	*38*	*24,434*	*207,757*
Deposits from customers	*411,896*	*103,239*	*515,135*	*29,586*	*12,801*	*1,214,204*	*1,771,726*
Liabilities for loans and other borrowings	*196,637*	-	*196,637*	-	-	-	*196,637*
Obligations based on leases	-	-	-	-	-	*11,533*	*11,533*
Other financial obligations valued at amortized cost	*3,016*	-	*3,016*	*793*	*183*	*25,628*	*29,620*
Total Liabilities	**752,180**	**145,893**	**898,073**	**30,379**	**13,022**	**1,275,799**	**2,217,273**
Maturity gap	**(533,170)**	**532,448**	**(722)**	**(5,588)**	**132**	**316,513**	**310,335**

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 Market risk (Continued)

5.3.2 Interest rate risk

Interest rate risk is defined as the exposure of a Bank's financial condition to adverse movements in interest rates, referring to the banking book, meaning the set of on- and off-balance-sheet financial assets and liabilities which are part of the core lending and deposit collecting activities performed by the Bank.

The Bank is exposed to interest rate risk as the Bank borrows and lends funds at both fixed and floating interest rates. The risk is managed by the Bank by maintaining an appropriate mix between fixed and floating rate borrowings and lending.

Interest rate risk reflects the possibility of loss of profit and/or erosion of capital due to a change in interest rates. It relates to all products and balances that are sensitive to changes in interest rates. This risk comprises two components: income component and investment component.

The income component arises from a lack of harmonisation between the active and passive interest rates of the Bank (interest on placements is fixed, interest for liabilities is floating and vice versa).

The investment component is a consequence of the inverted relationship between price and interest rate fluctuations of securities.

The Bank strives to protect itself from interest rate risk by harmonizing the type of interest rate (fixed and floating), currency, related interest rate and the date of interest rate change for all products for which it concludes contracts (which are sensitive to interest rate changes).Any mismatch among the abovementioned elements results in exposure of the Bank to interest rate risk.

The adopted system operates at an analytical level commensurate to the complexity and risk of the banking book, and ensures that the risk profile can be examined from two separate, but complementary, perspectives:

- The economic value perspective, which considers the impact of changes in interest rates and related volatilities on the present value of all future cash flows;
- The earnings perspective, focused on analysing the impact that changes in interest rates and related volatilities generate on the net interest income and, therefore, on the related effects on interest margin.

The Bank uses the following methods to measure interest rate risks:

- Shift sensitivity of fair value;
- Shift sensitivity of the interest margin.

The shift sensitivity of fair value measures the changes in economic value of a financial portfolio resulting from a parallel shift in the discount curves. The total value of shift sensitivity is broken down by time bucket (bucket analysis), in order to identify the distribution of risk over the time axis. The operating limit currently in force for shift sensitivity of fair value (by +100 bp parallel shift of yield curves) amounts is 0 thousand BAM / -19,558 thousand BAM (0 thousand EUR / 10,000 thousand EUR). The limit is set up by the Bank with the aim of keeping exposure within low levels.

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 Market risk (Continued)

5.3.2 Interest rate risk (continued)

If changes in interest rates had been 100 basis points higher and all other variables were held constant at 31 December 2023, the effect, in terms of economic value of interest risk-sensitive balance-sheet portfolios, would have been BAM -13,567 thousand (31 December 2022: BAM -12,556 thousand).
In 2022 the Bank established the limit by time-buckets on the following way:
Shift Sensitivity Limit (+100 bp)

TOTAL	0-18 months	18 months - 5 years	above 5 years
BAM 0 thousand / BAM -19,558 thousand (0 mio EUR/ - 10 mio EUR)	BAM 3,912 thousand / BAM -5,867 thousand (2 mio EUR/ -3 mio EUR)	BAM 3,912 thousand / BAM -9,779 thousand (2 mio EUR / -5 mio EUR)	BAM 3,912 thousand / BAM -15,647 thousand (2 mio EUR / -8 mio EUR)

The results of the analysis of the shift sensitivity of fair value are below the current operating limit and are presented in the table below:

Shift Sensitivity (+100b,p)	31st December 2023				31st December 2022			
	TOTAL	0-18 month	18 months - 5 years	over 5 years	TOTAL	0-18 month	18 months - 5 years	over 5 years
EUR	(2,421)	(374)	2,850	(4,897)	(4,032)	513	(747)	(3,798)
USD	204	28	171	5	93	34	59	-
CHF	98	6	92	-	116	6	2	**108**
BAM	(8,660)	(2,162)	(3,791)	(2,707)	(9,744)	(1,501)	(5,104)	(3,139)
Other currencies	(1)	(1)	-	-	1	1	-	-
Total	**(10,780)**	**(2,503)**	**(678)**	**(7,599)**	**(13,567)**	**(947)**	**(5,790)**	**(6,829)**

The sensitivity of the interest margin quantifies instead the short-term (twelve months) impact on the interest margin of a parallel, instantaneous and permanent shock in the interest rate curve. This measure highlights the effect of changes in interest rates on the portfolio being measured, excluding assumptions on future changes in the mix of assets and liabilities and, therefore, it cannot be considered a predictor of the future levels of the interest margin. The operating limit currently in force for shift sensitivity of interest margin (by -50 bp parallel shift of yield curves) amounts to BAM -5,867 thousand (EUR -3,000 thousand).

The result of shift sensitivity of the interest margin, if changes in interest rates market moving had been 100 basis points higher and all other variables were held constant at 31 December 2023 is an increase of BAM 7,737 thousand (31 December 2022: BAM 6,986 thousand), while if changes in interest rates market moving had been 100 basis points lower the result is decrease of BAM 8,932 thousand as of 31 December 2023 (31 December 2022: decrease of BAM 7,004 thousand). In addition, the Bank also prepares shift sensitivity of the interest margin based on the sensitivity range of +50/-0 bps. Increase by 50 bps of interest rates would increase the result for the year by BAM 3,930 thousand, while a decrease by 50 bps in interest rates would decrease result for the year by BAM 4,459 thousand as of 31 December 2023 (31 December 2022: BAM 3,498 thousand for +50 bps and decrease of BAM 3,490 thousand for -50 bps).

In order to measure the Bank's vulnerability under stressful market conditions the interest rate risk measurement system adopted by the Bank allows a meaningful evaluation of the effect of stressful market conditions on the Bank ("scenario analysis"), or rather abrupt changes in the general level of interest rates, changes in the relationships among key market rates (i,e, basis risk), changes in the slope and the shape of the yield curve (i,e, yield curve risk), changes in the liquidity of key financial markets or changes in the volatility of market rates.

5. FINANCIAL RISK MANAGEMENT (continued)

5.4 Capital management

The Bank's objectives for capital management, which is a broader concept, in the opinion of the Management Board, than the 'equity' shown in the statement of financial position, are as follows:

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

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by Banking Agency of Federation of Bosnia and Herzegovina for supervisory purposes. The required information is filed with the Agency on a quarterly basis.
The Bank's regulatory capital for monitoring adequacy according to the Agency's methodology consists of:

- Tier 1 Capital or Core Capital: share capital (net of the carrying value of treasury shares and priority shares), share premium, retained earnings and reserves created by appropriations of retained earnings; amount of revaluation reserves arising from the effects of changes in the fair value of assets and audited profit for the current period, upon approval and retention by the General Shareholders Assembly;
- Tier 2 Capital or Supplementary Capital: priority shares, qualifying principal amounts of subordinated loan capital;
- Deductible items.

