PUBLISHING DATA AND INFORMATION OF THE BANK

FOR THE PERIOD 01.01. – 31.12.2020

Sarajevo, June 2021

INTESA SANPAOLO BANKA
Bosna i Hercegovina

FOR ALL THAT COUNTS.

Bank of INTESA SANPAOLO

www.intesasanpaolobanka.ba

INTESA SANPAOLO BANKA
Bosna i Hercegovina

Table of contents

INTESA SANPAOLO BANKA
Bosna i Hercegovina

Introduction

Based on the Decision of the Banking Agency of the Federation of Bosnia and Herzegovina (Official Gazette of the Federation of BiH 39/2021) Decision on publishing data and information of the bank (hereinafter the Decision), and the Law on Banks (Official Gazette of the Federation of BiH 27/2017, Article 111), Intesa Sanpaolo Banka d.d. Bosna i Hercegovina hereby publicly publishes data and information for the period 01.01.2020 - 31.12.2020.

This report contains data and information in accordance with the minimum requirements of the aforementioned decision. Published data represent information that is material, and which is not protected and confidential.

The public publishing is prepared in accordance with the Manual adopted by the Management Board of the Bank, adopted in accordance with Article 2, paragraph 3, and Article 18 of the Decision, and it contains:

- setting the roles and responsibilities of organizational units involved in the process of preparing the public publishing,
- criteria for determining the data, ie information that will be published
- assessment of the adequacy and control of published information,
- assessment of whether the publishing comprehensively presents the Bank's risk profile,
- time of publication

The Bank adequately manages its risks and guarantees that its established risk management systems are adequate and appropriate given the profile and strategy of the institution.
Annually, within the ICAAP process, the Bank defines and quantifies the risk appetite of the Bank. The risk strategy defines the desired risk appetite, while ensuring adequate monitoring of the risk profile, which includes integrated and comprehensive management of risks which might affect the risk profile. When determining the risk appetite, the Bank integrates activities related to business planning and budgeting and based on business strategies, budget and assessed risks in environment, it identifies key and significant risks for the upcoming period and defines strategic key limits that ensure the stability of the Bank in future periods.
The Bank has developed an integrated framework for monitoring the Bank's risk profile, which provides a comprehensive overview of risk profiles and risk appetites as additional information with standard reports on exposure to certain risk.

The total risk appetite of Intesa Sanpaolo Banka dd BiH, hereinafter referred to as the Bank, (Risk Management Strategy) is defined by the following structure of the highest level limits, intended to ensure the long-term solvency and liquidity of the Bank:

- The long-term solvency of the Bank is ensured by the capital adequacy framework with limits defined based on regulatory and internal rules (such as capital adequacy ratio, economic capital and leverage).
- The Bank's liquidity is ensured by established policies on liquidity with limits relating to both short-term and structural liquidity. The prescribed policies take into account a number of aspects of liquidity risk management, but due to their importance and significance for the Bank, liquidity risk limits (LCR, NSFR) are of strategic importance and therefore form an integral part of the Tier 1 risk appetite limit.
- The Bank's operational risk is limited by defining specific limits for operating losses.

INTESA SANPAOLO BANKA
Bosna i Hercegovina

Introduction (continued)

Within 2020, there were no significant changes in the Bank's risk exposure profile, while credit risk remains the most significant risk in all segments. The Bank is sufficiently capitalized with an adequate liquidity position and is fully compliant with all crucial internal and external requirements, thus ensuring the stability of the Bank, both in the past and in future periods.

The Report was adopted at the meeting of the Management Board of the Bank MB_15_16.06.2021 and at the meeting of the Supervisory Board of the Bank on SB_10_25.06.2021.

The Report is publicly published on Website of Intesa Sanpaolo Banka dd. Bosna i Hercegovina (www.intesasanpaolobanka.ba).

On behalf of the Bank's Management Board

Marko Trevisan

Chairman of the Management Board

Stefano Borsari

Management Board Member

INTESA SANPAOLO BANKA
Bosna i Hercegovina

1. BUSINESS NAME AND SEAT OF THE BANK

Pursuant to Article 4 of the Decision, the Bank hereby publishes the following information

1.1. ESTABLISHMENT AND ACTIVITY OF THE BANK

The Bank was established by the Decision of the Supreme Court in Sarajevo, number: UF/I – 3816/90 of 9 January 1991, under the name UPI Banka dd Sarajevo, and in compliance with the new Law, by decision of the Cantonal Court in Sarajevo number UF/I-4091/00 of 20 October 2000 under the same name.

By Decision of the Municipal Court in Sarajevo number 065-0-Reg-08-002471 of 20 August 2008, the Bank changed the name, so that now it operates under the name: "INTESA SANPAOLO BANKA dd BOSNA i HERCEGOVINA".

Seat of the Bank:	Obala Kulina bana 9 A
Phone:	+387 33 49 75 55
Fax:	+387 33 49 75 72
SWIFT:	UPBK BA 22
E-mail:	info@intesasanpaolobanka.ba
Website:	www.intesasanpaolobanka.ba

Registration of the Bank in the Registry of the Sarajevo Municipal Court:

I.D. number:	4200720670007
Registration number:	65-02-0009-11
Tax number:	01071138

The Bank is registered to perform the following activities:
a) receiving and depositing deposits or other funds with the repayment obligation,
b) lending and receiving loans,
c) issuance of guarantees and all forms of guarantee,
d) domestic and international payment and money transfer services, in accordance with special regulations,
e) purchase and sale of foreign currency and precious metals,
f) issuing and managing means of payment (including payment cards, traveler's and banking checks),
g) financial leasing,
h) purchase, sale and collection of receivables (factoring, forfeiting, etc.),
i) participation, purchase and sale of money market instruments for its own or another's account,
j) purchase and sale of securities (broker and dealer operations),
k) management of securities portfolio and other values,
l) support activities for securities market, agent activities and takeover of issues, in accordance with the regulations governing the securities market,
m) investment consulting and custody activities,
n) financial management and consulting services,
o) data collection services, analysis and provision of information on the creditworthiness of legal entities and natural persons who independently perform a registered business activity,
p) renting safe boxes,
r) mediation in insurance, in accordance with the regulations governing insurance
s) other operations that represent support to specific banking operations

1. BUSINESS NAME AND SEAT OF THE BANK (continued)

1.2. Organization Units of the Bank

The Bank performs its operations through a wide network of business units belonging to the following regional centers: Sarajevo, Zenica, Tuzla, Mostar and Banja Luka. As at 31.12.2020, the Bank has 52 business units with the regional centers.

Table 1

Branch Sarajevo		**Branch Tuzla**
Agency Centar Sarajevo		Agency Bijeljina
Agency Ilidža		Agency Brčko
Agency Alipašina		Agency Gračanica
Agency Dobrinja		Agency Gradačac
Agency Otoka		Agency Odžak
Agency Šipad		Agency Srebrenik
Agency Vogošća		Agency Slatina
Agency Titova		Agency Tuzla
Agency Istočno Sarajevo		Agency Živinice
Agency Alipašino Polje		
		Branch Mostar
Branch Zenica		Agency Avenija-Mostar
Agency Bugojno		Agency Čapljina
Agency Jajce		Agency Livno
Agency Kakanj		Agency Široki Brijeg
Agency Kiseljak		Agency Tomislavgrad
Agency Novi Travnik		Agency Glamoč
Agency Park-Zenica		Agency Drvar
Agency Travnik		Agency Posušje
Agency Jelah		Agency Mostar
Agency Visoko		Agency Ljubuški
Agency Vitez		Agency Ero
Agency Žepče		
Agency Zenica		**Branch Banja Luka**
Agency Breza		Agency Prijedor
Agency Nova Zenica		Agency Jevrejska
		Agency Krajina

1.3. Employees of the Bank

As at 31 December 2020, the Bank had 562 employees, out of which 296 employees relates to the business network of the Bank.

INTESA SANPAOLO BANKA
Bosna i Hercegovina

2. OWNERSHIP STRUCTURE AND BODIES OF THE BANK

Pursuant to Article 5 of the Decision, the Bank publishes the following information:

2.1. LIST OF SHAREHOLDERS WITH 5% OR MORE SHARES WITH THE VOTING RIGHTS

Structure of shareholders capital of the Bank as at 31.12.2020 is as follows

Table 2

Owner structure			
No.	Name and surname / name of shareholders who have 5% or more participation in the capital (order by size of participation)	% participation	
		Ordinary shares	Priority shares
1.	Privredna banka Zagreb d.d.	100.00%	33.33%
2.	Others	0.00%	66.67%

2.2. MEMBERS OF THE SUPERVISORY BOARD AND MANAGEMENT BOARD OF THE BANK AND THEIR BIOGRAPHIES

In the business year of 2020, members of the Supervisory Board of the Bank were the following persons:

Table 3

No	***First and last name Position***	***Short biography***
1.	Alessio Cioni President of the Supervisory Board	***Education/Title***: MBA- New York University, faculty L. Stern Business School. BA of economy, Florence University ***Experience***: Mr. Cioni's work experience at Intesa Sanpaolo Group began in 2000 in Intesa Sanpaolo SpA, New York, as Director of the Italian Desk. Mr. Cioni has 21 years of work experience in Intesa Sanpaolo Group at various management positions in the Bank of Alexandria in Egypt, then from 2009 to 2014 he occupied significant positions at CIB Bank, Hungary, and until 2017 he was at function of the Deputy President of the Management Board of Banca Intesa Belgrade. Currently, Mr. Cioni is the Deputy President of the Management Board of Privredna banka Zagreb d.d. Croatia and he is member of the Management Board of the Italian-Croatian Chamber of Commerce. He has been appointed a member of the Bank's Supervisory Board since 2017
2.	Ivan Krolo Deputy President of the Supervisory Board until 29.08.2020	***Education/title***: graduate in economics – Zagreb University - Foreign Trade Faculty in Zagreb. ***Experience:*** Mr. Krolo's work experience began in 1983 at SDK Zabok, as a financial inspector. From 2009 to 2018, Krolo was a member of the Management Board of Privredna banka Zagreb d.d. Mr. Krolo has 35 years of experience in the banking sector. Mr. Krolo was on the Supervisory Board of the Bank in the mandate from 29.08.2018 until 28.08.2020.

3.	Matija Birov Deputy President as of 29.08.2021	***Education/title:*** master in engineering – Zagreb University, Faculty of electrical engineering and computing. ***Experience:*** Mr. Birov's work experience began in 2003 in Pliva d.d. Zagreb, Croatia, at the position of Advisor. In 2004, Mr. Birov began his work experience in Privredna banka Zagreb d.d. at the position of Senior Analyst, and later on as Head of the Credit Risk Office in the Risk Management Department. Mr. Birov has 17 years of experience as a manager in the banking sector. Today, Mr. Birov is the Executive Director, Head of the Risk Management Department at Privredna banka Zagreb d.d. Mr. Birov was appointed in the Supervisory Board of the Bank on 29.08.2020 at the position of deputy president of the Supervisory Board.
4.	Miroslav Halužan Member	***Education/Title:*** Master of Science (MSc) in International Human Resource Management-Cranfield University-Cranfield School of Management Master of Law (mag. Iur.) -Faculty of Law, University of Zagreb. ***Experience***: Work experience of Mr. Halužan in Privredna banka Zagreb d.d. began in 2001 as Senior Labor Relations Advisor. Mr. Halužan has 20 years of work experience in Intesa Sanpaolo Group. Today, Mr. Halužan is the Senior Executive Director of the Human Resources and Organization Department and Project Management of Privredna banka Zagreb d.d. Mr. Halužan was appointed to the Supervisory Board of the Bank in 2017 as a member of the Supervisory Board.
5.	Gianluca Tiani Member	***Education/Title***: MBA-Postgraduate study in business administration - LIUC University Cattaneo, Castellanza (VA) ***Experience***: Mr. Tiani started his career in the banking sector in 2003 at Banca Lombarda as a Cost Controller, and continued his career at Intesa Sanpaolo Private Banking in 2004 as a Financial Controller, and has spent time at the Intesa Sanpaolo Group from 2004 until today, ie 17 years with a short break of three years between 2007 and 2010 when he held the position of Manager at PricewaterhouseCoopers (Milan). He currently holds a position in Intesa Sanpaolo as Director of Strategic Initiatives, Project Portfolios and Investment Subdivisions in the International Subsidiary Banks Division. Mr. Tiani was appointed to the Supervisory Board of the Bank in 2017 as a member of the Supervisory Board of the Bank.
6.	Andrea Fazzolari member	***Education/Title:*** MBA - Luigi Bocconi University, Milan, Italy. ***Experience***: Mr. Fazzolari's work experience began in 2004 at Cariparma Cassa di Risparmio di Parma e Piacenza as Head of Organizational Development. In 2006, Mr. Fazzolari began his work experience in Intesa Sanpaolo Group, Intesa Sanpaolo SpA Milano as Director of Organization in the International Subsidiary Banks Division. Mr. Fazzolari has 15 years of experience in the Intesa Sanpaolo Group. Today, Mr. Fazzolari is Head of Governance & Strategic Initiatives Department in the International Subsidiary Banks Division. Mr. Fazzolari was appointed to the Supervisory Board of the Bank in 2017 as a member of the Supervisory Board.
7.	Alden Bajgorić Independent member	***Education/Title:*** Master of Business Sciences (EMBA) -Cotrugli Business School, Zagreb, Croatia

		BSc in Economics - Department of Business Administration - International University, Kuala Lumpur Malaysia. ***Experience***: Mr. Bajgorić began his work experience in 1998 in the Unit for privatization of banks, Ministry of Finance of the Federation of Bosnia and Herzegovina, as a Bank Privatization Advisor. He then continued his career at Central Profit Bank d.d. Sarajevo as the Director of the Retail Banking Department in the period from 2002 to 2003, and then at the position of the Secretary of the Bank and the Head of the Retail Banking Development and Monitoring Department. From 2007 to 2008 he gained banking experience in Postbank BH Poštanska BiH d.d. Sarajevo. In the period from 2009 to 2016, he performed function of Head of Banko and Affinity Sales Channels in UNIQA Osiguranje d.d. Sarajevo. Mr. Bajgorić has 23 years of work experience. Today, Mr. Bajgorić is an independent advisor. Mr. Bajgorić was appointed to the Supervisory Board of the Bank in 2018 to the position of an independent member of the Supervisory Board.
8.	Massimo Lanza Independent member	***Education/Title:*** Master of Chemical Engineering - Politecnico di Milano University, Milan (Italy). ***Experience***: Mr. Lanza's work experience began in 1970 at the Politecnico di Milano, as Assistant Professor of Physical Chemistry. In 1983, Mr. Lanza worked at Chase Manhattan Bank Ireland as CEO. Until 2011, Mr. Lanza worked at the Fondazione di Venezia as CEO. Mr. Lanza has 39 years of work experience, entirely at management positions in the banking sector. Mr. Lanza was appointed to the Supervisory Board of the Bank in 2018 to the position of a member of the Supervisory Board.

INTESA SANPAOLO BANKA
Bosna i Hercegovina

2. OWNERSHIP STRUCTURE AND BODIES OF THE BANK (continued)
2.2. Members of the Supervisory Board and Management Board of the Bank and their biographies (continued)

As at 31 December 2020, the Management Board of the Bank is comprised of the President and four members of the Management Board. The following persons performed those functions within the year:

Table 4

No	***First and last name*** ***Position***	***Short biography***
1.	Almir Krkalić President of the Management Board	***Education/Title:*** BSc in Economics - University - Ludwigs, Freiburg, Germany and International University of Travnik-Faculty of Economics ***Experience***: Mr. Krkalić gained his first experience in the financial sector in 2000 in Micro Enterprise Bank d.d. at the positions of Head of the Payment and Funds Sector, Head of the Sector for Small and Medium Enterprises and Product Development. From 2003 to 2004, he was a member of the Management Board of ProCredit Bank d.d. In HVB Central Profit Bank, he was a member of the Management Board in charge of large companies and the treasury in the period from 2004 to 2006. He was appointed President of the Management Board of Intesa Sanpaolo Banka d.d. Bosnia and Herzegovina in 2007.
2.	Edin Izmirlija Member	***Education/Title:*** Bachelor of Economics-Faculty of Economics, University of Sarajevo-Undergraduate study-Department of Financial Accounting. ***Experience***: Mr. Izmirlija started his experience at Intesa Sanapolo Bank d.d. in 2004, as a Risk Management Analyst at the Bank, and he has continued to build a successful career to this day. Mr. Izmirlija has over 17 years of work experience in the banking sector at the positions of Director of the Risk Management Department, Deputy Director of the Risk Management Division, Director of the Risk Management Division, and in 2016 he was appointed Member of the Bank's Management Board.
3.	Stefano Borsari Member	***Education/Title :*** Bachelor Degree in Economics – Faculty of Economics of Universita degli Studi di Modena e Reggio Emilia MBA Master in Banking Administration - CEFOR Banking Management School (Milan) ***Experience:*** Mr. Borsari began his banking experience in 1991 at BPER (Banca Popolare dell'Emilia Romagna) as Financial Controller. In 1997 he worked at KPMG Advisory as Senior Manager and in 2000 he joined Bipop Carire (Unicredit Group as Head of Management Control in. Since 2002, Mr. Borsari has been working as Planning and Controlling Director in many companies of Intesa Sanpaolo Group and in the position of Credit Portfolio Management Director at NEOS FINANCE. In 2011 he started his international career as Chief Financial Officer at Alexbank (Cairo, Egypt) in the period from 2011 to 2015, Deputy CEO and Chief Financial Officer of Intesa Sanpaolo Bank Romania (Bucherest, Romania) in the period from 2015 to 2019. In September 2019, he was appointed Chief Financial Officer and member of the Management Board of the Bank.

4.	Amir Termiz Member	***Education/Title:*** Master of Management (Advanced Financial Management), a joint program of the Faculty of Economics in Sarajevo and the Faculty of Economics in Zagreb. Graduate economist-University of Sarajevo, Faculty of Economics ***Experience***: Mr. Termiz began his experience in the banking sector in 2000 as a Credit Analyst at BOR Bank d.d. Sarajevo, and in UniCredit Zagrebačka Banka d.d. Mostar in the position of Business Relations Manager for medium and large legal entities. He started working in Intesa Sanpaolo Banka d.d. Bosnia and Herzegovina in 2007 as the Director of the Regional Branch in Sarajevo, and as the Acting Finance Director. Mr. Termiz has 21 years of work experience in the banking sector and the Bank appointed him as a member of the Management Board in 2014.
5.	Alek Bakalović Member	***Education/Title:*** Bachleor of Business Administration -IIUM Kuala Lumpur, Malasyia. ***Experience***: Mr. Bakalović started gaining experience in the field of banking in 2000 at the Central Profit Bank in the Asset and Money Market Management Department, and in the period from 2007 to 2008 he was a Member of the Management Board in charge of Finance and Treasury. Since 2008 he has been the Director of Financial Markets at UniCredit Bank d.d., since 2009 he has been appointed a member of the Management Board - Executive Director for Corporate Banking of UniCredit Bank d.d. He has been in Intesa Sanpaolo Banka d.d. since 2014 as the Director of the Corporate Banking Division, and the Executive Director for Corporate and SME, and in 2020 the Bank appointed him a member of the Bank's Management Board.

INTESA SANPAOLO BANKA
Bosna i Hercegovina

2. OWNERSHIP STUCTURE AND BODIES OF THE BANK (continued)

2.3. NUMBER OF DIRECTOR FUNCTIONS OF MEMBERS OF THE SUPERVISORY BOARD AND MANAGEMENT BOARD

Number of director functions of members of the Supervisory Board and Management Board of the Bank, given the size, internal organization and type, scope and complexity of performed operations.

Table 5

No.	Name and surname of a member of the supervisory board or management board of the bank	Number of executive directorships (absolute)	Number of non-executive directorships (absolute)	Of which the number of executive directorships in the group	Of which the number of non-executive directorships in the group	Number of directorships in institutions whose main business activity is non-profit
1.	Alessio Cioni	1	2	1	2	1
2.	Ivan Krolo	-	-	-	-	-
3.	Matija Birov	-	2	-	2	-
4.	Gianluca Tiani	-	2	-	2	-
5.	Andrea Fazzolari	-	3	-	3	-
6.	Alden Bajgorić	1	1	-	1	-
7.	Massimo Lanza	-	5	-	2	-
8.	Miroslav Halužan	-	2	-	2	-
9.	Almir Krkalić	1	-	1	-	-
10.	Marco Trevisan	1	-	1	-	-
11.	Stefano Borsari	1	-	1	-	-
12.	Edin Izmirlija	1	-	1	-	-
13.	Amir Termiz	1	-	1	-	-
14.	Alek Bakalović	1	-	1	-	-

2. OWNERSHIP STUCTURE AND BODIES OF THE BANK (continued)

2.4. POLICY FOR SELECTION AND EVALUATION OF MEMBERS OF THE SUPERVISORY BOARD AND THE MANAGEMENT BOARD OF THE BANK

During 2020, the Bank applied the following documents when assessing the members of the Supervisory Board and the Management Board of the Bank:

1. Policies and Procedure for Assessment of the Supervisory Board of Intesa Sanpaolo Banka d.d. Bosnia and Herzegovina
2. Policies and Procedures for the assessment of members of the Management Board and key function holders of Intesa Sanpaolo Banka d.d. Bosnia and Herzegovina

When assessing the Supervisory Board, members of the Management Board and key function holders of the Bank, the Bank applied criteria and procedures for assessing the fulfillment of conditions of proposed and of existing, already appointed members of the Bank's bodies. Namely, during the assessment, the Bank's Nomination Committee assessed the good reputation, appropriate qualifications and experience for performing a function of member of the bank's body. All relevant and available information as well as the criteria prescribed by the relevant Policies and Procedures have been considered. During the assessment, considered were the theoretical experiences gained through education and professional training as well as practical experiences gained by performing previous operations. In addition, during the assessment, considered were the level and profile of education in terms of banking, financial activities, management, strategic planning, knowledge of the bank's business strategy and risk management.

INTESA SANPAOLO BANKA
Bosna i Hercegovina

2. OWNERSHIP STUCTURE AND BODIES OF THE BANK (continued)

2.5. MEMBERS OF THE AUDIT COMMITTEE AND THEIR BIOGRAPHIES

Within 2020, members of the Audit Committee were as follows:

Table 6

No	*First and last name* *Position*	*Short biography*
1.	Dražen Karakašić President until 21.05.2020	***Education/Title***: BSc in Economics - University of Zagreb, Faculty of Economics ***Experience***: Mr. Karakasic started his work experience in 1995 at the Ministry of Finance of the Republic of Croatia. From 1996 to 2000, he held the position of Main Auditor at KPMG Croatia. He worked at Privredna Banka Zagreb for 10 years from 2000 to 2020 at various positions and the last position was the position of Financial Director (CFO), Senior Executive Director. In 2020, he was appointed a Member of the Management Board of PBZ Card. He held the position of President of the Audit Committee of Intesa Sanpaolo Banka d.d. Bosna i Hercegovina until 21.05.2020.
2.	Stefano Bruschi President since 22.05.2020	***Education/Title***: He graduated from the Technical Institute of Economics and Informatics "A.Bassi" -Lodi in Italy ***Experience***: Mr. Bruschi has spent most of his career in Intesa Sanpaolo Group in audit-related positions, having served as Internal Auditor at the Intesa Sanpaolo Group in Milan, Turin since 1996, and in banks in Slovenia, Egypt and Ukraine, which are members of the Intesa Sanapolo Group, he performed functions within the Audit Committee. He currently holds the position of Director of Foreign Banks Management in the areas of the main internal audit offices at Intesa Bank in Turin. He was appointed as the president of the Audit Committee of Intesa Sanpaolo Banka d.d. Bosnia and Herzegovina in 2020.
3.	Zoltan Mogyorosi member, until 21.05.2020	***Education/Title:*** BSc in Economics - BGF Budapest Business School / University of Applied Sciences ***Experience***: He started his career in 1994 at CIB Bank, a member of the Intesa Sanpaolo Group in the loan administration. From 1998 to 2002 he was the Internal Auditor at CIB Bank, then from 2002 to 2005 he worked as the Head of Custody Services. In the period from 2005 to 2011, he spent time in the Internal Audit of CIB Bank as the Deputy Head of Internal Audit and as the Internal Auditor. In 2011, he continued his career at Intesa Sanpoalo CAO Milan at the positions of Independent Expert Associate of Internal Audit, then as Head of Audit of Foreign Banks, and he currently holds the position of Head of Audit of Foreign Branches.

4.	Petar Sopek member, until 21.05.2020	***Education/Title***: Graduated at the Faculty of Science in Zagreb-University of Zagreb, title of engineer Experience: He started working in the Intesa Sanpaolo Group in 2009 as the Lead Coordinator in the Risk Management Division, and currently he is the Assistant Executive Director of the Risk Management Department. He also worked as a Research Scientist from 2009 to 2016. He was a member of the Audit Committee of Intesa Sanpaolo Banka d.d. Bosna i Hercegovina until 21.05.2020.
5.	Ana Jadrešić member	***Education/Title:*** BSc in Economics - University of Zagreb, Faculty of Economics and Business ***Experience:*** Ms. Jadrešić started her career as an Auditor in 1998, and since 2004 she has continued her career in PBZ Card d.o.o. as Deputy Chief Financial Officer and since 2009 as Executive Director of Finance and Accounting. She is currently the Director of the Planning and Control Department at Privredna Banka Zagreb d.d.
6.	Jadranko Grbelja Member	***Education/Title:*** Master of Law (mag.iur.) -Faculty of Law, University of Zagreb ***Experience***: Mr. Grbelja started his working experience at Privredna Banka Zagreb d.d. in 1990, and until today he has built his career in Privredna Banka Zagreb d.d. at various positions related to legal affairs. Since 1996, he has been the Assistant Director of Legal Affairs and since 1997 the Director of Legal Affairs, and the Assistant Executive Director for Legal Affairs. He currently performs the function of the Executive Director for compliance monitoring in Privredna Banka Zagreb d.d.
7.	Dražen Karakišić	Regular invitee since 22.05.2020
8.	Salvatore Giuliano	Regular invitee since 22.05.2020
9.	Daniele Davini	Regular invitee since 22.05.2020

INTESA SANPAOLO BANKA
Bosna i Hercegovina

2. OWNERSHIP STUCTURE AND BODIES OF THE BANK (continued)

2.6. Members and functioning of other Boards

Members of the boards of Supervisory Board and frequency of the meetings are as follows:
Table 7

Members of the Supervisory Board, if established in the bank		
Nomination Committee		Frequency of meetings
1.	Alessio Cioni	Five meetings in 2020
2.	Andrea Fazzolari	
3.	Matija Birov	
4.	Ivan Krolo do 17.09.2020. godine	
Risk Committee		Frequency of meetings
1.	Matija Birov	Nine meetings in 2020
2.	Gianluca Tiani	
3.	Alden Bajgorić	
4.	Ivan Krolo do 17.09.2020. godine	
5.	Edin Izmirlija do 17.09.2020. godine	
6.	Cesar De Bona Bottegal (stalno pozvani član)	
Remuneration Committee		Frequency of meetings
1.	Alessio Cioni	Six meetings in 2020
2.	Miroslav Halužan	
3.	Gianluca Tiani	

2.7. Internal Audit

The establishment of the Bank's Internal Audit Department has been regulated by the Bank's Charter and the Rulebook on Internal Organization of the Bank, adopted by the Bank's Supervisory Board, in accordance with the Decision on control functions in the Bank by the Federal Banking Agency.

The Decision on control functions of the bank was published in the Official Gazette of FBiH in October 2017, which defined in more detail the minimum contents of internal acts of control functions, conditions that must be met by persons performing control functions, scope and manner of performing control functions, the manner of examining the adequacy and effectiveness of control functions and the content, frequency and obligation to submit reports on the implementation of control functions.

The Bank organized its Internal Audit function as a separate organizational unit, functionally and organizationally independent from other activities that it audits, as well as from other organizational units in the Bank. The Bank's Internal Audit function is performed by the Internal Audit Department

The mission of Internal Audit is to improve and protect organizational values by providing to interest and influential groups the risk-based, objective and reliable engagement, expressing assurance and advisory services.

2. OWNERSHIP STUCTURE AND BODIES OF THE BANK (continued)
2.7. Internal Audit (continued)

Activities of the Internal Audit to accomplish the mission are:

- Ensuring continuous and independent supervision of regular operations and processes in the Bank in order to prevent or detect irregularities or risky behaviors and situations, assessing the functioning of the established internal control systems and its application to ensure efficiency and effectiveness of processes within the Bank, preservation of assets and protection against losses, reliability and completeness of financial and accounting information, compliance of conducted transactions with the rules established by the Bank's corporate bodies, internal acts and external regulations;

- Providing advisory support to the functions and organizational units of the Bank, including participation in projects aimed at creating added value and improving the efficiency of controls, risk management and governance of the Bank;

- Support to senior management and corporate bodies of the Bank and the regulator (eg Banking Agency of the Federation of BiH, Banking Agency of Republika Srpska) by providing timely and systematic information on the implementation of the established internal control systems and recommendations issued based on audit activities.

The purpose of Internal Audit is to perform the third level of control, to monitor the correctness of business activities through direct supervision and risk management process.

Furthermore, Internal Audit performs activities to identify inconsistencies of valid and applied internal and external policies, procedures, laws and regulations.

The Internal Audit Department performs its activities in accordance with the Rulebook and Work Instruction of Internal Audit and the Annual Plan adopted by the Supervisory Board of the Bank upon the proposal of the Audit Committee.

Internal audit uses the Risk Model (RM) which is an internal methodological framework for assessing the internal control system of a particular area, organizational unit and processes in accordance with the organizational structure and process tree. The RM is the starting point of the audit methodological framework based on the SREP (Supervisory Review and Evaluation Process) approach, which enables the presentation of audit results through four SREP aspects defined by the EBA Guidelines on the Supervisory Review and Evaluation Process. Each RM associated with one of the SREP aspects. The Risk Model is the result of a risk analysis process, and the control objectives and corresponding inherent risks are expressed and updated within each RM based on the risk factors of the analyzed area. In each RM, recorded are the audited areas or organizational units to which the control objective of a particular risk refers.

In accordance with the Law on Banks, the Director and employees of internal audit have unrestricted access to all functions, documentation, data, assets/locations and employees of the Bank and supervise the Bank's operations and participate at meetings of the Supervisory Board and its committees.

2. OWNERSHIP STUCTURE AND BODIES OF THE BANK (continued)
2.7. Internal Audit (continued)

Within the internal audit function, ensured is the minimum performance of the following tasks:

- assessment of management system of bank’s risks and key risks in order to identify, measure, monitor, assess, control, report and take appropriate measures to limit and mitigate the bank's risks.
- adequacy and reliability of the risk management function and the compliance monitoring function, as well as the established internal control systems in all areas of the bank's operations,
- assessment of the reporting system of the competent bodies of the bank and the manager,
- Ensuring the correct execution of the internal management process when reporting irregularities ("whistleblowers")
- assessment of the accuracy and reliability of the bank's financial statements and accounting records system,
- adequacy of bank asset management,
- application of the bank's fee policy,
- compliance of new products and procedures with applicable regulations, internal acts, standards and codes, as well as their impact on risk exposure,
- assessment of the adequacy of the information system in the bank,
- assessment of strategy and procedures for internal capital adequacy assessment and internal liquidity adequacy assessment,
- control of the collection system and accuracy of information that is publicly disclosed in accordance with the Law,
- identification of weaknesses in the operations of the bank and its employees, as well as cases of non-fulfillment of obligations and exceeding of authority,
- the bank's compliance with the orders and recommendations of the Agency and the audit company,
- Performs other tasks necessary to achieve the objectives of the internal audit control function.

For all audit activities planned in the Annual Plan, the Internal Audit prepares audit reports which are submitted to the responsible persons-directors of divisions, departments and regional centers (in which the audit was performed), the Bank's Management Board and the Audit Committee.

Internal audit prepares the following reports:

• Individual reports on performed audits and controls;

• Quarterly/semi-annual work reports; and

• Annual work report.

In accordance with the Decision on Control Functions, the Internal Audit submits work reports to the Banking Agency.

INTESA SANPAOLO BANKA
Bosna i Hercegovina

2. OWNERSHIP STRUCTURE AND BODIES OF THE BANK (continued)

2.8. External audit

The appointment of the external audit for 2020 is prescribed by:

- the Law on Accounting and Auditing of the Federation of BiH (Official Gazette of the Federation of BiH 83/2009),
- the Decision of the Banking Agency of the Federation of BiH on the conditions and procedure for issuing, refusing to issue and revoking the consent to perform banking activities (Official Gazette of the Federation of BiH 60/2017), and
- Decision of the Banking Agency of Federation of BiH on external audit and audit content in the bank (Official Gazette of the Federation of BiH 81/2017).

The Banking Agency of the Federation of Bosnia and Herzegovina, with its memo 04-1-3-3117-3/20 dated 19 August 2020, gave its prior consent for the selection of an external auditor for the audit of the financial statements for 2020.
Consent was given to appoint the company BDO B-H d.o.o. Sarajevo.

At its session held on 28.08.2020, the General Assembly of the Bank (47_GSM_28.08.2020_4) adopted the Decision on the selection of the external auditor for the audit of financial statements for 2020 – BDO BH d.o.o. Sarajevo.

INTESA SANPAOLO BANKA
Bosna i Hercegovina

3. THE BANK'S RISK MANAGEMENT STRATEGY AND POLICY

Pursuant to Article 7 of the Decision, the Bank hereby publishes the following information

3.1. RISK MANAGEMENT SYSTEM

Risk management encompasses the organizational structure, rules, procedures and resources for risk identification, risk measurement/assessment, stress testing, risk controlling and risk monitoring, including risk appetite and risk profile, capital planning and capital adequacy monitoring and reporting on the risks to which the Bank is exposed or could be exposed in its operations, and implies establishment of appropriate corporate governance and risk culture and includes the risk management process.

Corporate governance, in terms of risk management system, is established in the Articles of Association and other internal acts of the Bank defining roles, tasks and responsibilities of supervisory, governance bodies and senior management, internal control system and control functions, organizational chart and tasks of individual organizational parts and functions.

Risk culture includes general risk awareness at all levels of the Bank and its members, as well as the attitude and behavior of employees towards and in relation to risk and risk management.

Risk management process includes regular and timely identification, measurement/ assessment, stress testing, risk controlling and monitoring, as well as reporting on risks to which the Bank is or may be exposed in its operations.
The risk management process includes capital adequacy planning and monitoring, clearly defining and documenting risk profiles, and aligning of risk profiles with the risk appetite.

Risk appetite, i.e. the level of risk that an organization is willing to accept, is the amount or level of risk that the Bank deems acceptable to take in achieving business strategy and objectives in the current and future environment, and is determined at the level of the Bank. Risk appetite includes determining the intention to take risks as well as determining risk tolerance in terms of determining the level of risk that the Bank deems acceptable, and is defined by an internal system of limits in relation to the management of all material forms of risk.

The Bank's Supervisory Board annually adopts the Risk Management Strategy, which, in accordance with the business strategy, annually determines the risk appetite at the Bank's level, basic strategic guidelines for capital planning, risk management objectives and basic principles of risk control, including risks arising from the macroeconomic environment in which the Bank operates and taking into account the state of the business cycle of Intesa Sanpaolo Bank.

In accordance with the strategic objectives defined in the Risk Management Strategy, the risks taken in order to achieve business plans and goals are covered by an appropriately defined risk management system. All business activities and related risks are aligned with the rules defined for risk management and defined limit structures. Therefore, coherence of the risk management strategy and the business strategy is one of the key preconditions for carrying out regular activities. Compliance of positions with defined exposure limits is monitored and reported on a regular basis, while a report on the risk profile, containing an overview of the Bank's risk profile and analysis of exposure to the most significant risks, is prepared on a semi-annual basis.

3. THE BANK'S RISK MANAGEMENT STRATEGY AND POLICY (continued)
3.1. Risk management system (continued)

Finally, by reviewing the 2020 fiscal year, we can conclude the following:

- **There were no significant changes in the overall risk profile**. Credit risk remains the most significant risk in the coming period, given that the loan portfolio accounts for the largest share of the Bank's total assets and given the uncertainty of future developments in the situation with COVID pandemic19.
  As an integral part of credit risk, the Bank has identified a relatively significant exposure to concentration risk, and calculates capital requirements taking into account individual and sectoral concentration. Although the trend of low interest rates has continued, and there are no announcements to increase them, the Bank, taking into account the fact that most of the Bank's portfolio can be treated as products with a fixed interest rate, has identified exposure to interest rate risk as one of the significant risks, and allocates to it a relatively significant amount of capital. Although the Bank has been operating successfully for more than 10 years, and has achieved its plans with stable management that has not changed significantly, the Bank considers strategic risk, which in its definition includes business risk, profitability risk and governance risk, to be extremely significant.
- The Bank is well capitalized: regulatory capital and available internal capital consist mostly of Common Equity (Tier I), which is generally considered to be the highest quality capital;
- Monitoring and reporting activities did not identify any serious violations of internal policies and rules;
- The Bank complied with all key strategic limits.

INTESA SANPAOLO BANKA
Bosna i Hercegovina

3. THE BANK'S RISK MANAGEMENT STRATEGY AND POLICY (continued)

3.2. RISK CATALOGUE

Risk Cataloque

The Risk Catalogue defines types of risks and their definitions that are applied in the risk management system established at the level of the Bank. The types of risks covered by the Risk Catalogue are listed below.