Risk-weighted assets are measured by means of a hierarchy of weightings in accordance with FBA regulation classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, considering any eligible collateral or guarantees. A similar treatment is adopted for off-balance-sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

5. FINANCIAL RISK MANAGEMENT (continued)

5.4 Capital management (continued)

The table below summarises the computation of regulatory capital and the capital adequacy ratio of the Bank as of 31 December 2023 and 31 December 2022, taken from the calculations submitted to the Agency in respect of those period-ends.

	31 December 2023	31 December 2022
Tier 1 capital		
Share capital	44,776	44,776
Share premium	57,415	57,415
Reserves	212,297	204,153
Intangible assets	(4,717)	(3,661)
Total qualifying Tier 1 Capital	**309,771**	**302,683**
Tier 2 capital		
Priority shares	6	6
Total qualifying Tier 2 Capital	**6**	**6**
Total regulatory capital	**309,777**	**302,689**
Capital requirements (*)		
Risk weighted assets	1,484,757	1,426,102
Operational risk	107,715	109,218
Total	**1,592,472**	**1,535,319**
Capital adequacy ratio (unaudited)	**19.45%**	**19.72%**

(*) Capital requirements stated above are calculated in accordance with FBA regulatory requirements.

Capital adequacy ratio will be audited during the audit for the regulatory requirements,

Leverage ratio reached 11,22% as of 31 December 2023 (regulatory limit: 6,0%), calculated in accordance with FBA Decision on the Bank's Capital Calculation as ration between Tier 1 Capital and Exposure in accordance with FBA Decision.

5.5 Climate changes risk

Climate change and environmental degradation give rise to structural changes that affect economic activity and, consequently, the financial system. Banks have a key role to play in the area of climate change as they are able to direct funding and investments towards environmentally sustainable transactions and companies in order to limit the risks associated with climate change.

Climate and environmental risks are the two main risk factors that cut across all traditional risk families:

- physical risk, means the economic/financial impact resulting from tangible events related to climate change, including more frequent extreme weather events and gradual climate change, as well as environmental degradation, i.e. air, water and soil pollution, water stress, loss of biodiversity and deforestation. Physical risk is classified as "acute" if caused by extreme events such as floods, storms and fires, and "chronic" if caused by progressive changes such as rising temperatures leading to droughts, rising sea levels, water stress, loss of biodiversity, land-use change, habitat destruction and resource scarcity. This risk can lead directly to, for example, material damage or a drop-in productivity, or have indirect impact such as disruption of production chains;

- transition risk means the economic/financial loss that an institution may incur, directly or indirectly, as a result of failing to adjust to a low-carbon and more environmentally sustainable economy. This could be caused, for example, by the relatively sudden adoption of climate and environmental policies, technological progress or changing market confidence and preferences.

5. FINANCIAL RISK MANAGEMENT (continued)

5.5 Climate changes risk (continued)

The impact that climate and environmental risks have on the activities may occur directly, e.g. through reduced profitability of companies or devaluation of assets, or indirectly, e.g. through legal challenges (legal risk) or reputational damage that arises if the public, the institution's counterparties and/or investors associate the institution with adverse environmental effects (reputational risk).

The Bank takes into account the environmental, social and governance risks associated with the activities of client companies and the economic activities in which they invest, also in relation to the context in which they operate. In particular, these factors can be considered according to the principle of double materiality in the:

- financial area, in terms of the impact of ESG risk factors on the "performance, development and position" of the economic activity considered
- social and environmental area, in terms of the impact that economic and financial activities have on the environmental and social context in which they take place.

The Chief Risk Officer Division has a particular focus on the impacts that environmental and climate risk factors generate, integrating them into the various risk management areas and carrying out monitoring and coordination of ESG risks in order to guarantee vision and consistency in terms of approaches and methodologies adopted.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations, For all other financial instruments, the Bank determines fair values using other valuation techniques.

6.1 Valuation models

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurement.

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

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices, foreign exchange rates, equity prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Bank determines the fair value of debt securities (treasury bills and bonds) using an internal valuation model which considers their remaining maturity and the latest available auction prices of equivalent instruments.

The fair value of foreign currency forward derivatives is estimated using available market data for FX spot and cash curves of relevant currencies. Based on such inputs, forward points and forward rates are computed, which are then used for daily mark-to-market of outstanding deals.

The fair value of equity securities classified through other comprehensive income and at fair value through profit or loss traded on an active market is based on closing bid prices at the reporting date for these securities.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

6.2 Financial instruments at fair value - fair value hierarchy
The following table analyses financial instruments measured at fair value at the reporting date distributed according to the fair value hierarchy. The amounts are based on the values recognised in the statement of financial position.

31 December 2023	*Note*	Level 1	Level 2	Level 3	Total
Financial assets at fair value through other comprehensive income	*24*				
Treasury bills issued by the Spain		19,642	-	-	**19,642**
Treasury bills issued by the France		19,414	-	-	**19,414**
Treasury bills issued by the Belgium		9,930	-	-	**9,930**
Treasury bills issued by the FBiH		-	9,789	-	**9,789**
Bonds issued by the Croatia		39,836	-	-	**39,835**
Bonds issued by the France		9,490	-	-	**9,490**
Bonds issued by the Luxembourg		8,517	-	-	**8,517**
Bonds issued by the FBiH		-	4,070	-	**4,070**
Equity securities issued by non-resident legal entities		-	105	-	**105**
Equity securities issued by resident legal entities		-	54	-	**54**
Financial assets at fair value through profit and loss	*23*				
Equity shares		270	-	-	**270**
Derivatives held for trading – OTC product	*26*	-	4	-	**4**
Total		**107,099**	**14,022**	**-**	**121,121**

Financial liabilities at fair value through profit and loss	*32*				
Derivatives held for trading – OTC product		-	311	-	**311**
Total		**-**	**311**	**-**	**311**

31 December 2022	*Note*	Level 1	Level 2	Level 3	Total
Financial assets at fair value through other comprehensive income	*24*				
Treasury bills issued by the Croatia		-	14,543	-	**14,543**
Treasury bills issued by the Belgium		19,534	-	-	**19,534**
Treasury bills issued by the Spain		19,408	-	-	**19,408**
Treasury bills issued by the France		9,659	-	-	**9,659**
Bonds issued by the Croatia		39,834	-	-	**39,834**
Equity securities issued by non-resident legal entities		-	99	-	**99**
Equity securities issued by resident legal entities		-	54	-	**54**
Financial assets at fair value through profit and loss	*23*				
Equity shares		161	-	-	**161**
Derivatives held for trading – OTC product	*26*	-	-	-	**-**
Total		**88,596**	**14,696**	**-**	**103,292**