Table 8

ISP BiH type of risk	ISP BiH risk definition/risk subcategory
Strategic risk	**Strategic risk** is the risk of losses that occur due to the non-existence of a long-term development strategy of the bank, making wrong business decisions, inadaptability to changes in the economic environment and the like. Strategic risk also includes **business risk**. Business risk is a negative, unexpected change in the volume of business and / or profit margins of the bank that can lead to significant losses and thus reduce the market value of the bank. Business risk can primarily occur due to a significant deterioration of the market environment and changes in competition or consumer behavior in the market. Strategic risk also includes **profitability risk** (profit risk) that arises due to an inadequate system and distribution of earnings or the inability of the bank to ensure an adequate, stable and sustainable level of profitability. Strategic risk also includes **governance** risk. Governance risk is the risk of losses that arises because the bank due to its size and/or complexity of operations has a limited capacity to establish sophisticated management mechanisms, systems and controls.
Reputational risk	**Reputational risk** is the risk of loss of confidence in the integrity of the Bank as a result of adverse public opinion regarding the Bank's business practices, regardless of whether there are any grounds for such a public opinion or not. **Reputational risk** includes the risk of loss of confidnece in the integrity of the Bank due to or in relation to other risks. **Reputational risk includes compliance risk** in a part relating to the risk of loss of reputation that the Bank may suffer as a result of its failure to comply with regulations, standards, codes and internal regulations. **Reputational risk** includes environmental risk relating to the risk of loss of reputation that the Bank may suffer due to activities of clients that may have an adverse impact on environment, health, safety and preservation of natural resources or due to a breach of environmental rules and regulations.
Credit risk	**Credit risk comprises:** **1) Basic credit risk,** **2) Residual risk,** **3) Country risk,** **4) Concentration risk,** **5) Currency induced risk,** **6) Migration risk,** **7) Counterparty risk,** **8) Interest rate-induced credit risk** **Basic credit risk** is the risk of loss arising from a borrower's failure to meet its financial obligations to the Bank. **Residual risk** is the risk of loss arising when recognized basic credit risk mitigation techniques used by the Bank prove less effective than expected. **Country risk** is the risk specific for facilities approved outside Bosnia and Herzegovina under international credit and investment activities, arising from economic and political factors specific for a particular country, enforceability of facility agreements and enforceability of credit protection in the legal framework of a certain country in a certain period of time.

ISP BiH type of risk	ISP BiH risk definition/risk subcategory
	Concentration risk is each individual, direct or indirect, exposure to a single person or group of connected persons or a group of exposures linked by the same risk factors such as the same economic sector, geographic region, activity or commodity or application of credit risk mitigation techniques which may lead to losses that could jeopardize the continued operation of the Bank. **Currency-induced credit risk** is the risk of loss arising from a borrower's failure to meet its financial obligations to the Bank, to which the Bank is additionally exposed due to granting of facilities in foreign currency or indexed to foreign currency and which arises from the borrower's exposure to currency risk. **Migration risk** shall mean the risk of loss due to a change in the fair value of a credit exposure as a result of a change in client rating**.** **Counterparty risk** is risk of loss arising from counterparties' failure to meet the liabilities. **Interest rate-induced credit risk** is the risk arising from the inability of the debtor to meet its financial obligations to the bank, to which the credit institution is additionally exposed, which assumes the credit risk from the exposures related to the variable interest rate.
Market risks	**Market risks comprise:** **1) Position risk in the trading book,** **2) Foreign-exchange risk,** **3) Commodities risk in the trading book.** **Position risk** in the trading book is the risk of loss arising from a price change in financial instruments or, in the case of a derivative financial instrument, in underlying variables, as it affects the trading book positions. Position risk in the trading book is divided into general position risk and specific position risk. General position risk is the risk of loss arising from a price change in a financial instrument due to changes in the level of interest rates or to a broad capital market movement unrelated to any specific attributes of the individual financial instrument. Specific position risk is the risk of loss arising from a price change in an individual financial instrument due to factors related to its issuer or, in the case of a derivative financial instrument, the issuer of the underlying instrument. **Foreign-exchange** risk is the risk of loss arising from a change in currency exchange rates and/or the price of gold, as it affects the trading book positions and/or banking book positions. This type of risk does not include foreign-exchange risk associated with the non-fully consolidated equity holdings in the banking book**.** **Commodities risk** in the trading book is the risk of loss arising from a price change in the commodity, as it affects the trading book positions. **Market risk** comprises as well **credit value adjustment** (CVA). Credit value adjustment (CVA) represents adjustment to OTC derivative portfolio value in order to capture counterparty credit risk. **Settlement risk** is risk of loss arising from counterparties' failure to meet their liabilities**.**
Risk of equity in the banking book	**Risk of equity holdings in the banking book** is the risk of loss due to adverse market developments relatinge to non-fully consolidated equity holdings in the banking book, and it also includes foreign exchange risk associated with non-fully consolidated equity holdings in the banking book.
Real estate risk	**Real estate risk** is the risk of loss arising from changes in the market values of a real estate portfolio in a credit institution.
Interest rate risk in the banking book	**Interest rate risk** in the banking book is the risk of possible negative effects on the bank's financial result and capital based on positions in the banking book due to changes in interest rates.

ISP BiH type of risk	ISP BiH risk definition/risk subcategory
Liquidity risk	**Liquidity risk** is a risk of losses arising from the Bank's existing or expected inability to meet its financial obligations as they become due. **Liquidity risks comprise**: **1) Liquidity funding risk,** **2) Market liquidity risk.** **Liquidity funding risk** is the risk that the Bank will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial result of the Bank. **Market liquidity risk** is a risk associated with the Bank's inability to easily offset or eliminate a position at the market price because of market disruption or inadequate market depth. Liquidity risk also includes intraday liquidity risk, risk of premature outflow of funding sources, liquid assets risk, risk of concentration of funding sources, risk of structural mismatch.
Operational risk	**Operational risk** is the risk of loss resulting from inadequate or failed internal processes, people or systems, or external events. Operational risk includes **legal risk** defined as the risk of loss due to fines, penalties and sanctions arising from court, administrative or other proceedings against the Company due to failure to meet contractual or legal obligations, as well as losses due to inadequate business decisions that have negative impact on the business activities and the financial position of the Company. Operational risk includes **compliance risk** in a part relating to the risk of losses due to imposition of measures and fines, the risk of fsignificant ginancial loss or other losses the Company may suffer due to failure to comply with regulations, standards, codes and internal regulations, and to the risks associated with prevention of money laundering and terrorist financing. Operational risk includes the **information system risk** in a part relating to the risk of loss arising from the use of information technology and information system. Operational risk includes **model risk** which mean the risk of loss a credit institution may incur, as a consequence of decisions that could be principally based on the output of internal models, due to errors in the development, implementation or use of such models. **The risk of misconduct** is the existing or potential risk of loss arising from the improper provision of financial services, including cases of malicious behavior or negligence.
Outsourcing risk	**Outsourcing risk** is a common name for all risks that arise when a bank contractually entrusts the other party (service providers) to perform activities that it would otherwise perform itself. Outsourcing means a contractual agreement by which external service providers are engaged to perform the Bank's activities which would normally be undertaken by the Bank. Activities which would normally be undertaken by the Bank means activities enabling the Bank to provide banking and/or financial services, including their supporting activities.
Risk of excessive leverage	**Risk of excessive leverage** means the risk resulting from an institution's vulnerability due to leverage or contingent leverage that may lead to unintended corrective measures to its business plan, including distressed selling of assets which might result in losses or in valuation adjustments to its remaining assets.

3. THE BANK'S RISK MANAGEMENT STRATEGY AND POLICY (continued)

3.3. DESCRIPTION OF STRATEGIES AND POLICIES FOR EACH INDIVIDUAL RISK

Risk management strategy

The risk management strategy is a document by which the Bank, in accordance with the business strategy, annually determines the risk appetite, basic strategic guidelines for capital planning, risk management objectives and basic principles of risk management, including risks arising from the macroeconomic environment in which the Bank operates, taking into account the state of the business cycle where the Bank is.

Capital plan

The Bank's Capital Plan, on an annual basis, concreticises and specifies implementation of strategic goals and guidelines for capital planning and determines the time horizon for their implementation given the impact of macroeconomic factors and change of economic cycle on strategic plans, the way the Bank will meet future capital requirements, relevant capital restrictions (e.g. the effect of amending regulations or enacting new regulations), as well as a general contingency plan (e.g. how to raise additional capital, restrict business activity or apply risk mitigation techniques). The General Meeting of the Bank, upon a proposal of the Supervisory Board of the Bank, adopts the capital plan on an annual basis.

Risk management policies

Risk management policies are documents by which the Bank, if necessary, concreticises and specifies the risk management strategy implementation on an annual basis. Policies are adopted for the management of one or more risks, and they primarily set guidelines for risk management and basic limits and indicators against which the risk profile and risk exposure will be analyzed. Also, for cases of exceeding the defined limits, clear escalation procedures are determined depending on the type of exceeded limit.
The risk management system is also established at the level of the Bank and implies harmonization and coordination of activities of all organizational parts of the Bank in terms of risk management.
Management Board ensures appropriate implementation of the risk management strategy set out in the risk management policies for:

- Credit risk;
- Operational risk;
- Market risks;
- Interest rate risk in the banking book;
- Liquidity risk

INTESA SANPAOLO BANKA
Bosna i Hercegovina

3. THE BANK'S RISK MANAGEMENT STRATEGY AND POLICY (continued)
3.3. Description of Strategies and Policies for each individual Risk (continued)

Credit risk management objectives and policies

The credit risk management system consists of organizational structure, rules, processes, procedures, systems and resources aimed at identifying, measuring/ assessing, managing, monitoring and reporting on credit risk exposure, i.e. overall credit risk management, which implies existence of adequate corporate governance and credit risk management culture.

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

1. **Strategy of risk management and policy of credit and related risk management** which represent concretization of the strategy in terms of overall credit risk appetite, limits, and indicators of risk profile monitoring.

2. **Key processes** of the credit risk management system are:
- credit approval process;
- credit monitoring process (credit review process);
- early warning process (process of early detection of increased credit risk) - PCEM;
- asset classification process as defined by the decisions of the FBiH Banking Agency (FBA) and the ISP Group Rules;
- collection process;
- collateral management process;
- portfolio analysis and credit risk monitoring process;
- process of calculating capital adequacy for credit risk;

3. Roles and responsibilities in the key processes of credit risk management system are assigned to the following organizational units:
- Risk Management Department;
- Credit Risk Assessment Department;
- Recovery Department;
- Credit Portfolio Analysis and Administration Department;
- Internal Audit Department;
- Legal Department;
- Placement contracting function organized in several organizational units.

The risk control function, along with responsibilities in the part related to credit risk management performed by the Risk Management Department, is defined and established by the specific internal regulations.

Key startegic guidelines of the credit risk mangement are included into the Risk Management Strategy and Credit Risk Management Policies.

3. THE BANK'S RISK MANAGEMENT STRATEGY AND POLICY (continued)
3.3. Description of Strategies and Policies for each individual Risk – Credit Risk (continued)

The risk management strategy shall be adopted in writing in accordance with the Guidelines for the general risk management framework, and in terms of credit risk management shall include at least the following:

- objectives and basic principles of credit risk taking;
- credit risk appetite, i.e. the level of risk that the Bank deems acceptable to take in achieving its business strategy and goals in the existing business environment.

Policies for credit risk and related risks management are concretisation of the Risk Management Strategy for the purpose of simple and efficient management of the overall level of credit risk the Bank is ready to assume. The Policy, which is jointly prepared once a year by business lines and risk functions and adopted by the Bank's Supervisory Board, presents a direction and plan for the development of the Bank's loan portfolio in the relevant business year. The Policy includes the following units:

- overview of general guidelines and limits for credit portfolio management arising from the analysis of the environment and the Risk Management Strategy, which are supplemented, further elaborated and defined by the Policy.

- overview of rules and guidelines for individual business areas (retail and corporate banking) and customer segments that specify credit risk taking and management at the operational level.

Guidelines and rules defined by the Credit Risk Management Policy are further incorporated into the Bank's Credit Manuals, which are operational documents and instructions to all employees involved in credit processes. In this way, the Policy aims to provide guidance to the lower organizational units on how to structure transactions and achieve portfolio and budget goals, thus fulfilling its role in educating and spreading the culture of credit risk management at all organizational levels of the Bank.

Operational risk management objectives and policies

The operational risk management system includes principles, rules, procedures and methods for operational risk management, and clearly defined roles and responsibilities at all levels of management set out in the guidelines for the general risk management framework, regulations, instructions, methodologies and procedures.
The main objective of operational risk management is the identification and measurement (quantification) of risk, which enables monitoring and appropriate risk mitigation in order to comply with the Bank's exposure to operational risk.

Levels of operational risk management are:

- corporate bodies (Management Board and supervisory bodies of the Bank / Group) in charge of establishing the operational risk management system and for monitoring and supervising the operational risk exposure and the adequacy of operational risk management;
- decentralized level of managers of organizational units, processes and projects in charge of identification, recording, assessment and monitoring of identified operational risks;

3. THE BANK'S RISK MANAGEMENT STRATEGY AND POLICY (continued)
3.3. Description of Strategies and Policies for each individual Risk – Operational Risk (continued)

- Risk control function in charge of coordination and control of collected data on operational risks, analysis of historical and expected future operational risk events and quantification of their effects, and reporting to the Management Board and supervisory bodies of the Bank and the Group;
- All employees in their areas of competence actively participate in operational risk management and in the integration of operational risk management into the day-to-day operations of the PBZ Group.

Risk identification, measurement and monitoring is carried out through the following processes:

- collection and analysis of data on internal losses includes the collection of data on events that occurred in the Bank or another member of the PBZ Group and which are related to their exposure to operational risk;

- collection and analysis of data on external losses includes the collection of data on events that occurred in credit or financial institutions outside the PBZ Group, and these events are related to the exposure of these institutions to operational risk, and

- a process of self-diagnosis that includes scenario analysis and assessment of the business environment. Scenario analysis (SA) includes quantification, i.e. measurement of operational risk based on the assessment of consequences of possible future events, in terms of their frequency, average amount and the worst-case scenario. Business environmental evaluation (VCO) includes qualitative assessment of operational risk by risk factors (risk triggers) by assessing the importance of each individual risk factor and the level of their control.

The Bank measures/assesses identified operational risks in all its activities, products, processes and projects.

The Operational Risk Management Policy defines the operational risk appetite, monitoring of exposure to operational risk and use of limits, escalation procedures in case of limit breaches, as well as guidelines and ways of operational risk managment.

The operation risk appetite, i.e. the readiness to take operational risk at the Bank level, represents the amount, i.e. the level of risk that the Bank deems acceptable to take in achieving the business strategy and goals in the current and future environment. It is based on operational losses, collected in the data collection process and based on estimates of total expected losses in the scenario analysis process, as an integral part of the self-diagnosis process.

Operational risk monitoring includes regular analysis and structuring of the results of operation risk's identifying and measuring / assessing, analysis of the risk profile as well as the information on activities in operational risk control.

Operational risk control includes preventive and corrective activities to reduce exposure to operational risk, avoid risk activities, improve and change the processes, introduce internal controls and transfer the operational risk to third parties through insurance and other specific

3. THE BANK'S RISK MANAGEMENT STRATEGY AND POLICY (continued)
3.3. Description of Strategies and Policies for each individual Risk – Operational Risk (continued)

financial instruments. Operational risk management is performed for identified operational risks in all activities, products, processes and projects of the Bank.

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

The capital requirement for operational risk is determined using a basic approach - BIA.

Market risk management objectives and policies

The main objective of market risk management model is to ensure safe and sound activities of the Bank, aimed at maintaining market risk exposure within defined limits and thresholds.

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

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

The Market Risk Management Policy defines the Bank’s risk appetite in terms of **unexpected loss** (risk value of VaR which represents the potential maximum loss in one day calculated with 99% certainty) and **limited exposure depending on the type of issuer** (issuer limits).
In addition to the VaR limit, the risk appetite is also defined by limits depending on the type of issuer as a total nominal limit for a particular type of issuer and for an individual issuer with regard to its rating.

The risk value and other limits are calculated and monitored on a daily basis and reported to all relevant business and risk management functions, including the Bank's Management Board.

The Bank's target market risk profile is defined in detail in the Market Risk Management Policy approved by the Management Board and the Supervisory Board.

3. THE BANK'S RISK MANAGEMENT STRATEGY AND POLICY (continued)
3.3. Description of Strategies and Policies for each individual Risk – Market Risk (continued)

Objectives and policies of interest rate risk management in the banking book

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

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

- System for measuring, assessing and reporting on interest rate risk exposure;
- Interest rate risk management documents 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 the comittees and management through a detailed and comprehensive information flow system.

The Bank applies external and internal standards to assess and monitor interest rate risk exposure.

External standards of the FBiH Banking Agency represent the regulatory limits prescribed by the FBiH Banking Agency and relate to a sufficient level of regulatory capital of the Bank to provide coverage for the estimated change in the economic value of the banking book.

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

- analysis of interest rate changes;
- sensitivity to changes in fair value;
- sensitivity of net interest income;

The interest rate risk limit structure, in line with the risk measurement framework, aims at maintaining a low level of exposure, which is in line with the risk appetite. Interest rate risk limits in the banking book are expressed both in terms of **sensitivity to changes in economic value** (ΔEVE), taking into account the relevance attributed to the banking book management in the medium term, and in terms of **sensitivity to changes in the net interest income** (Δ NII) to make profits and effects of balance sheet based on the changes of interest rates in the short term.

These limits are also prescribed in detail in the ISP BiH guidelines for the interest rate risk management in the banking book and are periodically revised.

3. THE BANK'S RISK MANAGEMENT STRATEGY AND POLICY (continued)

Objectives and policies of liquidity risk management

The main objective of liquidity management is to ensure safe and sound activities of the Bank, aimed at maintaining exposure to liquidity risk within the defined limits and thresholds.

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

- effective supervision of committees and management through a detailed and comprehensive information flow system;
- system for measuring, assessing and reporting on liquidity risk exposure;
- liquidity risk management documents 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;
- stress testing including a formal contingency plan for liquidity crises.

To assess and monitor the Bank's liquidity risk exposure, external and internal standards are used as follows:

1) **External standards of the FBiH Banking Agency (FBA)** represent the regulatory limits prescribed by the FBA:
   - Maturity matching of financial assets and liabilities;
   - Mandatory reserve with the Central Bank of BiH.
   - Liquidity coverage ratio (LCR);
2) **The Bank's internal liquidity management standards** are the following basic models for liquidity risk measuring:
   - intraday liquidity monitoring;
   - monitoring of liquidity reserves;
   - limits for projected cumulative wholesale exposures;
   - net stable financing ratio (NSFR);
   - stress testing;
   - concentration ratios;
   - liquidity crisis plan indicators[1]

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

[1] Liquidity requirements in the crisis are defined in the Liquidity Risk Management Policy.

3. THE BANK'S RISK MANAGEMENT STRATEGY AND POLICY (continued)

3.4. STRESS TESTING

Stress test

A stress test is an integral part of the risk management system, and is carried out for internal management purposes and at the request of supervisory authorities. Stress test for internal management purposes includes a comprehensive stress test as well as stress test at the level of individual risk:

- **Stress test within the ICAAP**

The comprehensive stress test framework within the ICAAP serves as an additional tool for monitoring of potential additional capital requirements due to the occurrence of stress scenarios.
The test results are considered as a supplement to the required internal capital in the baseline scenario, in order to ensure conservative capital planning taking into account the impact of potential stresses. Stress is calculated semi-annually, based on the ISP Group's experiential assumptions, and in some cases is adjusted to specific local characteristics.