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

6.3 Financial instruments not measured at fair value

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

31 December 2023	Level 1	Level 2	Level 3	Total fair value	Carrying value
Assets					
Cash and cash equivalents	-	60,340	477,990	538,330	538,330
Reserves with the Central Bank	-	-	224,541	224,541	224,541
Loans and receivables from customers	-	343,162	1,292,853	1,636,015	1,687,041
Other assets at amortized cost	-	-	11,089	11,089	11,089
Total	-	**403,502**	**2,006,474**	**2,409,976**	**2,461,001**
Liabilities					
Due to banks and other financial institutions	-	30,898	59,473	90,371	93,418
Due to customers	-	1,435,968	504,875	1,940,843	1,949,080
Borrowings	-	-	159,537	159,537	175,570
Lease Liabilities	-	-	9,511	9,511	9,511
Total	-	**1,466,866**	**733,396**	**2,200,262**	**2,227,579**

31 December 2022	Level 1	Level 2	Level 3	Total fair value	Carrying value
Assets					
Cash and cash equivalents	-	84,431	539,636	624,067	624,067
Reserves with the Central Bank	-	-	203,062	203,062	203,062
Financial assets at amortized cost	-	290,378	1,266,635	1,557,013	1,583,216
Loans and receivables from customers	-	-	9,705	9,705	9,705
Other assets at amortized cost	-	84,431	539,636	624,067	624,067
Total		**374,809**	**2,019,038**	**2,393,847**	**2,420,050**
Liabilities	-	163,293	41,087	204,380	207,757
Due to banks and other financial institutions	-	1,397,747	370,826	1,768,573	1,771,726
Due to customers	-	-	169,557	169,557	196,637
Borrowings	-	-	11,533	11,533	11,533
Lease Liabilities					
Total		**1,561,040**	**593,003**	**2,154,043**	**2,187,653**

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

6.3 Financial instruments not measured at fair value (continued)

In estimating the fair value of the Bank's financial instruments and in assigning the instruments to the relevant level of fair value hierarchy, the methods, assumptions and limitations described below apply in accordance with the approach revised at Intesa Sanpaolo Group.

Cash and cash equivalents

The carrying values of cash and balances with banks are generally deemed to approximate their fair value. Obligatory reserve with the Central Bank is classified as Level 3, as well as, on demand balances versus financial institutions in consideration of the fact that the setting of their exit price could include subjective valuations of the counterparty's credit risk difficult to quantify.

Placements with other banks

Placements with banks mostly represent overnight and short-term deposits; hence there is no significant difference between the fair value of these deposits and their carrying value. Their classification to Level 2 of the fair value hierarchy depends on the absence, or low relevance, of non-observable parameters in setting their exit price.

Loans and receivables from customers, amounts due to customers, banks and other financial institutions

Fair value is estimated through discounted cash flow method in case of positions with residual medium-long term maturities, while it is approximated with the book value, net of collective impairment/individual adjustment in case of short-term loans, loans payable on demand or with an indefinite maturity for impaired loans.

For the purpose of division by fair value level, non-performing/impaired assets are classified in Level 3, since the exit price is significantly influenced by the forecasts for losses determined by the credit officer based on future cash flow expectations and the related collection schedules. This entity specific assessment component outweighs other components (as, for example market interest rates), leading to attribution of Level 3 in the hierarchy.

Performing loans with original maturity equal or lower than 12 months, as well as short-term liabilities to customers and banks are classified into Level 2 of the fair value hierarchy, due to the absence or low relevance of non-observable parameters in setting their exit prices.

Medium-long term loans and liabilities with customers, banks and other financial institutions are classified into Level 3 of the fair value hierarchy, considering the relevance of entity specific assessment components in estimating the exit price.

7. OPERATING SEGMENTS

On a regular basis, the Bank's management analyses the overall results of the Bank with reference to the contributions by individually significant operating segments. Corporate, Retail and Treasury business lines have been identified as relevant operating segments, insofar as financial products managed by each of them and the respective counterparties with whom each segment enters into negotiation are specific for each segment and are not managed by / related to any of the others.

Even though lending and fund collection are actually performed by all operating segments, the financial characteristics of the loans, deposits and credit lines managed are specifically designed for each of them and are applicable only to counterparties related to each specific segment.

The financial results of each operating segment are recorded through a combined methodology of "direct" and "indirect" allocation of income and cost. Income is mainly directly allocated to the respective segment where it was generated, while costs are directly allocated whenever they are identified as immediately generated within the operating segment and are indirectly charged to the operating segments whenever they are sustained by central organisational units. Indirect cost allocation is performed according to pre-determined allocation keys with the aim of comprehensive cost allocation to identified business segments (legal entities, citizens, funds and financial markets). The most important keys of distribution are: amount of assets, number of employees, area of space, number of cards, etc. Indirect distribution of costs refers, among other things, to the operating costs of the central organizational unit, information technology, maintenance, rent and communication.

An internal transfer rate methodology is also applied for allocation of the cost of funding to the operating segments.

Profit or loss statement items in the tables presented below on segment information are in the format used for management reporting purposes.

7. OPERATING SEGMENTS (continued)

Segmental information for the year ended 31st December 2023.

	Retail	Corporate	Treasury	Total
PROFIT AND LOSS				
Income from interest and similar income at the effective interest rate	42,246	24,594	8,776	75,616
Interest expenses and similar expenses at the effective interest rate	(3,773)	(3,337)	(3,077)	(10,187)
Net income/(expenses) from interest and similar income at the effective interest rate	**38,473**	**21,257**	**5,699**	**65,429**
Income from fees and commissions	26,333	12,333	675	39,341
Expenses from fees and commissions	(5,542)	(3,733)	(382)	(9,657)
Net income/(expenses) from fees and commissions	**20,791**	**8,600**	**293**	**29,684**
Impairments and provisions	(4,255)	(4,530)	(382)	(9,167)
Other gains and (losses) from financial assets	-	-	43	43
Net gains/(losses) from derivative financial instruments	-	-	388	388
Net positive/(negative) exchange rate differences	-	-	3,851	3,851
Gains and (losses) from long-term non-financial assets	-	-	(70)	(70)
Income from dividends	-	-	15	15
Other income	1,965	481	-	2,466
Personnel expenses	(21,818)	(6,053)	(706)	(28,577)
Depreciation costs	(4,749)	(660)	(76)	(5,485)
Other costs and expenses	(19,936)	(5,849)	(1,543)	(27,328)
PROFIT/(LOSS) FROM REGULAR BUSINESS BEFORE TAX	**10,471**	**13,246**	**7,512**	**31,229**
Current income tax				(3,925)
Deferred income tax				146
TOTAL TAX FOR THE YEAR				**(3,779)**
NET PROFIT FOR THE YEAR				**27,450**

7. OPERATING SEGMENTS (continued)

Segmental information as of 31st December 2023

	Retail	Corporate	Treasury	Total
ASSETS				
Cash and cash equivalents	42,461	-	495,869	**538,330**
Financial assets at fair value through profit and loss	-	-	270	**270**
Financial assets at fair value through other comprehensive income	-	-	120,847	**120,847**
Financial assets at amortized cost	**732,382**	**962,664**	**227,625**	**1,922,671**
Reserves with Central Bank	-	-	*224,541*	*224,541*
Loans and receivables from customers	*725,014*	*962,027*	-	*1,687,041*
Other financial assets at amortized cost	*7,368*	*637*	*3,084*	*11,089*
Other unallocated amounts	-	-	-	**31,670**
TOTAL ASSETS	**774,843**	**962,664**	**844,611**	**2,613,788**
LIABILITIES				
Financial liabilities valued at amortized cost	**873,575**	**1,208,331**	**182,006**	**2,263,912**
Deposits from banks and other financial institutions	-	*87,376*	*6,042*	*93,418*
Deposits from customers	*851,876*	*1,097,204*	-	*1,949,080*
Liabilities for loans and other borrowings	-	-	*175,570*	*175,570*
Obligations based on leases	*3,279*	*6,232*	-	*9,511*
Other financial obligations valued at amortized cost	*18,420*	*17,519*	*394*	*36,333*
Other unallocated amounts	-	-	-	**6,226**
TOTAL LIABILITIES	**873,575**	**1,208,331**	**182,006**	**2,270,138**

7. OPERATING SEGMENTS (continued)

Segment information for the year ended 31st December 2022

	Retail	Corporate	Treasury	Total
PROFIT AND LOSS				
Income from interest and similar income at the effective interest rate	42,827	23,084	1,642	67,553
Interest expenses and similar expenses at the effective interest rate	(3,753)	(1,809)	(5,389)	(10,951)
Net income/(expenses) from interest and similar income at the effective interest rate	**39,074**	**21,275**	**(3,747)**	**56,602**
Income from fees and commissions	25,925	11,862	514	38,301
Expenses from fees and commissions	(7,856)	(1,029)	(304)	(9,189)
Net income/(expenses) from fees and commissions	**18,069**	**10,833**	**210**	**29,112**
Impairments and provisions	(4,563)	(5,276)	544	(9,295)
Other gains and (losses) from financial assets	-	-	8	8
Net positive/(negative) exchange rate differences	-	-	5,617	5,617
Gains and (losses) from long-term non-financial assets	-	-	(44)	(44)
Income from dividends	-	-	6	6
Other income	1,995	539	-	2,534
Personnel expenses	(18,546)	(5,832)	(618)	(24,996)
Depreciation costs	(4,510)	(720)	(69)	(5,299)
Other costs and expenses	(18,356)	(5,237)	(1,348)	(24,941)
PROFIT/(LOSS) FROM REGULAR BUSINESS BEFORE TAX	**13,163**	**15,582**	**559**	**29,304**
Current income tax				(3,386)
Deferred income tax				160
TOTAL TAX FOR THE YEAR				**(3,226)**
NET PROFIT FOR THE YEAR				**26,078**

7. OPERATING SEGMENTS (continued)

Segment information as of 31st December 2022

	Retail	Corporate	Treasury	Total
ASSETS				
Cash and cash equivalents	28,858	-	595,209	**624,067**
Financial assets at fair value through profit and loss	-	-	161	**161**
Financial assets at fair value through other comprehensive income	-	-	103,131	**103,131**
Financial assets at amortized cost	**684,712**	**905,096**	**206,175**	**1,795,983**
Reserves with Central Bank	*-*	*-*	*203,062*	*203,062*
Loans and receivables from customers	*678,958*	*904,258*	*-*	*1,583,216*
Other financial assets at amortized cost	*5,754*	*838*	*3,113*	*9,705*
Other unallocated amounts	-	-	-	**34,599**
TOTAL ASSETS	**713,570**	**905,096**	**904,676**	**2,557,941**
LIABILITIES				
Financial liabilities valued at amortized cost	**776,731**	**1,094,188**	**346,354**	**2,217,273**
Deposits from banks and other financial institutions	*-*	*58,578*	*149,179*	*207,757*
Deposits from customers	*760,799*	*1,010,927*	*-*	*1,771,726*
Liabilities for loans and other borrowings	*-*	*-*	*196,637*	*196,637*
Obligations based on leases	*3,968*	*7,565*	*-*	*11,533*
Other financial obligations valued at amortized cost	*15,783*	*13,299*	*538*	*29,620*
Other unallocated amounts	-	-	-	6,539
TOTAL LIABILITIES	**780,550**	**1,090,369**	**346,354**	**2,223,812**

8. INTEREST AND SIMILAR INCOME AT THE EFFECTIVE INTEREST RATE

	2023	2022
Interest income from financial assets at amortized costs		
Retail clients	39,540	40,231
Corporate clients	27,266	25,703
Banks and other financial institutions	6,454	266
Interest on amortized cost assets	-	26
Interest income from financial assets at FVOCI		
Interest from securities	2,356	1,327
	75,616	**67,553**

9. INTEREST AND SIMILAR EXPENSE AT THE EFFECTIVE INTEREST RATE

	2023	2022
Interest expense from financial assets at amortized costs		
Retail clients	3,076	3,176
Corporate clients	2,699	1,042
Banks and other financial institutions	2,864	2,222
Negative interest on interest bearing assets	9	3,142
Interest expense on lease	193	145
Other	146	25
Interest expense from financial assets at FVOCI		
Interest from securities	1,200	1,199
	10,187	**10,951**

10. FEE AND COMMISSION INCOME

	2023	2022
Credit card business	12,545	11,014
Domestic payment transactions	7,402	7,175
Account service fee	5,603	6,097
Foreign payment transactions	4,510	4,817
Guarantees	2,125	2,331
Loans to clients	2,772	2,414
FX transactions	1,815	1,972
Agency services	63	65
Other	2,506	2,416
	39,341	**38,301**

Other fee and commission income include ATM and mobile banking fees from retail customers.

11. FEE AND COMMISSION EXPENSE

	2023	2022
Credit card operations	7,808	7,112
Banks services	967	1,052
Domestic payment transactions	380	394
Other	502	631
	9,657	**9,189**

12. IMPAIRMENT AND PROVISIONS

	2023	2022
Net credit losses/(releases) from financial assets at amortized cost (Note 22, 25.1, 25.2, 25.3, 25.4)	(4,362)	(9,334)
Net provisions from financial assets at fair value through other comprehensive income (Note 24)	(420)	615
Net provisions for off-balance-sheet credit risk (Note 34)	497	(377)
Net provisions for legal proceedings (Note 34)	(4,882)	(199)
	(9,167)	**(9,295)**
Net credit losses/ (net write-offs from financial assets at amortized cost		
for cash and cash equivalents (Note 22)	129	(2)
for reserves with the Central bank (Note 25.1)	(22)	(6)
for reserves with placements with banks (Note 22)	(36)	(56)
for debt instruments at amortized costs (Note 25.3)	-	98
for Loans to customers (Note 25.2)	(4,192)	(9,203)
for Other financial assets (Note 25.4)	(241)	(165)
	(4,362)	**(9,334)**

13. OTHER GAIN/ (LOSSES) FROM FINANCIAL ASSETS

	2023	2022
Net gains/(losses) on financial instruments at fair value through profit or loss – Equity shares	43	15
Net gains/losses on financial instruments at FVOCI - bonds	-	(7)
	43	**8**

14. NET POSITIVE/(NEGATIVE) EXCHANGE RATE DIFFERENCE

	2023	2022
Net gain/(losses) from foreign exchange spot trading	388	-
Net gains from currency translation of assets and liabilities	436	(1,671)
Operations with exchange and currency conversion	3,415	7,288
	4,239	**5,617**