- **Stress test within the the Recovery Plan preparation**

The so-called “reverse stress test” is applied, stress scenarios assumed in the context of a recovery plan that consider systemic and idiosyncratic events. They focus on the elements of sensitivity for the Bank and may produce the most severe effects in terms of lack of capital and liquidity. It is conducted once a year, and methodology and scenarios are defined by the Risk Management Department.

- **Stress test at the level of individual risk**

The stress test is an integral part of the overall risk management system, the results of which are regularly reported to the Bank's management and serves as a relevant input for decision-making on risk management.
Notwithstanding the procedures for comprehensive stress testing, the Bank has established regular procedures for conducting stress tests (market, interest rate, liquidity risk).

3. THE BANK'S RISK MANAGEMENT STRATEGY AND POLICY (continued)

3.5 INTERNAL CONTROL SYSTEM AND ORGANIZATION OF CONTROL FUNCTIONS

The internal control system and the way of organizing control functions

The internal control system is a set of processes and procedures established to adequately control the risk, monitor the efficiency and effectiveness of the Bank's operations, the reliability of its financial and other information and compliance with regulations, internal enactments, standards and codes to ensure stability of the Bank's operations.

Considering the size and complexity of the Bank's organizational structure and the scope and complexity of its operations, the internal control system has been developed and adapted to optimally support and monitor the regular flow of business activities, as well as certain specific situations that may arise.
In organizing the internal control system, the Bank is guided by the following principles:

- adequate organizational structure and culture with the establishment of control functions;
- adequate control activities and proper division of duties;
- clearly defined and established duties, responsibilities and authorities among employees to avoid conflicts of competencies and interests, supported by appropriate resources, procedures and IT support;
- risk identification, measurement and analysis;
- adequate internal controls integrated into the Bank's business processes and activities, and the implementation of an effective internal and external audit program for the Bank;
- establishment of appropriate procedures for the protection of the Bank's assets;
- establishment of the Bank's administrative and accounting controls;
- assessment of the effects of outsourcing of business activities on internal control systems;
- establishing a process to ensure timely, truthful and accurate public disclosure of the Bank's data and information, and verification of its accuracy, as well as information required for supervision on a consolidated basis;
- timeliness, reliability and availability of information for each business activity, both in the form of appropriate internal financial or non-financial information, and in the form of external (market) information about events that affect or may affect the Bank's activities, as a precondition for all participants in control activities to fulfill their obligations;
- adequate IT support;
- establishing effective communication channels that will provide employees with access and implementation of internal policies and procedures regarding their duties and responsibilities and that ensure the timely flow of relevant information to employees;
- effective oversight (audit) of the internal audit of key risks to which the Bank is exposed in its operations (oversight provides timely detection and elimination of deficiencies in the internal control system or its individual parts);
- continuous monitoring of the effectiveness of the internal control system, with regular evaluation of its functioning at least once a year;
- adequate reporting to supervisory authorities.

3. THE BANK'S RISK MANAGEMENT STRATEGY AND POLICY (continued)
3.5 Internal control system and organization of Control Functions (continued)

The Bank establishes and implements an effective internal control system in all areas of business operations covering at least:

- an adequate organizational structure, organizational culture and ethics in the conduct of business activities;
- appropriate control activities and division of duties, appropriate internal controls integrated into the Bank's business processes and activities, and the implementation of an effective internal and external audit program of the Bank;
- establishment and maintenance of an appropriate accounting of the Bank;
- appropriate accounting and administrative procedures and the Business Policy within the scope of the Bank's control functions;
- efficient protection of the Bank's assets;
- effective protection of the Bank from abuse for the purpose of criminal activities (money laundering, robbery, terrorism, etc.).

The Bank establishes and implements effective internal control systems in all areas of business operations by establishing three control functions:

- Risk Control Function
- Compliance Control Function
- Internal Audit Function.

An individual control function cannot be organized within another control function. These functions are independent of the Bank's business activities and are independent of each other. Each function independently and directly reports to persons and/or bodies in accordance with the laws, regulations and internal enactments of the Bank and the Parent Company.

During 2020, within the control of the internal audit function and the risk control function, there was no change of manager, while within the compliance control function during 2020, the manager was changed and a new one was appointed.

Internal Audit Function

The Bank organized its Internal Audit function as a separate organizational unit, functionally and organizationally independent from other activities it audits as well as from other organizational units in the Bank. The Bank's Internal Audit function is performed by the Internal Audit Department.
Internal audit is an independent and objective guarantee and consulting activity guided by the philosophy of added value with the intention of improving the organization's operations. It assists the organization in meeting its objectives by introducing a systematic and disciplined approach to assessing and improving the effectiveness of risk management, control and corporate governance.
The vision of Internal Audit is to be a highly effective function of Internal Audit that meets the expectations of its stakeholders and adheres to International Standards for Professional Internal Audit, which will enable it to be a business partner and reliable consultant recognized as a driving force of management culture, responsibility, compliance and execution that helps achieve the organization’s goals.

3. THE BANK'S RISK MANAGEMENT STRATEGY AND POLICY (continued)
3.5 Internal control system and organization of Control Functions (continued)

The purpose of Internal Audit is to perform the third level of control, monitoring the correctness of business activities through direct supervision and risk management process. Internal audit assesses the comprehensiveness, adequacy, functionality and reliability of the organizational structure and other components of the internal control system, informing corporate bodies of any possible improvements. Based on the results of the conducted controls, it makes recommendations to corporate bodies. Internal audit specifically assesses the risk management process and the management of corporate processes, including the ability to identify and present errors and irregularities. In this context, it also revises the control functions for risk monitoring and regulatory compliance. The evaluation of the internal control system resulting from the performed inspections is periodically transferred to the Audit Committee, the Supervisory Board and the Management Board.
Internal audit is also responsible for assessing the effectiveness of the RAF (Risk Appetite Framework) sharing and implementation process, the internal coherence of the overall model, and RAF-compliant operations. Internal audit oversees the process of measuring, managing and controlling operational and credit risk exposures, and conducts self-assessment activities for the ICAAP (Internal Capital Adequacy Assessment Process).

Compliance Control Function

The Bank's compliance control function is performed within the Compliance Office as an integral part of the Bank's internal control system, with a risk management function and an internal audit function.

The **compliance control function** ensures the compliance of the Bank as financial institution with regulations, standards and codes, and internal enactments. The Bank establishes a permanent and effective compliance monitoring function that is independent of other activities. Independence and objectivity of compliance control function is ensured through the independence in performing this function in relation to other activities within the Bank. The Head of the Compliance Office, and other employees which take part in the implementation of the compliance function, may not be put in a position of real or possible conflict of interest between their responsibilities for the implementation of the compliance function and any other possible responsibilities.

The compliance function guarantees the existence of the rules, procedures and operating practices which efficiently prevent the breach or violation of applicable regulations in the area of all Bank's business activities, including also the area conflict of interest, consumer protection and consumer crediting, transparency, payment systems, safety and health at work, personal data protection, etc.

The compliance function represents the system of processes established with the goal of insuring that the Bank operates pursuant to all relevant legal and regulatory requirements, as well as the other standards, guidelines of the parent bank, codes and adopted professional practices.

3. THE BANK'S RISK MANAGEMENT STRATEGY AND POLICY (continued)
3.5 Internal control system and organization of Control Functions (continued)

The holder of the compliance function is the Compliance Office with the primary task of achieving the compliance goals and activities described hereunder. The Compliance Officer manages the Compliance Office.
The Supervisory Board of the Bank provides the conditions for establishing an efficient compliance function in the Bank and supervises its functioning, as well as strategic annual work plans of compliance function and the adoption of its quarterly, semi-annual and annual reports.
The Compliance Officer – the Head of Compliance Office is appointed and relieved of duty by the Bank's Supervisory Board.

The Head of Compliance control function reports directly to the Supervisory Board and Audit Committee, and quarterly participates at their meetings.

The tasks related to the compliance control function include at least the following activities:

- monitoring compliance of Bank's operations with Law on Banks of Federation of Bosna and Herzegovina, Law on Banks of Republika Srpska, regulations of the Banking Agency of FBiH, the Banking Agency of Republika Srpska and other applicable laws and regulations in Bosnia and Herzegovina, standards of prudent banking operations, procedures on anti-money laundering and terrorism financing, as well as with other acts defining Bank's operations;
- identifying omissions and risk assessment as consequences of non-compliance of Bank's operations with law and other regulations, especially in terms of risk of implementing supervisory measures and sanctions of the Agency and other competent bodies, financial losses, as well as reputational risk;
- advising the Bank's Management Board and other responsible persons on how to apply relevant laws, standards and rules, including also the information on current affairs from those fields, provide advice and support to the other structures of the Bank regarding all the issues relating to the compliance risk. The advisory and supporting service rendered by the Compliance Office relates to efficient harmonization of corporate processes and activities, and supplemented with legal opinions provided by the Legal Department;
- assesses the effects of changes in relevant regulations on the Bank's operation and proposes organizational and procedural changes for insuring adequate compliance risk management in the cooperation with the HR & Organization Department and, with regard to legal aspects, with the Legal Department;
- checks the compliance of new products or new procedures with relevant laws and regulations and with changes in regulations, using the interpretation of laws and regulation provided by Legal Department;
- advisory tasks in the area of preparation of educational programs for the employees relating to the areas relevant for the compliance function;
- prepares the new internal regulations and reports, monitors the implementation of the decisions/conclusions of the Bank's bodies in the area of compliance function, assesses the compliance risk level when the compliance risk has been detected.
- monitoring the compliance of ICAAP with legal regulations, sub-legal acts and other regulations and standards of prudent banking operations, as well as with Bank's internal acts, identifying omissions and assessing risks resulting from non-compliance, and assesses effects of amended relevant regulations on the Bank's operations and similar.

3. THE BANK'S RISK MANAGEMENT STRATEGY AND POLICY (continued)
3.5 Internal control system and organization of Control Functions (continued)

In this view, the Compliance Office is authorized specially to take the following activities:

- identifies and assesses compliance risk on an annual level to which the Bank is exposed and defines the time frame for interventions for the purpose of removing criticalities (including policies and procedures and their application or implementation) arising from the existing work processes and defines the method of activity management with the goal of preventing the generation of new compliance risk. The Management Board, Audit Committee and Supervisory Board are notified on the results and findings of the annual risk assessment in accordance with the parent bank's methodology;
- prepares the annual compliance function work plan;
- insures timely preparations for comprehensive semi-annual report on the compliance function which are submitted to the Bank's Management Board, Audit Committee and Supervisory Board and participates in the work of these bodies;
- insures prompt preparations of quarterly report on the compliance function activities which are submitted to the Bank's Management Board, Audit Committee and Supervisory Board;
- coordinates the activities related to the implementation of the parent Bank's regulations and at the same time play the role of the essential communication channel between the Bank and parent bank;
- manages the situations which represent or might represent conflict of interest in such a way as it defines the method of solving;
- manages the relations with regulatory and supervisory bodies with regard to the issues from the compliance function domain in such a way as it coordinates the replies to the requirements sent by the responsible bodies to the Bank;
- manages the non-compliance events in such a way that it offers assistance and cooperation to the organizational units, which ensures identification and taking necessary interventions to overcome every organizational or procedural malfunction;
- checks the coherence of the Bank's remuneration system, under the support of the HR & Organization Department, with special emphasis on wages and rewards, for the purpose of harmonization with the rules, code of ethics and code of conduct applicable on the Bank.

The role of Compliance Office, as the holder of the compliance function, in relation to relevant legislative framework for appraisal and management of compliance risk, is to define the guidelines and methodological rules, to coordinate the initiatives regarding the alignment process with aim to determine priorities pertaining to specific risk events, checking the efficiency of the implementation by other organizational units of the Bank and production of adequate reports for the competent bodies of the Bank and/or parent company.

During the implementation of the above activities, the compliance control function will pay special attention to the impact of changes in relevant regulations to the Bank capital as the key determinant of stability.

The compliance monitoring function is independent of the activities and business lines that it monitors and supervises. In addition to the above-mentioned activities, the compliance monitoring function performs all prescribed activities in accordance with the positive legislation, the regulations of the Parent Company, as well as the internal enactments of the Bank.

In view of the complexity and diversity of the Bank's operational aspects and organization, all organizational units of the Bank are actively involved in carrying out the compliance monitoring function, while the **Compliance Office** is the holder of the compliance control function.

More detailed roles and responsibilities of holders and other participants in the implementation of the compliance monitoring function are defined by the Compliance Policy and the business model or the organizational rulebook.

Risk control function

The risk control function is organized within the Risk Management and Control Division, specifically, within the Risk Management Department. The risk control function defines and assesses adequacy of the risk management system and monitors the overall risk exposure. The objective of the Bank's risk control function is continuous work on establishing and improving of a comprehensive and effective risk control and management system, which is proportional to the nature, scope and complexity of services provided by the Bank and harmonized with the Bank's and PBZ Group's risk profile, taking into account the regulatory requirements of the Banking Agency of FBiH and PBZ Group guidelines.

Key roles and responsibilities of the risk control function are:

- proposing to the Bank's Management Board the adoption of the General Rules for Risk Management and the Rulebook for Risk Management (including the Internal Capital Adequacy Assessment Process - ICAAP and Liquidity Adequacy ILAAP);
- proposing to the Bank's Management Board the adoption of methodologies, instructions that prescribe in great detail the identification and measurement/ assessment of risks, stress testing, risk management, monitoring and reporting on risks in the field of risk management;
- proposing to the Bank's Management Board the adoption of approach used for the capital adequacy calculationf;
- adoption of rules, instructions and methodologies for planning, calculation and control of capital adequacy and liquidity adequacy (according to the regulator and internally);
- proposing to the Bank's Management Board the risk management strategy and risk management policies and rules;
- proposing to the Bank's Management Board decisions on exposure limits in accordance with the risk management strategy and risk management policies;
- proposing to the Bank's Management Board risk control activities in accordance with the risk management strategy and policies;
- proposing to the Bank's Management Board the integration of risk management into day-to-day operations, and in particular into business decision-making;
- conducting risk identification, risk measurement/assessment and stress test activities;
- risk analysis (including also the risks of new products or new markets);
- participation in the calculation of capital adequacy and liquidity;

INTESA SANPAOLO BANKA
Bosna i Hercegovina

3. THE BANK'S RISK MANAGEMENT STRATEGY AND POLICY (continued)
3.5 Internal control system and organization of Control Functions (continued)

- monitoring of risk exposure, risk profile and capital adequacy, including monitoring of the risk limit structure;
- checking the application and effectiveness of risk management methods and procedures;
- examination and evaluation of adequacy and effectiveness of internal controls in the risk management process;
- reporting on risks, capital adequacy and liquidity to the Bank's senior management, member of the Bank's Management Board responsible for the risk control, the Bank's Management Board, the Bank's Supervisory Board, the Bank's Credit Risk Management Committee, the Bank's Financial Risk Management Committee, the Bank's Internal Audit Department, the Bank's Audit Committee and, if necessary, other functions and organizational units of the Bank;
- reporting to Privredna Banka Zagreb d.d. on risks, capital adequacy and liquidity;
- proposing to the Bank's Management Board the annual work plan of the Bank's risk control function and adoption of operational activity plans based on the annual work plan of the Bank's risk control function;
- reporting on activities of the Bank's control risk function to the Bank's Management Board, the Bank's Audit Committee and Supervisory Board;
- control performacne as defined by the Work Plan of the Bank’s risk control function.

In addition to the above activities, the Bank’s risk control function performs all stipulated activities in accordance with the applicable regulations, Privredna Banka Zagreb d.d. requirements as well as the Bank's internal rules and regulations.

In 2020, regular activities of the risk control function were carried out according to the plan and prescribed relevant internal regulations. A detailed overview of the implemented activities as well as the findings for the controlled areas are documented in the Reports on the risk control function operation. The risk control function reports are submitted on a regular basis to the Bank's Management Board, which assessed that the operation of the control function was adequate, i.e. more than adequate.
In addition to the Bank's Management Board, the risk control function also reports directly to the Bank's Supervisory Board. Reports of the risk control function are regularly submitted to the Risk Committee and the Audit Committee.

3. THE BANK'S RISK MANAGEMENT STRATEGY AND POLICY (continued)

3.6. REPORTING

To include adequately the top management and other relevant functions in the risk management system, a reporting system has been established that enables efficient and timely informing of the stakeholders about risk exposure, potential tools for risk mitigation and their effect.

The reports presented to the Bank's management bodies and the Risk Committee enable raising of awareness on the risk areas in the Bank, exchange of views and discussion of all relevant stakeholders in the risk management system. They are continuously improved in terms of contents and quality of the presented data.

The process, stakeholders and their roles are defined by internal rules.

Reports on developments related to internal losses, changes in the risk level in processes where risk indicators have been established, developments of capital requirements,

initiatives taken to mitigate risk, risk appetite and strategically relevant topics are submitted to the Bank's management bodies,the Risk Committee and to the owners of processes/ business units.

Depending on the type and recipient of the report, reporting is carried out on a daily, monthly, quarterly, semi-annual and annual basis.

3. THE BANK'S RISK MANAGEMENT STRATEGY AND POLICY (continued)
3.6. Reporting (continued)

The list of key reports on risk management and users of reports are indicated below:

Table 9

REPORT	Supervisory Board	Risk Committee	Audit Committee	Management of the Bank	ALCO	Credit Risk Management Committee	Problem Assets Committee	Operational Risk Committee
ICAAP & ILAAP REPORT	✓	✓	✓	✓				
CAPITAL ADEQUACY STATEMENT (CAS)	✓	✓	✓	✓				
LIQUIDITY ADEQUACY STATEMENT (LAS)	✓	✓	✓	✓				
ISP BIH RISK PROFILE REPORT	✓	✓	✓	✓				
RISK CONTROL FUNCTION REPORT AND WORK PLAN	✓	✓	✓	✓				
TABLEU DE BORD	✓	✓	✓	✓				
BANK RECOVERY PLAN	✓	✓		✓				
QUARTERLY CREDIT RISK REPORT	✓	✓	✓	✓	✓			
MONTHLY CREDIT RISK REPORT						✓		
PCM QUARTERLY REPORT						✓		
ACTION PLAN IMPLEMENTATION REPORT DURING THE PCM PROCESS							✓	
REPORT OF STATE AND CHANGE OF PORTFOLIO NONPERFORMING ASSETS						✓		
PROPOSED CHANGES IN CLASSIFICATIONS AND PROVISIONS							✓	
MONTHLY OPERATIONAL RISK REPORT				✓				
QUARTERLY OPERATIONAL RISK REPORT	✓	✓	✓	✓				✓
QUARTERLY FINANCIAL RISK REPORT	✓	✓	✓	✓				
OUTSOURCING ACTIVITIES REPORT	✓	✓		✓				✓
ICT RISK ASSESSMENT REPORT	✓	✓		✓				
REPORT ON UTILIZATION OF LIMITS FOR LIQUIDITY, INTEREST AND MARKET RISKS (ALCO REPORT)					✓			

3. THE BANK'S RISK MANAGEMENT STRATEGY AND POLICY (continued)

3.7. RISK MITIGATION TECHNIQUES

Use of risk mitigation techniques

Given that the capital requirement for credit risk accounts for the largest share in the total regulatory requirement and that credit risk is the key and most significant risk in a bank, credit risk mitigation (CRM) techniques are presented below.

Use of credit risk mitigation techniques

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

The methodology for calculation of credit risk-weighted exposures for the purposes of calculatioin of the capital requirement for credit risk, the minimum criteria for recognition of each individual collateral instrument, methods and frequency of the initial and reevaluation of collateral instruments are prescribed by internal acts. The correct application in the process of calculation of the capital requirement for credit risk is ensured by control points integrated into the calculation process itself.

Credit risk mitigation techniques mean techniques that can be used to reduce the credit risk related to an exposure**.**

The Bank shall include in the calculation of regulatory capital only those credit protection instruments that satisfy all the requirements from the Decision, whereby the credit risk-weighted exposure amount reduced due to the use of credit risk mitigation techniques may not be higher than the credit risk-weighted exposure amount calculated for the same placement - without the application of credit risk mitigation techniques.

To cover a single exposure, the Bank uses more than one type of credit protection at the same time. In such cases when the standardised approach is applied, the amount of exposure is subdivided into parts covered by one type of credit risk protection and subsequently the capital requirements are calculated separately for each part in accordance with the provisions of Decision.

For the purpose of calculating credit risk-weighted exposure amounts (risk-weighed assets), the Bank includes the impact of maturity mismatch occuring when the residual maturity of the contracted credit protection is shorter than that of the protected exposure.
If there is a maturity mismatch, credit protection is not qualified as eligible protection in the following situations and credit risk mitigation techniques are not used:

- if the residual maturity of the credit protection is shorter than three months
- if the agreed (original) maturity of the credit protection is shorter than one year.

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

- funded credit protection and
- unfunded credit protection.

3. THE BANK'S RISK MANAGEMENT STRATEGY AND POLICY (continued)
3.7. Risk Mitigation techniques (continued)

Basic types of funded credit protection instruments

- cash deposits
- debt securities according to the rating in accordance with the Decision listed on a recognized stock exchange, shares listed on a recognized stock exchange.

Other funded credit protection

- life insurance policy[2] (the value of the policy is its repurchase value determined by the insurance company issuing the insurance policy).

In the case of other funded credit protection instruments, credit risk mitigation techniques are used by application of the risk weight adjusted to the risk weight of the credit protection provider to the secured part of the exposure.

Unfunded credit protection

Warranties and guarantees (irrevocable and at the first call) of eligible credit protection providers:

(a) central governments and central banks;
(b) regional government units and local authorities,
(c) multilateral development banks,
(d) international organisations exposures to which a 0 % risk weight is assigned,
e) public sector entities, claims having “central government” treatment
f) institutions, and
g) other companies, including parent and associate companies of the credit institution, provided that they have a credit rating according to the rules for weighting of exposures to companies in accordance with the provisions of the Decision.

The Bank mostly uses guarantees issued by the central government and local government to secure placements, while the remaining part refers to bank guarantees. In the case of unfunded credit protection instruments, credit risk mitigation techniques are used by applying the risk weight of unfunded credit protection provider is applied to the secured part of the exposure.

The process of managing credit protection instruments aims at ensuring complete and accurate records of credit protection instruments in the Bank's books in order to provide information on the coverage level of the loan portfolio (in full, or by individual segments) by credit protection instruments, and to optimize their use.

The Bank has established a robust system for limiting credit exposures that takes into account a number of risk factors, especially in the segment of housing loans and available collateral instruments in such a way as to enable lending only in cases where loans are appropriately covered by residential real estates. In this regard, the Bank projects the collateral coverage ratio for placements (LTV) through a very important indicator of risk mitigation, at the same time, directly managing the risk of default through already adequate lending standards.

[2] At present, the Bank does not use life insurance policies as CRM. The Bank shall start using them once the technical requirements have been met.

INTESA SANPAOLO BANKA
Bosna i Hercegovina

4. CAPITAL AND REGULATORY CAPITAL ADEQUACY

The Bank hereby publishes the following information pursuant to Article 8, 9 and 10 of the Decision.
All information is indicated in BAM 000, unless stated otherwise.

4.1. BANK'S CAPITAL STRUCTURE

The Bank's regulatory capital is an amount of assets the Bank is under obligation to maintain to ensure secure and stabile business operations, i.e. to meet its obligations towards its creditors.

By Decision on calculation of the capital of a bank (Official Gazette of FBIH 81/2017, 50/2019, 37/2020, 81/2020) of the Banking Agency, banks are required to maintain an adequate amount of regulatory capital in accordance with the risks they assume in their operations on an individual and consolidated basis.

The Bank's regulatory capital as at 31 December 2020 amounted to 297,283 thousand BAM. It consists of the most stable and solid sources of funds-paid-in ordinary shares and reserves, increased every year by a decision of the Assembly, thus directing a part of the earned net profit of the current year into the capital.

The Bank's equity capital includes, mostly, paid-in ordinary shares of Privredna Banka Zagreb d.d. and the accompanying share premium, other reserves and other total accumulated profit.

The other total accumulated profit includes unrealised losses/gains based on value adjustments of financial assets allocated to the portfolio of assets measured at a fair value through other total accumulated income.

The share capital is reduced by intangible assets in accordance with the Decision on the calculation of the Capital of a Bank.

The Bank's supplementary capital consists of regulatory adjustments as described below.

The Bank has no hybrid, or subordinated instruments and additional equity capital.

The structure of the capital requirements of banks, according to Article 34 of the Decision, defines minimum levels for three capital requirements:

- the ratio of Common Equity Tier 1of 6.75%,
- the ratio of Tier 1 capital of 9%,
- the ratio of regulatory capital of 12%.

Apart from the minimum adequacy rates set by the regulator, the Bank is also required to ensure the capital conservation buffer in the form of Common Equity T1 in the amount of 2.5% of the total amount of the risk exposure.

4. CAPITAL AND REGULATORY CAPITAL ADEQUACY (continued)
4.1. Bank's capital structure (continued)

In addition to the foregoing stipulated rates, the Decision on calculation of the capital of a bank has envisaged but not yet stipulated the requirements for other capital buffers, i.e. a combined buffer which is a minimum Common Equity T1 Capital increased by a capital conservation buffer and increased by the following buffers, as applicable:

- pro-cyclic bank-specific buffer;
- buffer for systemically significant bank (stipulated to range from 0% to 2% and will be defined for each bank individually once FBA has ranked banks based on their systemic significance); and
- system risk buffer.

The Bank's capital structure as at 31 December 2020 was the following:

Table 10

Capital	Iznos
REGULATORY CAPITAL	**297,283**
COMMON EQUITY	**297,277**
COMMON EQUITY TIER 1 (CET1)	**297,277**
Capital Instruments recognised as CET1	**93,581**
Paid capital instruments	44,776
Share premium	48,805
Profit or loss belonging to the ultimate shareholder	18,245
(–) Part of the profit for the period generated in the business year or profit for the period generated at the end of the business year, that is not recognised	-18,245
Other accumulated aggregate profit	**1,551**
Other reserves	**205,812**
(–) Other intangible assets	**-3,667**
ADDITIONAL TIER 1 CAPITAL (AT1)	**6**
Capital instruments recognised as AT1	6

Capital instruments included into the regulatory capital calculation are paid in share capital and share premium:

Table 11

Capital Instruments recognised as CET1	**93,581**
Paid capital instruments	44,776
Share premium	48,805

Calculation of the regulatory capital also includes:
- total accumulated profit amounting to 1,551 thousand BAM related to a fair value of the assets measured through the Other Comprehensive Income;

- other reserves amounting to 205,812 thousand BAM consisting of profit from the previous periods which were allocated by the Bank to its Retained reserves, Other provisions; and

- intangible assets amounting to 3,667 thousand BAM (software and licenses) which, according to the Decision, are a capital deductible item.

4. CAPITAL AND REGULATORY CAPITAL ADEQUACY (continued)
4.1. Bank's capital structure (continued)

Basic characteristics of financial instruments included into the Bank's regulatory capital are given in Schedule 1.
Adjustments to the regulatory capital calculation amount to 6 thousand BAM and refer to paid-in priority shares.

Table 12

ADDITIONAL TIER 1 CAPITAL (AT1)	**6**
Capital instruments and subordinated debt recognised as AT1	**6**

Overview of all limits applied in calculation of the regulatory (recognised) capital is given below:
Table 13

		(Mln BAM, %)
Regulations related with capital ratios and concentrations	**Required restrictions (%)**	**31.12.2020.**
Total capital adequacy ratio	min. 14.5%*	19.62%
Regulatory capital adequacy ratio	min. 12%	19.62%
Common equity Tier 1 (CET1) capital ratio	min. 6.75%	19.62%
Core Capital Ratio (Tier 1)	min. 9%	19.62%
Leverage Ratio	min. 6%	11.97%
Core capital		297
Suplementary capital		0
Regulatory Capital		297
Total Risk exposure		1,515
Supplementary capital / core capital	max. 33,33%	0.00%
Shares in one legal entity / regulatory capital	max. 15%	0.10%
Shares in one nonfinancial entity / regulatory capital	max. 10%	0.03%
Shares in net capital of one nonfinancial legal entities / net capital of nonfinancial legal entities	max. 49%	18.38%
Total amount of shares in nonfinancial entities / regulatory capital	max. 25%	0.04%
Total amount of shares in financial legal entities / regulatory capital	max.50%	0.10%
Investments in fixed assets / regulatory capital	max. 40%	9.88%
A bank's exposure to one person or a group of related persons / regulatory capital	max. 25%	19.12%
The maximum allowable amount of an uncollateralised loan to a single person or group of related persons / regulatory capital	max. 5%	3.36%
Banks' credit exposure after impairment for expected credit losses towards one client or group without collateral /eligible capital	max. 5%	3.65%
A bank's exposure to BiH Government, FBiH Government, RS Government and Brčko District Government / regulatory capital	max. 300%	18.51%
Individual exposure towards private persons related with Bank / regulatory capital	max. 1%	0.04%
The total exposure towards private persons related with Bank / regulatory capital	max. 10%	0.16%
Total exposure of a bank to a group / regulatory capital	max 25%	19.12%
Exposure of a bank to a group - maximum allowable amount of an uncollateralised loan / regulatory capital	max 5%	1.61%

*Total Capital Adequacy Ratio represent sum of Regulatory Capital Ratio (12%) and Aditional Capital Buffer (2.5%)

INTESA SANPAOLO BANKA
Bosna i Hercegovina

4. CAPITAL AND REGULATORY CAPITAL ADEQUACY (continued)

4.2. Capital requirements and regulatory capital adequacy

Overview of capital requirements and capital adequacy rates are presented below:

Table 14

Capital adequacy			
No.	**Item**	**Risk-weighted exposure amount**	**Capital requirements**
1.	Exposures to central governments and central banks	0	0
2.	Exposures to regional governments and local authorities	23,289	2,795
3.	Exposures to public sector entities	7,771	933
4.	Exposures to multilateral development banks	0	0
5.	Exposures to international organisations	0	0
6.	Exposures to institutions	64,955	7,795
7.	Exposures to companies	398,503	47,820
8.	Exposures to retail	399,828	47,979
9.	Exposures to secured with real estate	458,132	54,976
10.	Exposures with default status	24,252	2,910
11.	High risk items	0	0
12.	Exposures to covered bonds	0	0
13.	Exposures to institutions and companies with short-term credit assessment	0	0
14.	Exposures to units or shares in investment funds	0	0
15.	Exposures based on equity investments	1,003	120
16.	Other exposures	25,716	3,086
17.	Total capital requirements for credit risk		**168,414**
18.	Capital requirements for settlement / delivery amount		0
19.	Capital requirements for market risks		0
19.1	Capital requirements specific and general position risk based on debt and equity instruments		0
19.2	Capital requirements for large exposures arising from trading book items		0
19.3	Capital requirements for foreign exchange risk		0
19.4	Capital requirements for commodity risk		0
20.	Capital requirements for operational risk		**13,378**
21.	CET1 ratio		**19.62%**
22.	T1 ratio		**19.62%**
23.	Regulatory capital ratio		**19.62%**

4. CAPITAL AND REGULATORY CAPITAL ADEQUACY (continued)

4.3. BANK'S CREDIT RISK EXPOSURE

4.3.a. Definition of terms of default status and past due exposures (past due)

For the purpose of calculation of the risk-weighted assets, and calculation of expected loan losses the Bank determines the status of default in accordance with Article 2 point ll), and Article 61 of the Decision on capital calculation and Article 178 of the Regulation (EU) no. 575/2013 of the European Parliament and Council.
As it is evident from the regulatory definitions the regulations of ECB and FBA are largely aligned, as both define that there are two requirements for establishment of the status of default on liabilities:
Requirement A – objective evidence of the status of default based on continuous count of maturity days, applying the same relative threshold of 1%;
Requirement B -status of default on liabilities based on incapacity of a customer to pay, whereas the evidence suggesting UTP is the same in both regulations.

On the other hand, a slight difference exists between the two regulations as regards the absolute materiality threshold.
According to the rules of the FBiH Banking Agency, the absolute threshold for individuals is 200 KM, and for legal entities 1,000 KM, while according to the rules of the ECB, the threshold for individuals is 100 EUR, and for legal entities 500 EUR.
In order to fully satisfy the requirements of both regulations, the EU regulator (for consolidated reporting to the Group) and the local regulator (for reporting to the FBiH Banking Agency), Intesa Sanpaolo Bank applies the prudential principle in defining the status of default. This means that when there are differences between the two regulations, the Bank applies a more conservative rule, to ensure compliance with both regulations.
The first and obvious application of the principle is linked to the absolute thresholds for default status. Evidently, the absolute thresholds, as defined by the two regulators, are almost equal, as the Currency Board in BiH has defined a fixed exchange rate between Euros and BAM, with an exchange rate of 1EUR = 1.95583 BAM.
The Banks considers the materially significant amount to be the total overdue receivables of a client from:
a) a natural person in the amount exceeding 100 EUR and 1% of the total exposure of a debtor; and
b) a legal entity in the amount exceeding EUR 500 and 1% of the total exposure of a debtor.
When a client's overdue debt exceeds both the relative (%) and absolute materiality threshold on a given date, the counting of the days of arrears begins.
If the client is continuously in arrears for more than 90 days, it is considered that the status of default has occurred.

When determining the status of default, the Bank shall take into account the subjective criteria for its determination as defined in Article 61, (3), (a), and (5) of the Decision.

The Manual on rules and criteria for credit exposure classification and measurement and the Methodology for determining a default status of debts defines the default status more specifically according to objective and subjective criteria for the purpose of provisions calculation in accordance with IFRS 9.

4 CAPITAL AND REGULATORY CAPITAL ADEQUACY (continued)
4.3. Bank's credit risk exposure (continued)

4.3.b. Methodology for calculation of credit risk valuation adjustments and loan loss provisions for off-balance items-determination of expected loan losses for credit risk

In line with the International Financial Reporting Standards, local regulatory practice and credit risk management practice, the Bank creates provisions for expected loan losses.
The entire management framework is based on the IFRS 9 (International Financial Reporting Standards 9), where expected loan losses are calculated and recognised without waiting for the trigger event[3] and in the forward-looking perspective. In addition, according to IFRS 9 more detailed portfolio classification should be done in three credit risk levels according to the set of pre-defined criteria:

- **Stage 1** includes key financial instruments **which have not been significantly impaired in terms of credit quality as compared to the initial recognition;**
- **Stage 2,** on the other hand, includes financial instruments which have been **significantly impaired in terms of credit quality as compared to the initial recognition, but have no objective evidence of the loan loss event.**
- **Stage 3** includes exposures having objective evidence of impairment.

For the instruments classified in the Stage 2 and Stage 3, where the credit risk of a financial instrument has significantly increased since the initial recognition, the lifetime expected loss has been recognised. The lifetime expected loss includes the expected loss for the entire residual maturity of a financial instrument. The expected loss in 12 months is calculated for the instruments classified in the Stage 1.

When calculating the expected losses, projection elements are included in the estimate of PD/LGD (macroeconomic conditionality), to take into account expectations of changes in the PD / LGD estimate as a result of changes in the macroeconomic environment that may occur in coming years relative to the reporting date.

Provisions are allocated and calculated on a collective basis, based on an estimate of losses incurred on individual homogeneous sub-portfolios formed based on similar characteristics, such as type of client, facility and presence of collateral.

[3] Unlike in the previous IFRS 39 standard, where incured loss model was used.

INTESA SANPAOLO BANKA
Bosna i Hercegovina

4 CAPITAL AND REGULATORY CAPITAL ADEQUACY (continued)
4.3. Bank's credit risk exposure (continued)

Detailed description of methodology for the IFRS 9 methodological framework applied in ISP BiH, including credit risk level assignment and estimated probability of default (PD), loss given default (LGD), exposure at default (EAD) as well as calculated of the expected loan loss is available in the IFRS 9 Impairment Methodology of ISP BiH.

4.3.c. Amounts of the Bank's exposures as per exposure categories

The Bank's exposure is defined in Article 44 of the Decision on calculation of the capital of a bank, defining:

- The exposure value of an asset item shall be its accounting value remaining after provisions, additional value and other own funds reductions related to the asset items.
- The exposure value of an off-balance sheet item shall be its accounting value after deduction of loss provisioning for off-balance sheet exposures, multiplied by the conversion factor (CCF factor)

Based on the exposure categories, the Bank has indicated the following amounts on 31 December 2020 and for 2020:

Table 15

Total and average net exposure value			
No.	**Exposure category**	**Net exposures at the end of the period**	**Average net exposures over the period**
1.	Exposures to central governments and central banks	465,459	496,846
2.	Exposures to regional governments and local authorities	106,938	82,936
3.	Exposures to public sector entities	11,203	8,285
4.	Exposures to multilateral development banks	681	519
5.	Exposures to international organisations	0	0
6.	Exposures to institutions	189,228	142,167
7.	Exposures to companies	658,665	588,999
8.	Exposures to retail	654,975	659,261
9.	Exposures to secured with real estate	716,740	709,834
10.	Exposures with default status	24,160	22,079
11.	High risk items	0	0
12.	Exposures to covered bonds	0	0
13.	Exposures to institutions and companies with short-term credit assessment	0	0
14.	Exposures to units or shares in investment funds	0	0
15.	Exposures based on equity investments	427	479
16.	Other exposures	58,356	60,056
17.	**Total**	**2,886,832**	**2,771,462**

4 CAPITAL AND REGULATORY CAPITAL ADEQUACY (continued)
4.3. Bank's credit risk exposure (continued)

4.3.d. Geographical division of exposure categories

Geographical division of exposures is given below:

Table 16

No.	Items	Bosnia and Herzegovina	Italy	Austria	Germany	Croatia	USA	Great Britain	Switzerland	Sweden	Other
1.	Exposures to central governments and central banks	465,459	0	0	0	0	0	0	0	0	0
2.	Exposures to regional governments and local authorities	106,938	0	0	0	0	0	0	0	0	0
3.	Exposures to public sector entities	11,203	0	0	0	0	0	0	0	0	0
4.	Exposures to multilateral development banks	0	0	0	0	0	0	566	0	0	115
5.	Exposures to international organisations	0	0	0	0	0	0	0	0	0	0
6.	Exposures to institutions	73,863	44,107	9,942	46,325	11,179	354	1,114	772	535	1,037
7.	Exposures to companies	658,279	0	0	0	0	0	0	0	0	386
8.	Exposures to retail	654,599	72	0	0	164	116	0	0	0	24
9.	Exposures to secured with real estate	716,740	0	0	0	0	0	0	0	0	0
10.	Exposures with default status	24,160	0	0	0	0	0	0	0	0	0
11.	High risk items	0	0	0	0	0	0	0	0	0	0
12.	Exposures to covered bonds	0	0	0	0	0	0	0	0	0	0
13.	Exposures to institutions and companies with short-term credit assessment	0	0	0	0	0	0	0	0	0	0
14.	Exposures to units or shares in investment funds	0	0	0	0	0	0	0	0	0	0
15.	Exposures based on equity investments	53	0	0	0	297	0	0	0	0	77
16.	Other exposures	58,356	0	0	0	0	0	0	0	0	0
17.	**Total**	**2,769,650**	**44,179**	**9,942**	**46,325**	**11,640**	**470**	**1,680**	**772**	**535**	**1,639**

Countries indicated under the item „Other“ are: Australia, Poland, Luxembourg, Denmark, Norway, Serbia, Belgium, Slovenia and Montenegro.