15. GAIN /(LOSSES) FROM LONG-TERM NON-FINANCIAL ASSETS

	2023	2022
Net gain/(losses) from tangible assets	(66)	(47)
Net gain/(losses) from repossessed Assets held for sale	(4)	3
	(70)	**(44)**

16. INCOME FROM DIVIDENDS

	2023	2022
Income from dividends	15	6
	15	**6**

17. OTHER INCOME

	2023	2022
Collections of off balance accrued interest	1,838	2,003
Other income from collections related to loans previously written off	47	54
Other income from previous periods	220	190
Other income	341	287
	2,446	**2,534**

18. PERSONNEL EXPENSES

	2023	2022
Net salaries	17,365	15,788
Tax and contributions	9,210	8,607
Other expenses	1,842	503
Provisions for liabilities and charges (Note 34)	160	98
	28,577	**24,996**

19. OTHER COST AND EXPENSES

	2023	2022
Maintenance expenses	5,547	4,626
Savings deposit insurance	3,457	3,443
Telecommunication and post expense	3,239	3,173
Card business intermediation expenses	2,955	2,783
Security and transport costs	2,883	2,549
Rent and other rent-related expense	1,556	1,638
Consultancy and the Federal Banking Agency expenses	1,653	1,609
Consultancy expenses	1,132	933
Energy	791	777
Representation and marketing expense	983	773
Material expenses	765	663
Other insurance charges	576	503
Other expenses	1,791	1,471
	27,328	**24,941**

20. INCOME TAXES

	2023	2022
Current tax	3,925	3,386
Deferred tax (Note 33)	(146)	(160)
Total income tax	**3,779**	**3,226**

Income tax recognised in the profit or loss statement comprises current tax, Official corporate income tax rate is 10% (2022: 10%).

	2023	2022
Profit before income tax	31,229	29,304
Tax calculated at rate of 10%	3,123	2,930
Non-deductible expenses	803	456
Deferred tax (Note 33)	(146)	(160)
Income tax expense	**3,779**	**3,226**
Average income tax rate	**12.10%**	**11.01%**

21. BASIC AND DILUTED EARNINGS PER SHARE

	2023	2022
Net profit (BAM ‘000)	27,450	26,078
Weighted average number of ordinary shares outstanding	447,760	447,760
Basic and diluted earnings per share (BAM)	**61.31**	**58.24**

22. CASH AND CASH EQUIVALENTS

	31 December 2023	31 December 2022
Current account with the Central Bank	386,947	452,272
Current accounts with other banks	17,911	87,912
Placements with other banks	91,522	55,629
Cash in hand in domestic currency	34,931	22,963
Cash in hand in foreign currency	7,530	5,895
	538,841	**624,671**
Less: impairment allowance	(511)	(604)
	538,330	**624,067**
Balance as at 1 January	**604**	**546**
Net charge to profit or loss statement (Note 12)	93	58
Balance at the end of period	**511**	**604**

Placement with bank:	Original currency	Original currency	BAM
INTESA SANPAOLO SPA	EUR	13,004	25,434
INTESA SANPAOLO SPA	RUB	560,414	11,001
INTESA SANPAOLO SPA	CHF	3,804	8,034
RAIFFEISEN BANK INTERNATIONAL AG	EUR	24,057	47,053
TOTAL			**91,522**

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	31 December 2023	31 December 2022
Equity shares designated at fair value through profit or loss	270	161
	270	**161**

Equity shares designated at fair value through profit or loss as of December 31st 2023 and 2023, relate to shares in Intesa Sanpaolo S,p,A, amounting to BAM 270 thousand (31.12.2022: BAM 161 thousand).

24. FINANCIAL ASSETS AT FER VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2023	31 December 2022
Debt instruments		
Treasury bills issued by Spain	19,642	19,408
Treasury bills issued by France	19,414	9,659
Treasury bills issued by Belgium	9,930	19,534
Treasury bills issued by Federation of Bosnia and Herzegovina	9,789	-
Treasury bills issued by Croatia	-	14,543
Bonds issued by the Croatia	39,836	39,834
Bonds issued by the France	9,490	-
Bonds issued by the Luxembourg	8,517	-
Bonds issued by the Federation of Bosnia and Herzegovina	4,070	-
	120,688	102,978
Equity instruments		
Equity securities at fair value	159	153
	159	153
	120,847	**103,131**

Changes in Fair Value and corresponding allowance for ECL for Financial Assets at fair value through other comprehensive income (Stage 1) is as follows:

	31 December 2023	31 December 2022
Beginning balance 1 January	**(2,848)**	**(106)**
Fair valuation effects (Note Changes in Equity)	2,146	(2,127)
Allowance for expected credit losses (Note 12)	420	(615)
Total changes for the year	(2,566)	(2,742)
Balance as of 31 December	**(282)**	**(2,848)**

25. FINANCIAL ASSETS AT AMORTIZED COST

	31 December 2023	31 December 2022
Reserves with Central bank	224,541	203,062
Loans and receivables from customer	1,687,041	1,583,216
Other financial assets at amortized cost	11,089	9,705
	1,922,671	**1,795,983**

25.1 RESERVES WITH CENTRAL BANK

	31 December 2023	31 December 2022
Obligatory reserve	224.766	203,265
	224.766	**203,265**
Less: impairment allowance	(225)	(203)
	224.541	**203,062**
Balance as at 1 January	**203**	**197**
Net charge to profit or loss statement (Note 12)	22	6
Balance at the end of period	**225**	**203**

The minimum obligatory reserve is calculated as a percentage of the average balance of total deposits and borrowed funds for each business day during the 10 calendar days, in arrears. The obligatory reserve rate is 10% at, deposits and borrowed funds regardless of the currency in which the funds are denominated.
From 01.01.2023. year, on the mandatory reserve funds based on the base in the domestic currency, BAM- a fee was calculated and paid at the rate of 25 basis points, and on the mandatory reserve funds based on the base in foreign currencies and in the domestic currency with a currency clause - the fee was calculated and paid at rate of 10 basis points.
From 01.07.2023. year, on mandatory reserve assets based on the base in the domestic currency, BAM- a fee is calculated and paid at the rate of 50 basis points, and on mandatory reserve assets based on the base in foreign currencies and in the domestic currency with a currency clause - a fee is calculated and paid at rate of 30 basis points.
Cash held as a mandatory reserve in an account with the CBBH is not available for use without the special approval of the CBBH and the Banking Agency of the Federation of Bosnia and Herzegovina (FBA).

25. FINANCIAL ASSETS AT AMORTIZED COST (continued)

25.2 LOANS AND RECEIVABLES FROM CUSTOMER

	31 December 2023	31 December 2022
Short-term loans		
Corporate		
- in BAM and BAM linked to foreign currency	383,596	318,459
- in foreign currency	-	236
Retail		
- in BAM and BAM linked to foreign currency	59,949	61,898
	443,545	**380,593**
Long-term loans		
Corporate		
-in BAM and BAM linked to foreign currency	606,366	610,564
Retail		
-in BAM and BAM linked to foreign currency	716,226	672,119
	1,322,592	**1,282,683**
Total loans	**1,766,137**	**1,663,276**
Less: impairment allowance	(79,096)	(80,060)
	1,687,041	**1,583,216**

Loans and receivables from customers are presented including accrued interest in the amount of BAM 5,202 thousand (2022: BAM 5,447 thousand), and net of up-front fees in the amount of BAM 7,031 thousand (2022: BAM 8,752 thousand).