4.3.e. Exposure categories as per types of activities

Table 17

Exposures by NACE (net exposure value)												
No.	Exposures	Agriculture, forestry and fishing	Mining and quarrying	Manufacturing	Electricity, gas, steam and air conditioning supply	Water supply; sewerage, waste management and remediation activities	Construction	Wholesale and retail trade; repair of motor vehicles and motorcycles	Transport and storage	Accommodation and food service activities	Information and communication	Financial Institutions
1.	Exposures to central governments and central banks	0	0	0	0	0	0	0	0	0	0	0
2.	Exposures to regional governments and local authorities	0	0	0	0	0	0	0	0	0	0	4,450
3.	Exposures to public sector entities	0	0	0	0	0	0	0	4,871	0	0	0
4.	Exposures to multilateral development banks	0	0	0	0	0	0	0	0	0	0	681
5.	Exposures to international organisations	0	0	0	0	0	0	0	0	0	0	0
6.	Exposures to institutions	0	0	0	0	0	0	0	0	0	0	189,228
7.	Exposures to companies	10,474	9,824	149,733	14,638	0	80,171	284,727	44,773	4,693	22,879	685
8.	Exposures to retail	1,415	1,091	15,270	170	0	6,227	21,682	10,905	185	1,663	0
9.	Exposures to secured with real estate	8,620	3,201	102,060	68,426	0	37,233	196,050	12,412	23,276	3,816	0
10.	Exposures with default status	0	0	0	0	0	197	1,835	1,162	2,151	0	0
11.	High risk items	0	0	0	0	0	0	0	0	0	0	0
12.	Exposures to covered bonds	0	0	0	0	0	0	0	0	0	0	0
13.	Exposures to institutions and companies with short-term credit assessment	0	0	0	0	0	0	0	0	0	0	0
14.	Exposures to units or shares in investment funds	0	0	0	0	0	0	0	0	0	0	0
15.	Exposures based on equity investments	0	0	0	0	0	50	0	0	0	77	300
16.	Other exposures	0	0	0	0	0	0	0	0	0	0	0
17.	**Total**	**20,509**	**14,116**	**267,063**	**83,234**	**0**	**123,878**	**504,294**	**74,123**	**30,305**	**28,435**	**195,344**

4 CAPITAL AND REGULATORY CAPITAL ADEQUACY (continued)
4.3. Bank's credit risk exposure (continued)

Continuation - *4.3.e. Exposure categories as per types of activities*

Table 17 - continuation

Exposures by NACE (net exposure value)											
No.	**Exposures**	**Real estate activities**	**Professional, scientific and technical activities**	**Administrative and support service activities**	**Public administration and defence, compulsory social security**	**Education**	**Human health and social work activities**	**Arts, entertainment and recreation**	**Other services activities**	**Total**
1.	Exposures to central governments and central banks	0	0	0	221	0	0	0	465,238	465,459
2.	Exposures to regional governments and local authorities	0	0	0	101,632	0	0	0	856	106,938
3.	Exposures to public sector entities	0	0	5	5,670	555	0	5	97	11,203
4.	Exposures to multilateral development banks	0	0	0	0	0	0	0	0	681
5.	Exposures to international organisations	0	0	0	0	0	0	0	0	0
6.	Exposures to institutions	0	0	0	0	0	0	0	0	189,228
7.	Exposures to companies	2,487	14,625	1,973	0	627	5,953	468	9,935	658,665
8.	Exposures to retail	2,974	1,442	719	0	162	325	72	590,673	654,975
9.	Exposures to secured with real estate	15,231	11,649	4,729	0	1,179	3,160	0	225,698	716,740
10.	Exposures with default status	0	0	4	0	2,769	0	0	16,042	24,160
11.	High risk items	0	0	0	0	0	0	0	0	0
12.	Exposures to covered bonds	0	0	0	0	0	0	0	0	0
13.	Exposures to institutions and companies with short-term credit assessment	0	0	0	0	0	0	0	0	0
14.	Exposures to units or shares in investment funds	0	0	0	0	0	0	0	0	0
15.	Exposures based on equity investments	0	0	0	0	0	0	0	0	427
16.	Other exposures	0	0	0	0	0	0	0	58,356	58,356
17.	**Total**	**20,692**	**27,716**	**7,430**	**107,523**	**5,292**	**9,438**	**545**	**1,366,895**	**2,886,832**

Note: the following exposures are indicated under the Item other activities: service activities (25,089 thousand BAM); retail (818,212 thousand BAM) other exposures (523,594 thousand BAM).
In the category of Other exposures, the balance of funds with the Central Bank of BiH, cash and tangible and intangible assets as at 31 December 2020 are indicated.

INTESA SANPAOLO BANKA
Bosna i Hercegovina

4 CAPITAL AND REGULATORY CAPITAL ADEQUACY (continued)
4.3. Bank's credit risk exposure (continued)

4.3.f. Exposure categories as per maturity

Table 18

Remaining maturity of all exposures (net exposure value)						
No.	Exposure category	≤ 1 y	> 1 ≤ 5 y	> 5 y	No maturity specified	Total
1.	Exposures to central governments and central banks	221	0	0	465,238	**465,459**
2.	Exposures to regional governments and local authorities	66,809	16,384	23,745	0	**106,938**
3.	Exposures to public sector entities	555	3,469	7,179	0	**11,203**
4.	Exposures to multilateral development banks	681	0	0	0	**681**
5.	Exposures to international organisations	0	0	0	0	**0**
6.	Exposures to institutions	169,160	20,068	0	0	**189,228**
7.	Exposures to companies	331,323	278,217	49,125	0	**658,665**
8.	Exposures to retail	196,787	210,439	247,749	0	**654,975**
9.	Exposures to secured with real estate	166,690	209,084	340,966	0	**716,740**
10.	Exposures with default status	3,914	7,073	13,173	0	**24,160**
11.	High risk items	0	0	0	0	**0**
12.	Exposures to covered bonds	0	0	0	0	**0**
13.	Exposures to institutions and companies with short-term credit assessment	0	0	0	0	**0**
14.	Exposures to units or shares in investment funds	0	0	0	0	**0**
15.	Exposures based on equity investments	0	0	0	427	**427**
16.	Other exposures	0	0	0	58,356	**58,356**
17.	**Total**	**935,459**	**745,415**	**681,937**	**524,021**	**2,886,832**

Note: the maturity of exposures repaid in instalments is indicated according to their terms until the date of maturity of their last instalment.
In the remaining maturity term <=1 year there is an amount of 228,978 thousand BAM for exposures maturing „at sight".

4 CAPITAL AND REGULATORY CAPITAL ADEQUACY (continued)
4.3. Bank's credit risk exposure (continued)

4.3.g. Exposures as per industry

Table 19

Exposures to a significant economic branch of the economy							
No.	Branches of the economy	Exposures in default status	Allowances for exposures in default status	Amount of overdue receivables due	Allowances for overdue receivables	Exposures that are not in default status	Allowances for exposures that are not in default status
1.	Agriculture, forestry and fishing	81	81	42	1	20,705	197
2.	Mining and quarrying	0	0	32	0	14,259	143
3.	Manufacturing	416	415	681	300	268,414	1,351
4.	Electricity, gas, steam and air conditioning supply	0	0	55	0	83,676	442
5.	Water supply; sewerage, waste management and remediation activities	0	0	0	0	0	0
6.	Construction	1,010	813	1,099	809	125,005	1,323
7.	Wholesale and retail trade; repair of motor vehicles and motorcycles	3,873	2,037	2,377	1,643	505,195	2,737
8.	Transport and storage	1,967	804	870	393	74,062	1,100
9.	Accommodation and food service activities	2,705	554	206	5	29,893	1,739
10.	Information and communication	1	1	26	1	28,689	255
11.	Financial Institutions	2	1	40	0	195,762	417
12.	Real estate activities	1	1	44	2	21,187	495
13.	Professional, scientific and technical activities	3	2	48	1	28,100	384
14.	Administrative and support service activities	11	7	17	1	7,657	230
15.	Public administration and defence, compulsory social security	1	1	83	5	110,790	3,268
16.	Education	3,274	504	678	114	2,567	44
17.	Human health and social work activities	0	0	14	0	9,484	47
18.	Arts, entertainment and recreation	2	2	1	0	548	5
19.	Other services activities	52,352	36,314	23,916	17,125	1,371,138	20,285
20	**Total**	**65,699**	**41,540**	**30,229**	**20,400**	**2,897,131**	**34,459**

4.3.h. Changes in value adjustment for credit risks

Table 20

No.	Changes in allowances and provisions	Allowances and provisions for exposures in default status	Allowances and provisions for exposures that are not in default status
1.	**Opening balances**	**37,015**	**28,987**
1.1.	The effect of the first application of the FBA methodology	5,245	2,528
2.	Increases in allowances and provisions during the period	5,695	31,168
3.	Amount of allowances and provisions losses	-4,142	-16,244
4.	Write-offs and other movements	-12,195	-2,058
5.	Allowances and provisions transfers between categories	9,922	-9,922
6.	**Closing balance**	**41,540**	**34,459**

4 CAPITAL AND REGULATORY CAPITAL ADEQUACY (continued)
4.3. Bank's credit risk exposure (continued)

4.3.i. Use of external institutions for credit risk rating

External credit ratings are used for the category of exposure toward institutions.
For calculation of the risk-weighted assets the Bank uses credit ratings of the following External Credit Rating Institutions (ECAI), recognised by EBA (*European Banking Authority*):

- Moodys
- Fitch
- Standard & Poor's

Assignment of credit ratings into credit quality levels as follows:

Table 21

Dugoročni rejtinzi			
Stupanj kreditne kvalitete	**Fitch's**	**Moody's**	**S&P's**
1	AAA do AA-	Aaa do Aa3	AAA do AA-
2	A+ do A-	A1 do A3	A+ do A-
3	BBB+ do BBB-	Baa1 do Baa3	BBB+ do BBB-
4	BB+ do BB-	Ba1 do Ba3	BB+ do BB-
5	B+ do B-	B1 do B3	B+ do B-
6	CCC+ i niže	Caa1 i niže	CCC+ i niže
Kratkoročni rejtinzi			
Stupanj kreditne kvalitete	**Fitch's**	**Moody's**	**S&P's**
1	F1+,F1	P-1	A-1+
2	F2	P-2	A-1
3	F3	P-3	A-2
4-6	B,C,D	NP	A-3, B,C,D

If there are two credit ratings assigned by recognized ECAIs, which are assigned to different risk weights in accordance with the credit quality level, the rating associated with the higher (less favourable) risk weight is used.

If there are three or more credit ratings assigned by selected ECAIs, which are associated with different risk weights, credit ratings are allocated which, in accordance with the credit quality level, are associated with the two lowest risk weights and use the rating associated with higher (less favourable) risk weight.

If there is a credit rating assigned by a recognized ECAI that relates to a specific issue that represents an exposure, a risk weight based on the credit rating of that issue shall apply.

External credit ratings are used for the category of the exposure toward institutions.

INTESA SANPAOLO BANKA
Bosna i Hercegovina

4 CAPITAL AND REGULATORY CAPITAL ADEQUACY (continued)
4.3. Bank's credit risk exposure (continued)

The amount of exposure before and after the use of credit protection is given as below.

Table 22

Before and after using credit protection					
No.	Exposure category	Value of net exposure before using credit protection		Value of net exposure after using credit protection	
		Exposures that are not in default status	Exposures in default status	Exposures that are not in default status	Exposures in default status
	Kategorije izloženosti	**2,862,672**	**24,160**	**2,862,726**	**24,106**
1.	Exposures to central governments and central banks	465,459	0	465,459	0
2.	Exposures to regional governments and local authorities	106,938	0	107,513	0
3.	Exposures to public sector entities	11,203	5	11,203	5
4.	Exposures to multilateral development banks	681	0	6,243	0
5.	Exposures to international organisations	0	0	0	0
6.	Exposures to institutions	189,228	0	189,228	0
7.	Exposures to companies	658,665	8,554	643,473	8,554
8.	Exposures to retail	654,975	15,601	647,706	15,547
9.	Exposures to secured with real estate	716,740	0	715,856	0
10.	High risk items	0	0	0	0
11.	Exposures to covered bonds	0	0	0	0
12.	Exposures to institutions and companies with short-term credit	0	0	0	0
13.	Exposures to units or shares in investment funds	0	0	0	0
14.	Exposures based on equity investments	427	0	427	0
15.	Other exposures	58,356	0	75,618	0

4.4. LEVERAGE RATE

Pursuant to Article 11 of the Decision, the Bank hereby publishes the following information
All data are indicated in 000 BAM, unless stated otherwise.

Pursuant to the Decision on calculation of the Capital, the Bank is under obligation to calculate the financial leverage rate as a ratio of the equity capital and total exposure of the bank, expressed in percentage. The total exposure is a sum of all and off-balance items which are not deducted when determining the measure of capital, all in accordance with the mentioned Article.
The leverage ratio is defined as one of the strategic limits for risk management, and it has to be maintained above a defined minimum, and the compliance with the limit is followed on a quarterly basis.
The Bank shall ensure and maintain the leverage ratio at the level of 6% at the minimum.
Calculation of the leverage ratio as at 31 December 2020:

Table 23

Exposure value	Amount
Financial derivatives: current replacement cost	170
Financial derivatives Increase in accordance with the market value methodology	254
Off-balance items with the 10% conversion factor (CCF) in line with Decision on the Bank's Capital Calculation	7,073
Off-balance items with the 20% conversion factor (CCF) in line with Decision on the Bank's Capital Calculation	67,524
Off-balance items with the 50 % conversion factor (CCF) in line with Decision on the Bank's Capital Calculation	69,900
Off-balance items with the 100 % conversion factor (CCF) in line with Decision on the Bank's Capital Calculation	0
Other assets	2,341,929
(-) Amount of the assets deductible items - equity - in line with Decision on the Bank's Capital Calculation	-3,667
Exposure of the financial leverage rate - in line with Decision on the Bank's Capital Calculation	**2,483,182**
Capital	
Common Equity in line with Decision on the Bank's Capital Calculation	**297,277**
Leverage ratio	
Financial leverage rate - in line with Decision on the Bank's Capital Calculation	**11.97%**

5. LIQUIDITY REQUIREMENTS

Pursuant to Article 12 of the Decision the Bank hereby publishes the following information

Liquidity risk is a risk of lossess resulting from the existing or expected inability of the Bank to settle all its payable financial liabilities.

The liquidity risks are:
- Liquidity funding risk
- Market liquidity risk

Objectives and policies are described in Chapter 3.

Roles and responsibilities of relevant bodies within the Bank's managerial structure ensure adequate liquidity management. The Bank's corporate bodies, internal management structures and other functions relevant for the risk management are: Supervisory Board, Management Board, Assets and Liabilities Committee, Management Board member responsible for the risk control, Risk Management Department, Treasury and Financial Market Department (CFO), Planning and Financial Control Department, Accounting Department, Internal Audit Department. Their task is to ensure reasonable liquidity risk control preventing crisis situations. Managerial functions are responsible for adopting a financial plan, risk appetite and strategies, establishing liquidity risk management, control system and a comprehensive transfer pricing system. By monitoring sufficient liquidity reserves, stress testing and reporting on the liquidity position and of liquidity risk identifiers against prescribed limits, the Bank ensures an adequate and balanced level of liquidity providing for funds to finance daily payment obligations. Individual responsibilities of the relevant functions are defined in detail in the internally prescribed liquidity risk management document of Intesa Sanpaolo Bank d.d. BiH.

The target liquidity risk profile is a framework for liquidity risk management primarily through setting liquidity risk exposure limits, defining models for monitoring and measuring as well as for reporting on liquidity risk exposure. Liquidity risk measurement and reporting includes short-term and structural liquidity.

Daily monitoring of mandatory reserves, minimum liquidity ratio by maturity and a liquidity coverage ratio are external requirements stipulated by the FBiH Banking Agency. Internal liquidity management standards are basic models for liquidity risk measuring that include intraday monitoring of liquidity indicators, monitoring of liquidity reserves, liquidity coverage ratio, stable funding ratio, stress test, concentration indicators and indicators for initiating Contingency Plan. In addition to the above metrics, liquidity monitoring tools are applied to provide comprehensive view of liquidity risk profiles of the credit institution, taking into account the nature, size and complexity of assets. Key metrics relate to the analysis of contractual maturities and related inconsistencies, analysis of funding concentrations to a counterparty/product and concentration of liquidity reserves by the issuer/counterparty, funding renewal analysis, cost and duration of funding for the counterparty and analysis of balancing capacity concentration by the issuer/counterparty.

The Bank publishes the liquidity coverage ratio on the basis of the Instruction on application of provisions of the Decision on liquidity risk management of a bank relating to the LCR components.

INTESA SANPAOLO BANKA
Bosna i Hercegovina

5. LIQUIDITY REQUIREMENTS (continued)

On 31 December 2020 the liquidity coverage ratio was 171.86%.