As of 31 December 2023, the net amount of short-term and long-term loans in domestic currency includes loans disbursed and repayable in domestic currency index-linked to the BAM: EUR exchange rate in the amount of BAM 12,406 thousand and BAM 576,761 thousand, respectively (31 December 2022: BAM 24,776 thousand and BAM 681,950 thousand, respectively).

Movements in the provision for impairment of loans and receivables are summarised as follows:

	2023	2022
Balance as of 1 January	**80,060**	**75,608**
Net charge to profit or loss statement (Note 12)	4,192	9,203
Unwinding of discount	(252)	(404)
Write-offs	(5,126)	(4,621)
Sales and other transfers	222	274
Balance as of 31 December	**79,096**	**80,060**

25. FINANCIAL ASSETS AT AMORTIZED COST (continued)

25.2 Loans and receivables from customer (continued)

Concentration of credit risk by industry:

Economic sector risk concentration in the gross amount of loans and receivables is as follows:

	31 December 2023	31 December 2022
Trade	381,605	315,085
Manufacturing, agriculture, forestry, mining and energy	311,636	279,681
Services, finance, sport, tourism	72,291	81,916
Construction industry	70,182	71,783
Administrative and other public institutions	76,884	92,244
Transport and telecommunications	51,270	62,809
Other	26,094	25,741
Citizens	776,175	734,017
	1,766,135	**1,663,276**

25.3 OTHER FINANCIAL ASSETS AT AMORTIZED COST

	31 December 2023	31 December 2022
Receivables from card operations	6,776	5,095
Fees receivable	1,477	1,372
Other assets	3,945	4,156
Total other financial assets at amortized cost	**12,198**	**10,623**
Less: impairment allowance	(1,109)	(918)
	11,089	**9,705**

The movement in the impairment allowance for other assets are summarised as follows:

Balance as of 1 January	**918**	**789**
Net charge to profit or loss statement (Note 12)	241	165
Write-offs and sale of property	(50)	(36)
Balance as of 31 December	**1,109**	**918**

26. DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2023	31 December 2022
Derivatives held for trading	4	-
	4	**-**

26. DERIVATIVISE FINANCIAL INSTRUMENTS (continued)

Derivatives held for trading are represented by foreign currency swaps, details of which are presented in the table below:

	31 December 2023	31 December 2023	31 December 2022	31 December 2022
Financial assets	**Notional amount**	**Fair value**	**Notional amount**	**Fair value**
Derivatives classified as held for trading – OTC products	189	4	-	-
Forward foreign exchange contracts	**189**	**4**	**-**	**-**

27. TANGIBLE ASSETS

	Land and buildings	Computers and other equipment	Assets under construction	Leasehold improvements	Buildings Right of Use	Equipment Right of Use	Total
Cost							
As of 1st January, 2022	**12,603**	**20,291**	**121**	**8,823**	**15,888**	**393**	**58,119**
Additions	-	-	1,728	-	1,847	2,407	5,982
Disposals	-	(5,628)	-	(322)	(1,698)	(364)	(8,012)
Transfers	8	1,520	(1,748)	220	-	-	-
As of 31st December, 2022	**12,611**	**16,183**	**101**	**8,721**	**16,037**	**2,436**	**56,089**
Additions	-	-	1,417	-	690	947	3,054
Disposals	-	(971)	-	(111)	(1,796)	(541)	(3,419)
Reduction to fair value – trough profit or loss	(85)	-	-	-	-	-	(85)
Reduction to fair value – trought capital	5	-	-	-	-	-	5
Transfers	75	982	(1,125)	68	-	-	-
As of 31st December, 2023	**12,606**	**16,194**	**393**	**8,678**	**14,931**	**2,842**	**55,644**
Accumulated depreciation							
As of 1st January, 2022	**4,148**	**16,866**	**-**	**8,201**	**5,349**	**116**	**34,680**
Depreciation for the year	377	1,031	-	191	2,325	332	4,256
Disposals	-	(5,571)	-	(322)	(1,054)	(155)	(7,102)
As of 31st December, 2022							
Depreciation for the year	377	1,050	-	209	2,232	563	4,431
Disposals	-	(969)	-	(111)	(1,339)	(139)	(2,558)
As of 31st December, 2023	**4,902**	**12,407**	**-**	**8,168**	**7,513**	**717**	**33,707**
Net carrying value							
As of 31st December, 2023	**7,704**	**3,787**	**393**	**510**	**7,418**	**2,125**	**21,937**
As of 31st December, 2022	**8,086**	**3,857**	**101**	**651**	**9,417**	**2,143**	**24,255**

27. TANGIBLE ASSETS (continued)

Gross value of Property and Equipment that is in use and 100% depreciated at the end of 2023 amounts to BAM 9,042 thousand (31.12.2022: BAM 9,550 thousand).

Lease Liabilities	31 December 2023	31 December 2022
Liabilities based on Asset with Right of Use – IFRS 16		
- Obligation for renting office space	7,421	9,444
- Obligation for renting other equipment	2,090	2,089
Total Liabilities - IFRS 16	**9,511**	**11,533**

Maturity analysis - Contractual undiscounted cash flows, of Lease Liabilities are presented as follows:

	Buildings	Equipment	Total
Less than one year	1,979	539	2,518
Between one and five years	5,154	1,306	6,460
More than five years	288	245	533
As of 31st December, 2023	**7,421**	**2,090**	**9,511**
Less than one year	2,190	384	2,574
Between one and five years	6,340	1,282	7,622
More than five years	914	423	1,337
As of 31st December, 2022	**9,444**	**2,089**	**11,533**

28. INTANGIBLE ASSETS

	Software and licence	Assets under development	Total
Cost			
As of 1st January, 2022	**17,262**	**-**	**17,262**
Additions	16	2,199	2,215
Transfers	1,773	(1,773)	-
Disposals	(9)	-	**(9)**
As of 31st December, 2022	**19,042**	**426**	**19,468**
Additions	65	1,266	1,331
Transfers	1,459	(1,459)	-
Disposals	(449)	-	(449)
As of 31st December, 2023	**20,117**	**233**	**20,350**
Amortization			
As of 1st January, 2022	**14,773**	**-**	**14,773**
Amortization for the year	1,043	-	1,043
Disposals	(9)	-	(9)
As of 31st December, 2022	**15,807**	**-**	**15,807**
Amortization for the year	1,054	-	1,054
Disposals	(449)		(449)
As of 31st December, 2023	**16,412**	**-**	**16,412**
Net carrying value **As of 31st December, 2023**	**3,705**	**233**	**3,938**
As of 31st December, 2022	**3,235**	**426**	**3,661**

Value of Intangible Assets that is in use and 100% depreciated at the end of 2023 is in the amount of BAM 14,035 thousand (31.12.2022: BAM 13,580 thousand).