Table 24

No.	LIQUIDITY COVERAGE RATIO (LCR)	Iznos
1.	Liquidity buffer	362,881
2.	Net liquidity outflow	211,151
3.	Liquidity coverage ratio (%)	171.86%
	Liquidity buffer	
4.	L1 excl. EHQCB liquidity buffer, unadjusted	362,881
5.	L1 excl. EHQCB collateral 30 day outflows	0
6.	L1 excl. EHQCB collateral 30 day inflows	
7.	Secured cash 30 day ouflows	
8.	Secured cash 30 day inflows	
9.	L1 excl. EHQCB "adjusted amount"	362,881
10.	L1 EHQCB value, unadjusted	
11.	L1 EHQCB collateral 30 day outflows	
12.	L1 EHQCB collateral 30 day inflows	
13.	L1 EHQCB "adjusted amount" befor applaying the upper limit	
14.	L1 EHQCB "adjusted amount" after applaying the upper limit	
15.	Excess liquid asset amount of L1 EHQCB	0
16.	L2A, unadjusted	
17.	L2A collateral 30 day outflows	
18.	L2A collateral 30 day inflows	
19.	Adjusted amount of L2A "before applying the ceiling"	0
20.	Adjusted amount of L2A "after application of the ceiling"	
21.	"Amount of excess liquid assets" level 2a	0
22.	L2B , unadjusted	
23.	L2B collateral 30 day outflows	
24.	L2B collateral 30 day inflows	
25.	Adjusted amount of L2B "before applying the ceiling"	0
26.	Adjusted amount of L2B "after application of the ceiling"	
27.	"Amount of excess liquid assets" level 2b	0
28.	Excess liquid asset amount	0
29.	Liquidity buffer	362,881
	Net liquidity outflow	
30.	Total Outflows	407,649
31.	Fully Exempt Inflows	0
32.	Inflows Subject to 75% Cap	196,498
33.	Reduction for Fully Exempt Inflows	0
34.	Reduction for Inflows Subject to 75% Cap	196,498
35.	Net liquidity outflow	211,151

Excessive concentration of funding sources related to counterparties in the event of stress may lead to liquidity difficulties. In order to have a preventive effect on the concentration, the Bank regularly monitors the concentration of funding sources by other counterparties.

For the purpose of better control of the currency mismatch, it also monitors LCR in all significant currencies. According to the FBA Decision on the liquidity risk management in a bank, a significant currency is considered significant if the total liabilities denominated in that currency amount to at least 5% of the Bank's total liabilities.

5. LIQUIDITY REQUIREMENTS (continued)

In addition, from the point of view of liquidity risk, positions with a currency clause pegged to a specific foreign currency are treated as positions in domestic currency (BAM). All operating units performing activities affecting the Bank's liquidity position are aware of liquidity management strategies and associated costs/benefits and operate within approved policies and limits.

As by definition the LCR is an indicator that measures the liquidity of the institution up to 30 days, the Bank also uses other measures and indicators that give a broader picture of its liquidity position such as NSFR, stress LCR, deposit base developments.

6. EXPOSURE BASED ON EQUITY INVESTMENTS OF THE BANK

Pursuant to Article 13 of the Decision, the Bank hereby publishes the following information

On 31 December 2020 the amount of equity investments not recorded into the trading book amounted to 427 thousand BAM.

The Bank's equity investments which have not been entered into the trading book can be divided into:

- Investments measured at fair value through other comprehensive incomet;
- Investments measured at fair value through profit and loss.

In the table below the Bank presents equity investments as per type of investment:

Table 25

Type of investment	Portfolio	Country	Listed on the stock exchange	Amount before using credit protection	Amount after using credit protection	Realized profit / loss from sales RDG	Unrealized gain / loss through RDG	Unrealized gain / loss on equity
Financial institutions	FVTPL	Italy	yes	0	0	0	0	0
Financial institutions	FVTPL	Croatia	yes	297	297	-33	-54	0
Other non-banking institutions	FVOCI	B&H	yes	3	3	0	0	0
Business organization	FVOCI	B&H	no	50	50	0	0	0
Business organization	FVOCI	Belgium	no	77	77	0	0	43
Total				**427**	**427**	**-33**	**-54**	**43**

FVTPL - Fair Value through Profit&Loss
FVOCI - Fair Value through Other Comprehensive Income

7. INTEREST RISK IN THE BANKING BOOK

Pursuant to Article 14 of the Decision, the Bank hereby publishes the following information

Interest risk sources and measuring

The interest risk is exposure of the Bank to adverse changes of interest rates. The risk of interest rate changes affects the current value of future cash flows, and thereby the net interest income as well as other cash flows sensitive to interest rate changes.

Primary sources of the risk of interest rate changes are the following:

- **Re-pricing risk**, stemming from the mismatch between assets and liabilities positions based on the remaining period to the interest rate change,
- **Yield curve risk** stemming from the change of form and slope of the yield curve;
- **Basis risk** stemming from instruments having identical maturity, expressed in the identical currency and based on different types of reference rates;
- **Option risk** refers to options included in property, obligations and off-balance items.

For the purpose of measuring of interest rate risk generated by the banking book on a monthly basis, the sensitivity of change in economic value (measures the change in economic value of the Bank's portfolio resulting from a parallel shift of the yield curve) is taken into account as well as sensitivity of net interest income changes (measures the impact of interest rate shocks) and Value at Risk- VaR used for the purpose of measuring of the FVOCI portfolio.
Apart from the above metrics, when measuring interest rate risk in the bank's book, stress tests (sensitivity to changes in economic value and net interest income in the case of different scenarios of interest rate shifts) are conducted on a monthly and quarterly basis. Within the risk appetite, limits on the net interest income sensitivity have been also defined in the scenario of parallel growth of interest rates by 50 bp and parallel drop of interest rates by -50 bp for all currencies and sensitivity of changes in economic value in the scenario of parallel shift of the yield curve of 100 bp. Also, in accordance with the local regulator’s regulations, the Bank monitors a regulatory limit related to assessment of the change in the economic value of the banking book at an interest rate shock of 200 bp.

Non-credit Risk Management Department monitors the interest rate risk exposure and compliance with limits on a monthly basis.

Assumptions used for interest risk exposure measuring

In calculation of sensitivity of positions to the interest rate change, the Bank uses the following assumptions:

- application of the model to the items at sight – the model assumes that the items at sight will not be withdrawn over night;
- application of FTP instead of contracted interest rates of placements to ensure that calculation of exposures to the interest risk includes exclusively interest-sensitive components. FTP is particularly applied to each individual placement;
- application of the expected loss component which reduces future cash flows for a part of placements expected by the Bank to end in the default status;
- application of the prepayment model- the Bank's assessment has defined an early repayment rate for the term loans of legal entities and private individuals;

7. INTEREST RISK (continued)

Analysis of sensitivity to the interest rate change for Intesa Sanpaolo Bank d.d. BiH on 31 December 2020

Tables below indicate the Bank's assets analysed according to the periods of interest rate changes determined based on the remaining contractual maturity or contractual period of interest rate changes, depending on which one is shorter and do not contain portfolio held for trading.

Increases of net present value of all future cash flows are indicated as positive values in the tables below, whereas reductions are indicated as negative values and in different currencies and periods of interest rate change.

Table 26: *Change of the Bank's assets according to periods of interest rate change.*

Shift Sensitivity +100 b.p. (mln BAM)	Total	0-18 months	18 months - 5 years	over 5 years
EUR	(4.61)	(0.99)	1.36	(4.98)
USD	0.32	0.05	0.17	0.1
CHF	0.01	0.01	0.00	0
Local CcY	(9.41)	(1.45)	(3.57)	(4.39)
Other Ccy	0.03	0	0.03	0
TOTAL utilization	(13.66)	(2.38)	(2.01)	(9.27)

Table 27: *Sensitivity of the net interest income to interest rate changes*

in mln BAM

NII Sensitivity +/-50 b.p.	31.12.2020.	Limit	Utilisation
NII Sensitivity	-2.48	-5.9	42%

Table 28: *Economic value change-parallel shift 200 bp*

in mln BAM

Limit Shift by FBA regulations	Change of EVE	Regulatory capital	Limit	Utiliz. %
Change of banking book economic value toward liable capital (200 bps)	**1.03**	**297.28**	**20%**	**0.35%**

INTESA SANPAOLO BANKA
Bosna i Hercegovina

8. INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS- ICAAP AND INTERNAL LIQUIDITY ADEQUACY ASSESSMENT PROCESS – ILAAP

Pursuant to Article 15 of the Decision the Bank hereby publishes the following information

8.1. SUMMARY OF ICAAP

Internal Capital Adequacy Assessment Process, (abbreviated ICAAP) is a set of processes directed to ensuring internal capital adequacy on the level of Intesa Sanpaolo Bank d.d. BiH.

ICAAP of the Intesa Sanpaolo Bank consists of the following phases:

- risk identification;
- risk profile assessment and stress test;
- risk appetite definition and capital allocation; and
- monitoring and reporting.

Risk identification is one of the key phases of the internal capital adequacy assessment process (ICAAP) where Intesa Sanpaolo Bank d.d. Bosnia and Herzegovina (hereinafter ISP BiH or the Bank) determines risks to which it is exposed or could be exposed. The risks found are classified into one of the following categories of significance - high, medium and low, and in addition to the classification according to significance, the risk treatment is also defined.

The following maps indicate the risks found, their significance and treatment at the Bank:

Table 29

Significant risks	Level of Risk significance	Tretment in ICAAP	
		Qualitative Yes/No	Quantitative Yes/No
Strategic risk	Midium	Yes	Yes
Reputational risk	Midium	Yes	Yes
Credit risks	High	Yes	Yes
Credit risk - Basic	High	Yes	Yes
Credit risk - Concentration	Midium	Yes	Yes
Market risk	Midium	Yes	Yes
Interest rate risk in banking book	High	Yes	Yes
Liqudity risk	High	Yes	No
Intraday liquidity risk	Midium	Yes	No
Risk related to liquidity assets	Midium	Yes	No
Funding concentration risk	Midium	Yes	No
Liqudity risk - Risk related to liquidity outflows	Midium	Yes	No
Structrual mismatch risks	Midium	Yes	No
Operational risk	High	Yes	Yes
Operational risk - legal risk	Midium	Yes	Yes
Operational risk - compliance risk	Midium	Yes	Yes
Operational risk - information system risk	Midium	Yes	Yes
Operational risk - model risk	Midium	Yes	Yes
Outsourcing risk	Midium	Yes	Yes

Risk that are not significant	Level of Risk significance	Tretment in ICAAP	
		Qualitative Yes/No	Quantitative Yes/No
Credit risk - Residual	Low	Yes	No
Credit risk - Country	Low	Yes	No
Credit risk - Currency induced credit risk	Low	Yes	No
Credit risk - Migration risk	Low	Yes	No
Credit risk - Counterparty risk	Low	Yes	No
Credit risk - Interest induced credit risk	Low	Yes	No
Risk of equity holdings in banking book	Low	Yes	No
Real-estate risk	Low	Yes	No
Operational risk - conduct risk	Low	Yes	No
Risk of excessive finanacial leverage	Low	Yes	No

The Bank calculates the capital requirements necessary for the risks covered by "quantitative treatment". The total required internal capital requirement is the sum of internal capital requirements for a particular risk.
Internal capital requirements in the internal capital adequacy assessment process (ICAAP framework) are calculated as required internal capital in the case of the baseline scenario with an additional estimate for the required internal capital in the stress scenario and the potential impact on available financial resources (basically, potential additional loss),

8. INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS – ICAAP AND INTERNAL LIQUIDITY ADEQUACY ASSESSMENT PROCESS – ILAAP (continued)
8.1. Summary of ICAAP (continued)

which is also considered to be a part of the stress test framework and an integral part of ICAAP.

The following significant risks have only a qualitative treatment and the Bank does not calculate internal capital requirements for them:

- Liquidity risk
- Intraday liquidity risk;
- Liquid assets risk;
- Funding sources concentration risk;
- Risk of early funding sources outflow;
- Structural incompliance risk.

For other significant risks included into the qualitative treatment the Bank uses the following approaches for the risk measuring or assessment:

- The Bank uses an internal model to assess the internal capital requirement for the strategic risk. Calculation of internal capital for strategic risk is based on data containing information at the end of the year for various items from previous years as well as projected (budgeted) information on these items for the following year. The items used as input parameters for calculation of the internal capital requirements for strategic risk are:
  - net interest margin
  - net fee and commission
  - costs of employees
  - administrative costs
  - other administrative costs
  - adjustments-assets, equipment and intangible assets.
- The Bank uses an internally developed model to assess the capital requirement for the **market risk**. The basis for calculation of capital requirement for market risk exposure is the Value at Risk model, which is used to measure the Bank's market risk exposure. ISP BiH calculates 99% one-day VaR.
- The basic scenario for calculation of capital requirements for the **credit risk** was calculated in accordance with the Decision on calculation of the capital of a bank issued by the Banking Agency of the Federation of BiH applying the standardized approach.
- Concentration risk includes two types of risk. The first type of concentration risk is defined as the concentration to one person, while the second type of concentration risk is defined as a sectoral or industry risk. The methodology for managing internal capital adequacy **for concentration risk to one person** is based on the methodology of granularity adjustment for the model of asymptotic single risk factor (hereinafter: ASRF). ASRF is the methodological basis for assessing capital requirements for the credit risk. The basis of granularity adjustment methodology used to calculate the internal capital requirements is modification of the Herfindahl-Hirschmann index. The methodology for internal capital requirement for concentration risk **as per industry** is based on the methodology of the FBiH Banking Agency, including effects on the internal capital for credit risk caused by changes in concentration within the industry measured by the Herfindahl-Hirschmann index.
- To assess long-term **interest rate risk**, the Bank conducts analysis of changes in the economic value of the Bank's capital (sensitivity to shifts in interest rates). The model measures the effect of changes in interest rates on the economic value of the Bank's

INTESA SANPAOLO BANKA
Bosna i Hercegovina

8. INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS – ICAAP AND INTERNAL LIQUIDITY ADEQUACY ASSESSMENT PROCESS – ILAAP (continued)
8.1. Summary of ICAAP (continued)

capital. It is based on the accounting principle that the capital economic value is the difference between the present value of assets and the present value of liabilities.

- The internal model for calculation of regulatory capital requirement for **operational risk** is based on the Standardized Approach (TSA). According to the Standardized Approach (TSA), the capital requirement for the operational risk is a three-year average of the risk-weighted relevant indicator for the previous three financial years across all regulatory business lines.
- For risks such as the outsourcing risk and the reputational risk, the Bank uses a simplified methodology of 5-15% of the total amount of risk exposure multiplied by the rate of 12% (stipulated regulatory capital rate) according to the Decision on the internal capital adequacy assessment process and the internal liquidity adequacy assessment process in a bank.

The multi-dimensional nature of the risk indicates the need to complement measurement of economic capital with a stress test, not only to assess losses in individual scenarios, but to assess the impact on capital requirements. The stress test is one of the key risk management tools, aimed at assessing the Bank's vulnerability in the event of extremely difficult or specific but possible events, providing additional information relevant to monitoring activities.

The risk appetite, i.e. the propensity to accept risks, represents the amount, i.e. the level of risk that the Bank deems acceptable to take in achieving the business strategy and goals in the current and future environment, and is determined primarily on the Bank’s level. the risk appetite includes determining an intention to accept risk, as well as determining the risk tolerance in terms of definition of the risk level deemed acceptable for the Bank.

The risk appetite is adopted annually by the Supervisory Board, and is regularly monitored and reported to the relevant committees, so as to ensure development of the Bank within the desired profile of the risk-return ratio.

For the purpose of monitoring and reporting management and regulatory reports on the internal capital adequacy assessment process are produced, which serve as a tool for management decisions on managing and reducing the exposure to risk.

8. INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS – ICAAP AND INTERNAL LIQUIDITY ADEQUACY ASSESSMENT PROCESS – ILAAP (continued)

8.2. SUMMARY OF ILAAP

Liquidity risk is one of the most significant risks for the Bank and although no quantification in terms of capital requirement exists, the special focus is on the entire ILAAP process and ensuring adequate and sufficient liquidity.

The Bank's liquidity is ensured by defined liquidity policies with limits related to both short-term and structural liquidity. The prescribed policies take into account any aspect of liquidity risk management, but due to their importance and significance, the following limits are considered strategically important and therefore are considered an integral part of the level 1 risk appetite limit and as at 31.12.2020 they amounted to:

Table 30

Level 1 Limits ISP BiH	As of 31.12.2020
Liquidity Coverage Ratio (LCR)	171.86% ✔
Net Stable Funding Ratio (NSFR):	141.17% ✔
Net customer loan to direct funding	93.71% ✔

Within the Liquidity Risk Management Policy, the Bank has also defined liquidity crisis warning indicators representing qualitative and quantitative parameters used as indications of possible liquidity crisis.

Together with short-term and structural liquidity indicators, the Policy sets rules for managing a potential liquidity crisis, defined as a situation of difficulty or inability of a bank to meet its due cash obligations, without implementing procedures and/or using instruments which, due to their intensity or use, do not qualify as regular activities.

Within the Liquidity Risk Management Policy, the Bank has defined the Contingency Liquidity Plan (CLP), aimed at safeguarding the Bank's assets and, at the same time, guaranteeing the continuity of operations in the event of liquidity crisis.

INTESA SANPAOLO BANKA
Bosna i Hercegovina

9. REMUNERATION POLICY

Pursuant to Article 5 of the Decision, the Bank hereby publishes the following information

9.1. DECISION-MAKING PROCEDURE FOR THE REMUNERATION POLICY DEFINITION

In line with the *Guidelines on remuneration, incentives and identification of staff that have a material impact on the risk profile of Intesa Sanpaolo Group* acknowledged by Intesa Sanpaolo Bank BiH, as well as with the valid *Guidelines on remuneration, incentives and identification of staff that have a material impact on the risk profile of the Bank* periodically approved by the Supervisory Board, the main roles and responsibilities are described below of the Bank's Corporate Bodies and Functions/Departments for adoption and implementation of Intesa Sanpaolo Bank BiH Remuneration and Incentive Policies.

It is noteworthy that the ISP Bank BIH Guidelines, together with the Bank Remuneration and Incentive Policies constitute the framework about the remuneration and incentive systems adopted in order to ensure sound, prudent company management in line with the interests of all stakeholders, according to criteria of equity, sustainability and competitiveness.

Bank's Shareholders Meeting approves, if in line with ISP Group Remuneration Policies, a limit on the ratio between the variable and fixed components of remuneration paid to individual employees and acknowledges the remuneration to be paid to the Supervisory and Management Board Members in the previous business year. The information must specify remuneration of each individual Member separately, it must show at least the split among fixed and variable remuneration, participation in the profit, options and other benefits, compensations of costs, insurance premiums, fees and other additional payments, if any.

Management Board of the Bank is responsible for implementation of the Remuneration and Incentive Policies at the Intesa Sanpaolo Bank d.d. BiH, as well as all decisions of the Supervisory Board in accordance with the mentioned Policy.

Supervisory Board of the Bank adopts and regularly reviews basic principles of the Remuneration Policy and monitors its implementation, makes decisions on the maximum amount of variable remuneration determined for all employees, and on an individual basis on remuneration of members of the Bank's Management Board and employees responsible for control functions. It also decides on the reduction or abolition of variable remunerations of employees, including the activation of the provision on *malus* and reimbursement of benefits, if there is a significant impairment of performance and loss of the Bank and decides on the possible use of severance pay including the maximum amount or criteria for determining such amounts granted as severance pay to employees.