29. LONG TERM ASSETS FOR SALE

	31 December 2023	31 December 2022
Assets held for sale - property	1,030	1,030
Assets acquired upon foreclosure of loans	34	28
Total assets	**1,064**	**1,058**
Less: impairment allowance	(1,064)	(1,053)
Net carrying value	**-**	**5**

30. OTHER ASSETS AND RECEIVABLES

	31 December 2023	31 December 2022
Prepaid expenses	1,610	1,785
Other non-financial assets	-	11
	1,610	**1,796**

31. FINANCIAL LIABILITIES VALUED AT AMORTIZED COST

	31 December 2023	31 December 2022
Due to banks and other financial institutions	93,418	207,757
Due to customers	1,949,080	1,771,726
Borrowings	175,570	196,637
Lease liabilities	9,511	11,533
Other financial liabilities at amortized cost	36,333	29,620
	2,263,912	**2,217,273**

31.1 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2023	31 December 2022
Due to banks		
Current accounts and term deposits		
Demand deposits		
-in BAM	385	831
-in foreign currencies	659	8,562
Term deposits		
-in BAM	5,000	9,510
-in foreign currencies	-	130,292
	6,044	**149,195**
Due to other financial institutions		
Current accounts and term deposits		
Demand deposits		
-in BAM	8,355	7,784
-in foreign currencies	10	249
Term deposits		
-in BAM	77,048	48,962
-in foreign currencies	1,961	1,567
	87,374	**58,562**
Total Due to Banks and other financial institutions	**93,418**	**207,757**

Due to banks presented above include accrued interest in the amount of BAM 7 thousand (31.12.2022: BAM 239 thousand).

Due to other financial institutions are presented including accrued interest in the amount of BAM 153 thousand (31.12.2022: BAM 114 thousand).

31. FINANCIAL LIABILITIES VALUED AT AMORTIZED COST (continued)

31.2 DUE TO CUSTOMERS

	31 December 2023	31 December 2022
Demand deposits:		
Retail clients:		
-in BAM	396,045	347,530
-in foreign currencies	102,998	120,467
Corporate clients:		
-in BAM	691,476	753,698
-in foreign currencies	162,341	118,071
Total demand deposits	**1,352,860**	**1,339,766**
Term deposits:		
Retail clients:		
-in BAM	123,968	106,044
-in foreign currencies	228,865	186,758
Corporate clients:		
-in BAM	203,223	110,170
-in foreign currencies	40,164	28,988
Total term deposits	**596,220**	**431,960**
Total Due to customers	**1,949,080**	**1,771,726**

Amounts due to customers are presented including accrued interest in the amount of BAM 2,645 thousand (2022: BAM 4,030 thousand).

In Retail banking, interest rates on demand deposits are 0,01% (2022: 0,01%), The interest rates on time deposits are in the range of 0,01% to 0,30% (2022: 0,01% to 0,30%) and for other time deposits (kids saving CRISPY, Step saving, saving with premium) up to 1%.

For Small Corporate clients, interest rates on demand deposits are 0,00% (2022: from 0,00% to 0,25%). The interest rates on time deposits are in the range of 0,00% to 2,20% (2022: 0,00% to 1,70%).

In Corporate banking, interest rates on demand deposits are from 0,00% to 0,10% (2022: from 0,00% to 0,10%). The interest rates on time deposits are in the range of 0,00% to 3,0% (2022: 0,00% to 2,58%).

31.3 BORROWINGS

	31 December 2023	31 December 2022
Long-term borrowings		
- Foreign banks	175,570	196,637
- Other financial institutions	-	-
Total Borrowings	**175,570**	**196,637**

32. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

31.3 Borrowings (continued)

The Bank had borrowings from below institutions:	31 December 2023	Average interest rate	31 December 2022	Average interest rate
Borrowings to banks				
European Investment bank_EIB	112,897	0.94%	135,240	0.73%
European bank for Reconstruction and Development_EBRD	62,477	1.27%	61,198	0.75%
	175,374		**196,438**	

Borrowings from banks presented above include accrued interest in the amount of BAM 196 thousand (2022: BAM 199 thousand).

As of December 31st 2023, undrawn borrowings amount to a total of BAM 48,896 thousand, and relate to Social Impact Loan from EIB, amounting to BAM 39,117 thousand, that can be withdrawn in accordance with negotiation between the bank and EIB, and BAM 9,779 thousand BAM in cooperation with Development Bank Federation BiH and World Bank that can be withdrawn until December 31st 2023.

31.4 LEASE LIABILITIES

	31 December 2023	31 December 2022
Lease liabilities – Buildings	7,421	9,444
Lease liabilities - Equipment	2,090	2,089
	9,511	**11,533**

31.5 OTHER FINANCIAL LIABILITIES AT AMORTIZED COST

	31 December 2023	31 December 2022
Loan repayments before due dates	11,129	9,953
Liabilities to shareholders	197	197
Credit card liabilities	7,011	5,445
Liabilities for employees' bonuses	5,239	3,619
Liabilities to vendors	2,522	2,734
Other liabilities	10,235	7,672
	36,333	**29,620**

32. DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2023	31 December 2022
Derivatives held for trading	311	-
	311	**-**

32. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Derivatives held for trading are represented by foreign currency swaps, of which are presented in the table below:

	31 December 2023	31 December 2023	31 December 2022	31 December 2022
Financial liabilities	**Notional amount**	**Fair value**	**Notional amount**	**Fair value**
Derivatives classified as held for trading – OTC products				
Forward foreign exchange contracts	**19,823**	**311**	**-**	**-**

33. DEFFERED TAX ASSETS / LIABILITIES

The movement of deferred tax balances is presented in the table below:

	Deferred tax liabilities	Deferred tax assets
As of 1st January, 2022	**54**	**451**
Recognised in other comprehensive income		
Recognised in profit or loss		
Decrease in deferred tax assets for provisions for litigations	-	(118)
Decrease in deferred tax assets for other provisions	-	283
Increase in deferred tax assets for other provisions	6	-
As of 31st December, 2022	**60**	**616**
As of 1st January, 2023	**60**	**616**
Recognised in profit or loss		
Decrease in deferred tax assets for provisions for litigations	-	-
Increase in deferred tax assets for other provisions	-	(1)
Increase in deferred tax liabilities for other provisions	16	163
As of 31st December, 2022	**76**	**779**

34. PROVISIONS

	31 December 2023	31 December 2022
Provisions for off-balance-sheet credit risk (Note 38)	2,179	2,681
Provisions for legal proceedings (Note 12)	1,653	1,955
Provisions for retirement employee benefits (Note 18)	983	876
	4,815	**5,512**

34. PROVISIONS (continued)

Movement in provisions for liabilities and charges for the year ended 31 December 2022 and 31 December 2021 are summarized as follows:

	Provisions for legal proceedings (Note 12)	Provisions for retirement employee benefits (Note 18)	Provisions for off-balance- sheet credit risk (Note 38)	Total
Balance as of 1st January 2022	**3,185**	**836**	**2,304**	**6,325**
Net charge to profit or loss statement	199	98	377	674
Reductions arising from payments	(1,429)	(58)	-	(1,487)
Balance as of 31st December 2022	**1,955**	**876**	**2,681**	**5,512**
Balance as of 1st January 2023	**1,955**	**876**	**2,681**	**5,512**
Net charge to profit or loss statement	4,882	160	(497)	4,545
Reductions arising from payments - legal disputes	(457)	(53)	(5)	(515)
Reductions arising from payments – tax disputes	(4,727)	-	-	(4,727)
Balance as of 31st December 2023	**1,653**	**983**	**2,179**	**4,815**

The calculation of provisions for retirement benefits of BAM 725 thousand as of 31st December 2023 (31st December 2022: BAM 647 thousand) is performed by an independent actuary, applying a discount rate of 3% over the working life and average salary of each employee.