INTESA SANPAOLO BANKA
Bosna i Hercegovina

9. REMUNERATION POLICY (continued)
9.1. Decision-making procedure for the Remuneration Policy definition (continued)

By a decision of the Supervisory Board, and in accordance with the BiH legislation, Articles of Association of the Bank and guidelines of the Parent Bank, the Bank has established the **Remuneration Committee**, consisting of 3 (three) members of the Supervisory Board, specifically, the President and least two other members appointed and released by the Supervisory Board and bearing no executive functions in the Bank. When appointing the Chairman and members of the Remuneration Committee, the Bank's Supervisory Board shall ensure their professional and independent judgment of the Remuneration Policies, their implementation and effect on the risk, capital and liquidity management in the Bank.
The Committee has been established to competently and independently decide on the remuneration policy and practice and impacts of remunerations on the risk, capital and liquidity management. The Secretary of the Remuneration Committee is the Secretary of the Bank, and in her absence, an employee of the Bank's Secretariat occupies the role of the Committee's Secretary. The Remuneration Committee prepares decisions for the Supervisory Board on the entire amount of variable remunerations established by the Bank for its employees in a business year for a specific appraisal period, on remunerations of the members of the Management Board on an individual basis and persons responsible for control functions operation, on reduction or non-payment of the variable part of employee remunerations, including also the application of *malus* or *clawback* mechanisms, if the performance of the Bank has been significantly undermined, and the Bank has suffered losses.

The Remuneration Committee has been established to facilitate professional and independent assessment of policies and practice related to remunerations and impact of policies on the risk, capital and liquidity management. While performing its duties the

Remuneration Committee is required to take into account long-term interests of shareholders and other stakeholders in the Bank as well as the public interest.
In 2020 three sessions of the Supervisory Board and three sessions of the Remuneration Committee were held on the topics related to the Remuneration and Incentive Policies of ISP BiH and their implementation.

Without prejudicing the responsibilities of the Remuneration Committee, the Risks Committee supports the Supervisory Board in analysing Intesa Sanpaolo Bank BiH Policies in order to verify their link with current and prospective risks, the capital strength and levels of liquidity of the Intesa Sanpaolo Bank BiH, with specific regard to the incentive systems to the Management Board Members.

The HR and Organisation Department inter alia responsible for:
- drawing up Intesa Sanpaolo Bank BiH Remuneration and Incentive Policies and ensuring their full implementation;
- identifying (and periodically reviewing) the Legal Entity Risk Takers according to the criteria set out in the FBA Decision on the remuneration policy and practice for bank employee, presenting it to the Remuneration Committee and/or to the Supervisory Board;
- proposing to the Supervisory Board the fixed remuneration pay levels for the Management Board Members (including the President) and the Heads of Control Functions;

Planning and Control Department, in collaboration with the Planning and Control Department of the Division, is involved in defining the Intesa Sanpaolo Bank BiH Remuneration and Incentive Policies, so as to ensure consistency of the Incentive Systems with:

9. REMUNERATION POLICY (continued)
9.1. Decision-making procedure for the Remuneration Policy definition (continued)

- strategic short-and medium-long term objectives of the Intesa Sanpaolo Bank BiH;
- the capital strength and the liquidity level of Intesa Sanpaolo Bank BiH and of the Group.

The Planning & Control Department in collaboration with the Planning and Control Department of the Division, supports the Departments in charge in identifying (and periodically monitoring) the parameters used to evaluate performance targets, on which the granting of incentives is based.

Risk Management Department:
- assesses that the remuneration and incentive systems, making an additional specific focus on the ones of the Management Board Members, are aligned with the Risk Appetite Framework and consider the overall risks, capital and liquidity parameters (i.e. verifies the risk adjusted KPIs) and provides a written opinion;
- participates in the ex-post risk adjustment of variable remuneration;
- assists the Remuneration Committee in risk-related matters.

Compliance and AML Department shall:
- verify if the Policies are compliant with the applicable external and internal regulations (including ISP Group Remuneration and Incentive Policies) and provide a written opinion;
- assess if the list of Risk Takers identified follows the applicable external regulations and provides a written opinion;
- assist the Remuneration Committee in compliance matters.

On an annual basis, **the Internal Audit Department**, verifies compliance of remuneration implementation procedures with the relevant Policies and, in that context, it also checks the correct implementation of the process for identifying Intesa Sanpaolo Bank BiH Risk Takers, informing the Audit Committee and Supervisory Board on the results of the verifications conducted.

9.2. INFORMATION ON THE RELATIONSHIP BETWEEN PAY AND PERFORMANCE

In measuring work performance, emphasis is placed on harmonization of evaluation criteria relating to financial, objective results, ensuring responsible operations and long-term sustainability, and focusing on the business risk reduction.

Incentive systems adopted by Intesa Sanpaolo Bank BiH, in accordance with the ISP Group's Remuneration and Incentive Policies, are directed at meeting medium and long-term goals included in the Group's Business Plan, taking into account readiness to take risks of Intesa Sanpaolo Bank BiH and the Group, as well as risk tolerance, and they aim to encourage the achievement of goals in terms of value creation for the current year, within the framework of sustainability, given that the bonuses paid are related to the available financial resources.

Incentive systems for the staff of Intesa Sanpaolo Bank BiH are subject to the minimum activation conditions required by the Regulator, and failure to meet even just one of these conditions results in non-activation of the Incentive System.

9. REMUNERATION POLICY (continued)
9.2. Information on the relationship between pay and performance (continued)

Measuring the strategic and executive management performance is based on the Management By Objectives system (MBO) and evaluation of achievement of objective set goals.

The overall performance assessment is the average percentage of fulfilment of goals from the operational category and goals from the category of long-term sustainability and, through the process of annual setting and evaluation of goals, the focus of strategic and executive management on achievement of financial and of long-term sustainability goals is obligatory balanced. In that way, and also through the process of work performance measurement, through its individual goals, the strategic management actively introduces risk control and business responsibility into the goals and tasks of the Bank's daily operations.

The variable remuneration is subject to subsequent correction mechanisms – a *malus* or clawback mechanism, which, among other things, correspond to and reflect the level of risk, up to the point when the reward is significantly reduced or cancelled to zero, both in case of negative results and the results considerably below the forecast.

In case of deferral, each portion is subject to an ex-post adjustment mechanism - the so-called *malus* conditions - according to which the relative amount recognised and the number of financial instruments assigned, if any, may be reduced, even to zero, in the year in which the deferred portion is paid, according to the level of achievement of the minimum conditions set by the Regulator.
Also, Intesa Sanpaolo Bank BiH reserves the right to activate mechanisms for return of bonuses already paid as required by regulations.

The Incentive System for the Risk Takers and Middle Managers aims to guide the behaviour and managerial actions towards reaching the objectives set in the Bank's Strategy and the Business Plan and to reward the best annual performance assessed with a view to optimise the risk/return ratio.

This System is formalised through Performance Scorecards.

Performance Scorecards include both KPIs of an economic and financial nature and non-financial KPIs.

The sum of weights assigned to the KPIs of each section is equivalent to the overall weight of the section; this weight varies according to the macro-area pertaining to the employees.

The Incentive System for the **Professionals** aims to reward the best annual performance assessed with a view to optimise the risk/return ratio.

The individual bonus awarding is at the discretion of the Direct Head, considering the performance evaluation results, both in absolute and relative terms. In other words, the bonus proposal must be consistent with the level of performance achieved, also considering the peers.

The performance evaluation is carried out and documented through **NewPat – Standard Methodology**.

This methodology provides an evaluation based on KPIs and assessment of role-specific competences.

9. REMUNERATION POLICY (continued)
9.2. Information on the relationship between pay and performance (continued)

Regarding the Network, the evaluation is carried out through **"GPS Network".**
This system is based on a multi-level approach according to which the achievements are measured at Bank and individual level.

9.3. RATIO BETWEEN FIXED AND VARIABLE REMUNERATIONS

The remuneration and incentive policy determines the appropriate ratio between the variable and fixed part of the total remuneration for all categories of employees. It also determines the appropriate upper limit of this ratio (cap) above which the payment of variable remuneration is not allowed. The ratio between the fixed and variable part is determined in accordance with provisions of the current Remuneration Policy of the Intesa Sanpaolo Group and the applicable regulations of BiH.

For employees whose variable remunerations on an annual basis exceed the amount of 100,000 KM, special rules are defined regarding the components of variable remunerations in such a way that:

- at least 40 percent of the remuneration is subject to a deferred payment system for a period of at least 3 years;
- a significant portion of at least 50% is appropriately balanced between shares or share-related instruments.

The ratio of fixed and variable remunerations is determined in such a way that the fixed part of total remunerations must have a sufficiently high share in total remunerations, and for the employees performing control functions, the fixed remuneration must not be less than two thirds of that employee's total remunerations.

In Intesa Sanpaolo Bank BiH, in line with the ISP Group Policies, *ex ante* limitations in terms of balanced maximums for variable remunerations have been established through the definition of specific caps on the increase of bonuses in relation to any over-performance.

This cap to the variable remuneration is determined in general as 100% of the fixed remuneration except for the roles belonging to the Company Control Functions (all of them, regardless of the fact whether the position is managerial or non-managerial) which cap is determined as 33% of the fixed remuneration.

The payment of the individual bonus is, in any case, subject to the verification in terms of the absence of the so-called individual compliance breaches.

In particular, failure to comply with the individual access conditions implies both the non-payment of the bonus accrued in the same year when the compliance breach is committed and deletion of the deferred portions of the accrual conditions referred to the same year.

A significant share, at least 40% of the variable part of remunerations is deferred for an appropriate period, which must not be shorter than 3 (three) years. When paying deferred remunerations, the matching principle is applied, and they may not be paid more than once a year in the manner and in the instruments defined by applicable policies, acts and decisions of the Parent Bank, as well as the existing legal regulations of BiH.

9. REMUNERATION POLICY (continued)
9.3. Ratio between fixed and variable remunerations (continued)

The Bank will disburse a significant share of the variable portion of remunerations, deferred and non-deferred portion, in the form of instruments. The share of variable part of the remuneration to be paid in the form of instruments is determined in accordance with the position and responsibilities of a particular employee, the amount of variable remunerations of that employee and the amount of risk that employee can take. At least 50% of each variable remuneration must compose the financial instruments.

Provisions on deferral of remunerations shall not apply to an employee whose variable remuneration on an annual basis does not exceed the amount of 100,000 KM.

9.4. Information on performance criteria for allocation of shares and variable remunerations

The principle of selectivity, merit and differentiation is applied to measure performance and calculate individual remuneration. A performance appraisal system for managers is based on harmonization of criteria aimed at the Bank's financial profit and profitability of business areas and long-term sustainability criteria that guarantee business continuity and accountability to all stakeholders. A cascade approach, from the highest bank structures, managerial goals balanced in terms of earnings, risk control, business improvement and responsibility to clients, ensures that the allocation of individual incentives is based on responsible individual and corporate operations.

9.5. Description, criteria and explanation of variable remunerations used by the Bank

The total amount of variable remunerations is based on a combination of an individual's performance appraisal (taking into account financial and non-financial criteria) and the relevant organizational part, as well as on the Bank's overall results. Performance appraisal refers to a multi-year period thus ensuring that the appraisal process is based on long-term performance. Performance measurement is tailored to all types of risks to which the Bank is or may be exposed, and must take into account the cost of capital required and the liquidity required. In determining variable employees' remunerations or allocation of variable remunerations within the Bank, all types of risks to which the Bank is or may be exposed are taken into account.

The remuneration payment methods are regulated by specific instructions in the supervisory regulations concerning remuneration, with particular reference to the deferral obligations, type of payment instruments and the retention period envisaged for the portion paid as financial instruments.

In addition, those payment methods take into account that the Intesa Sanpaolo Bank BiH, according to the principle of proportionality, is classified as a Bank of smaller size or complexity. This classification was made by adopting the criteria set out in the provisions of the Bank of Italy, which require that characteristics, size, level of risk and complexity of activities carried out as well as the pertinence to the Group should be taken into account.

9. REMUNERATION POLICY (continued)

9.6. TOTAL REMUNERATIONS BY THE BUSINESS AREAS

Quantitative information on remunerations of ISP Bank BiH employees whose activities have a material impact on the Bank's risk profile:

Table 31

Business area	Number of employees	Gross fee in KM				
		Fixed	Variable	Shares, financial instruments related to shares	Number of employees paid variable compensation	Total
Management functions	5	1,517,445	507,456	250,522	5	2,275,423
Business functions and risks	2	132,809	19,369		2	152,178
Supports	3	325,320	72,911		3	398,231
Control functions	3	248,135	45,668		2	293,803
Supervisory Board	2	58,675				58,675

9.7. TOTAL REMUNERATIONS BY EMPLOYEES' CATEGORIES

Gross remuneration divided by categories of employees:

Table 32

Business area	Number of employees	Gross fee in KM				
		Fixed	Variable	Shares, financial instruments related to shares	Number of employees paid variable compensation	Total
Uprava	5	1,517,445	507,456	250,522	5	2,275,423
Nadzorni odbor	2	58,675			0	58,675
Centralne funkcije	43	1,841,664	89,130	67,165	16	1,997,959
Back Office	227	7,255,636	422,106		66	7,677,742
Prodaja	342	7,562,811	351,492		262	7,914,303

The Bank did not pay discretionary benefits to its employees.

9.8. NUMBER OF EMPLOYEES WITH EXCEEDED THRESHOLD DETERMINED UNDER THE FBA DECISION

In 2020, there was one employee in the ISP Bank of BiH whose variable remuneration in gross amount exceeded the threshold determined by the FBA Decision on disclosing the Bank's data and information.

INTESA SANPAOLO BANKA
Bosna i Hercegovina

10. BANK GROUP AND RELATIONSHIP BETWEEN PARENT COMPANY AND SUBSIDARY COMPANIES

Pursuant to Article 6 of the Decision, the Bank hereby publishes the following information

10.1. CONSOLIDATED REPORTS

Intesa Sanpaolo Bank dd Bosnia and Herzegovina does not produce reports on a consolidated basis, as it has no subsidary companies in its portfolio.
The bank prepares the report on an individual basis.

10.2. TRANSACTION WITH THE RELATED PARTIES

Transactions with related parties constitute a part of the Bank's regular operations.
The related parties, members of the Intesa Sanpaolo Group, the Bank have had the transactions with as at 31 December 2020:

Table 33

INTESA SANPAOLO GRUPA
BANCA INTESA A.D. BEOGRAD
INTESA SANPAOLO BANK, SLOVENIA
INTESA SANPAOLO ROMANIA S.A.
INTESA SANPAOLO S.P.A. LONDON
INTESA SANPAOLO S.P.A. NEW YORK
INTESA SANPAOLO SPA
ISP INTERNATIONAL VALUE SERVICES
PBZ CARD DOO ZAGREB
PRIVREDNA BANKA ZAGREB

Overview of transactions with the Intesa Sanpaolo Group as at 31 December 2020, is indicated below:

Table 34

Imovina	
Računi kod banaka i krediti	50,533
Finansijska imovina po fer vrijednosti kroz bilans uspjeha	61
Ostala potraživanja	767
Ukupno	**51,361**
Obaveze	
Krediti i oročeni depoziti	186,790
Finansijske obaveze po fer vrijednosti kroz bilans uspjeha	106
Ostale obaveze	430
Ukupno	**187,326**
Preuzete i potencijalne finansijske obaveze	
Finansijske garancije	**4,515**

INTESA SANPAOLO BANKA
Bosna i Hercegovina

10. BANK GROUP AND RELATIONSHIP BETWEEN THE PARENT COMPANY AND SUBSIDARY COMPANIES (continued)

10. Transactions with related parties (continued)

Table 35

Incomes	
Interest income	184
Other income	207
Total	**391**
Expenses	
Interest expense	214
Other expenses	2,428
Total	**2,642**

11. FINAL PROVISIONS

The Report shall be disclosed on the website of Intesa Sanpaolo Bank dd. Bosnia and Herzegovina (www.intesasanpaolobanka.ba) after its adoption by the Management Board and Supervisory Board of the Bank.

INTESA SANPAOLO BANKA
Bosna i Hercegovina

12. THE MAIN CHARACTERISTICS OF CAPITAL INSTRUMENTS

The main characteristics of financial instruments		
No.	**Item**	
1.	Issuer	**Intesa Sanpaolo banka d.d. Bosna i Hercegovina**
1.1.	Unique ID	ISIN BAUPIBR00002
	Treatment in accordance with regulations	
2.	Recognized on an individual / consolidated basis	On the individual basis
3.	Type of instrument	Ordinary shares (447.760); Non-cumulative preference shares (60)
4.	Amount recognized for the purpose of calculating regulatory capital in thousands of KM as at the date of the last reporting	Share capital 44,782 ths KM and share premium 48,805 ths KM.
5.	Nominal amount of the instrument	100 KM
5.1.	Issue price	Not applicable
5.2.	Redemption price	Not applicable
6.	Accounting classification	Share capital
7.	Date of issue of the instrument	The bank was registered as a joint stock company in 1990. The shares were issued on several occasions, and the last issue was in 2008
8.	An instrument with a maturity date or an instrument without a maturity date	No maturity date
8.1.	Initial due date	No maturity
9.	Option to purchase by the issuer	No
9.1.	The first date of activation of the purchase option, the conditional date of activation of the purchase option and the redemption value	Not applicable
9.2.	Subsequent date of activation of the purchase option (if applicable)	Not applicable
	Coupons / dividends	
10.	Fixed or variable dividend / coupon	Variable
11.	Coupon rate and related indices	Not applicable
12.	Existence of a mechanism for mandatory cancellation of dividends	No
13.	Full discretion, partial discretion or no discretion regarding the timing of dividend / coupon payment	Full discretion
13.1	Full discretion, partial discretion or no discretion regarding the amount of dividends / coupons	Full discretion
14.	The possibility of increasing yields or other incentives for redemption	No
15.	Non-cumulative or cumulative dividends / coupons	Non-cumulative
16.	Convertible or non-convertible instrument	Not applicable
17.	If convertible, the conditions under which the conversion may occur	Not applicable
18.	If it is convertible in part or in full	Not applicable
19.	If convertible, conversion rate	Not applicable
20.	If it is a convertible, mandatory or voluntary conversion	Not applicable
21.	If convertible, the instrument to which it is converted	Not applicable
22.	If convertible, the issuer of the instrument to which it is converted	Not applicable
23.	Possibility of reducing the value	No
24.	If there is a possibility of impairment, the conditions under which the impairment may occur	Not applicable
25.	If there is a possibility of impairment, in part or in full	Not applicable
26.	If there is a possibility of impairment, permanently or temporarily	Not applicable
27.	If the decrease in value is temporary, a description of the mechanism of increase in value	Not applicable
28.	The type of instrument that will be paid out immediately before the specified instrument in the event of liquidation or bankruptcy	Not applicable
29.	Inconsistent characteristics of converted instruments	No
30.	If present, indicate non-compliant characteristics	Not applicable

INTESA SANPAOLO BANKA
Bosna i Hercegovina

FOR ALL THAT COUNTS.

Bank of INTESA SANPAOLO

www.intesasanpaolobanka.ba