Provisions for unused days of vacation of BAM 258 thousand as of 31st December 2023 (31st December 2022: BAM 229 thousand) are calculated for every employee, taking as a basis his/her salary and unused days of vacation.

35. OTHER LIABILITIES

	31 December 2023	31 December 2022
Accrued income	606	659
Liabilities in respect of managed funds (Note 40)	27	23
Other liabilities	391	285
	1,024	**967**

36. SHARE CAPITAL

	31 December 2023 and 31 December 2022		
	Class ES Ordinary shares	Class EP Preference shares	Total
Number of shares	447,760	60	447,820
Pair value (BAM)	100	100	100
Total	**44,776**	**6**	**44,782**

Each registered ordinary share carries the right of one vote per share, while preference shares are non-voting.

Preference shareholders are entitled to receive dividends when declared, non-cumulatively, with priority rights over the ordinary shareholders in receipt of dividends.

36. SHARE CAPITAL (continued)

The shareholding structure of the Bank as of 31st December 2023 is as follows:

- Privredna banka Zagreb d,d, 99.99%
- Other 0.01%

The shareholding structure of the Bank as of 31st December 2022 was as follows:

- Privredna banka Zagreb d,d, 99.99%
- Other 0.01%

37. SHARE-BASED PAYMENTS

In 2022, the Bank purchased 39,634 equity shares of Intesa Sanpaolo bank, which are held in portfolio of financial assets at Fair Value through Profit and Loss (with fair value measured based on equity shares quotation on the Borsa Italiana Stock Exchange).

In 2023, there were 30121 transfer of shares, and purchased 42.751 shares, so at the end of 2023 the Bank had 52.264 equity shares. The residual shares will be assigned to beneficiaries when vesting conditions are met.

38. FINANCIAL COMMITMENTS AND CONTINGENCIES

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

	31 December 2023	31 December 2022
Contingent liabilities		
Performance guarantees	105,396	106,269
Payment guarantees	48,723	51,134
Letters of credit	6,898	5,399
Total contingent liabilities	**161,017**	**162,802**
Commitments		
Undrawn lending commitments	408,597	380,820
Total commitments	**408,597**	**380,820**
Total contingent liabilities and commitments	**569,614**	**543,622**

38. FINANCIAL COMMITMENTS AND CONTINGENCIES (continued)

The following table shows reconciliation from the opening to the closing balance of the loss allowance by class of financial instruments for Contingent liabilities and Commitments.

	2023				2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance as of 1st January	**1,829**	**521**	**331**	**2,681**	**1,339**	**394**	**571**	**2,304**
First time adoption of FBA Impairments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Transfers to Stage 1	196	(193)	(3)	-	275	(258)	(17)	-
Transfers to Stage 2	(51)	73	(22)	-	(39)	72	(33)	-
Transfers to Stage 3	-	(21)	21	-	(17)	(33)	50	-
Net remeasurement of loss allowance	1,946	644	176	2,766	2,841	524	216	3,581
New financial assets originated or purchased	(573)	125	264	(184)	(437)	340	235	138
Financial assets that have been derecognized	(1,850)	(737)	(492)	(3,079)	(2,133)	(518)	(691)	(3,342)
Total effect through Profit and Loss (Note 12)	**(477)**	**32**	**(52)**	**(497)**	**271**	**346**	**(240)**	**377**
Other movements	-	-	(5)-	(5)	-	-	-	-
Balance as of 31st December	**1,497**	**412**	**270**	**2,179**	**1,829**	**521**	**331**	**2,681**

39. RELATED-PARTY TRANSACTIONS

The Bank is a member of the Intesa Sanpaolo S,p,A Group ("Intesa Sanpaolo Group"). The key shareholder of the Bank is Privredna banka Zagreb d,d, with 99,99% of the Bank's shares (2022: Privredna banka Zagreb d,d, with 99,99% of the Bank's shares) and the ultimate parent company is Intesa Sanpaolo S,p,A. The Bank considers that it has an immediate related-party relationship with its key shareholders and their subsidiaries; its associates; Supervisory Board members and Management Board members and other executive management ("key management personnel"); and close family members of key management personnel.
Related party transactions are part of the Bank's regular operations.
The overview of related party transactions as of 31st December 2023 and as of 31st December 2022 is presented below:

	31 December 2023	31 December 2022
Assets		
Receivables from key management personnel and their close family members	443	190
Bank accounts and loans – Intesa Sanpaolo Group	48,528	99,259
Loans and receivables from customers	-	-
Financial assets at fair value through profit or loss – Intesa Sanpaolo Group	-	161
Other receivables – Intesa Sanpaolo Group	24	3,101
	48,995	**102,711**
Liabilities		
Deposits – key management personnel and their close family members	1,444	1,193
Borrowings and term deposits – Intesa Sanpaolo Group	1,591	127,545
Financial liabilities at fair value through profit or loss – Intesa Sanpaolo Group	311	-
Other liabilities – Intesa Sanpaolo Group	-	671
	3,346	**129,409**
Financial commitments and contingencies	3,582	1,573
Financial Guarantees		
Undrawn lending commitments – key management personnel and close family members	105	89
	3,687	**1,662**

	2023	2022
Income		
Interest income – key management personnel and close family members	13	8
Interest income – Intesa Sanpaolo Group	1,565	175
Other Income – Intesa Sanpaolo Group	225	212
	1,803	**395**
Expenses		
Interest expense – key management personnel and close family members	2	1
Interest expense – Intesa Sanpaolo Group	636	440
Other expenses – Intesa Sanpaolo Group	3,701	3,187
	4,339	**3,628**

39. RELATED-PARTY TRANSACTIONS (continued)

The remuneration of key management personnel was as follows:

	2023	2022
Net salaries for key management personnel	1,230	1,437
Taxes and contributions on net salaries	960	1,125
Payments based on shares	268	427
Bonuses to management and employees	507	710
Other management benefits	572	526
	3,537	**4,226**

40. MANAGED FUNDS

The Bank manages assets on behalf of third parties, These assets are recorded separately from the Bank's assets.

	31 December 2023	31 December 2022
Liabilities		
Banks and insurance companies	13,009	23,200
Government organisations	7,476	7,682
Associations and Agencies	258	255
Total	**20,743**	**31,137**
Assets		
Loans to companies	20,532	30,930
Loans to citizens	184	184
Total	**20,716**	**31,114**
Amounts due to original creditors – managed funds (Note 35)	**27**	**23**

41. EVENTS AFTER THE REPORTING DATE

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