DISCLOSURE OF DATA AND INFORMATION OF THE BANK

FOR THE PERIOD 01.01. – 31.12.2022

Sarajevo, May 2023. godine

INTESA SANPAOLO BANKA
Bosna i Hercegovina

FOR ALL THAT COUNTS

Bank of INTESA SANPAOLO

www.intesasanpaolobanka.ba

INTESA SANPAOLO BANKA
Bosna i Hercegovina

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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 Disclosure of Bank Data and Information(hereinafter the Decision), Instructions for Disclosure of Bank Data and Information, hereinafter the Instructions, (June 2021) and the Article 111 of the Law on Banks (Official Gazette of the Federation of BiH 27/2017), Intesa Sanpaolo Banka d.d. Bosna i Hercegovina hereby publicly publishes data and information for the period 01.01.2022 - 31.12.2022.

This report contains data and information in accordance with the minimum requirements of the aforementioned Decision and Instruction. 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[1], NSFR[2]) 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.

[1] LCR (Liquidity Coverage Ratio) short-term (30-day) liquidity coverage ratio
[2] Net Stable Funding Ratio NSFR (Net Stable Funding Ratio) Structural liquidity ratio

INTESA SANPAOLO BANKA
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Introduction (continued)

Within 2022, 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 held on May 23rd 2023 and at the meeting of the Supervisory Board of the Bank held on May 31st 2023.

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

Marco Trevisan

President of the Management Board

INTESA SANPAOLO BANKA d.d.
Bosna i Hercegovina

Michele Castoro

Member of the Management Board - Deputy President of the Management Board

INTESA SANPAOLO BANKA
Bosna i Hercegovina

1. BUSINESS NAME AND SEAT OF THE BANK

Pursuant to Article 2. 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 31.12.2022., the Bank has 50 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 Srebrenik
Agency Šipad	Agency Slatina
Agency Vogošća	Agency Tuzla
Agency Titova	Agency Živinice
Agency Istočno Sarajevo	
Agency Alipašino Polje	**Branch Mostar**
	Agency Rondo
Branch Zenica	Agency Čapljina
Agency Bugojno	Agency Livno
Agency Jajce	Agency Široki Brijeg
Agency Kakanj	Agency Tomislavgrad
Agency Kiseljak	Agency Drvar
Agency Novi Travnik	Agency Posušje
Agency Park-Zenica	Agency Mostar
Agency Travnik	Agency Ljubuški
Agency Jelah	Agency Ero
Agency Visoko	
Agency Vitez	**Branch Banja Luka**
Agency Žepče	Agency Prijedor
Agency Zenica	Agency Jevrejska
Agency Breza	Agency Krajina
Agency Nova Zenica	

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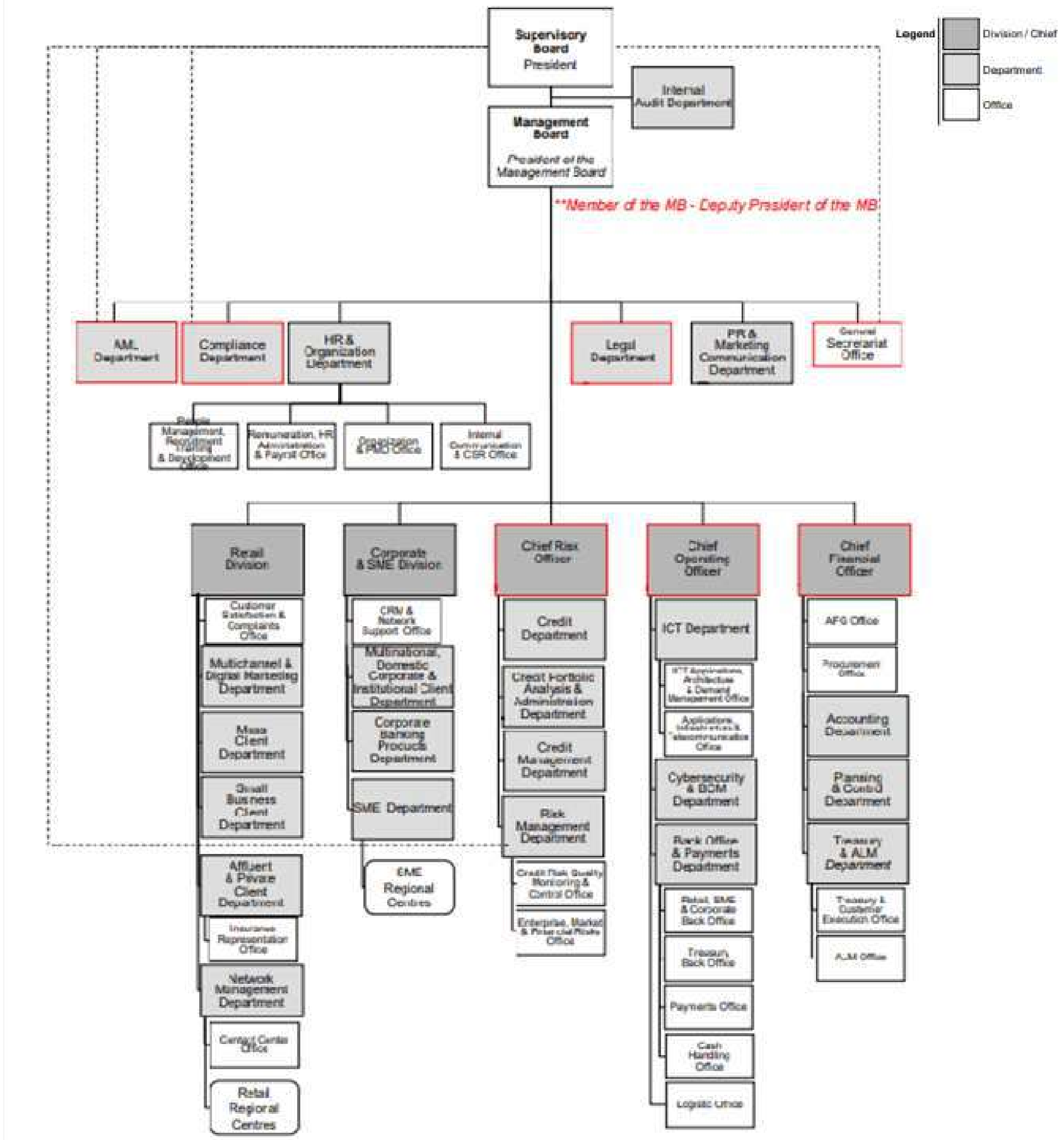
1. BUSINESS NAME AND SEAT OF THE BANK (continued)

1.3. ORGANIZATION STRUCTURE OF THE BANK

Scheme 1



** Responsible for: a) the COO Division, CFO Division and the Legal Department; b) coordination of the CRO Division (except of the Risk Management Department) and the General Secretariat; c) Sponsorship of the initiatives related to Anti Money Laundering and Compliance at Management Board level, but with no prejudice to indepence status of such functions from the Management Board;

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

1.4. EMPLOYEES OF THE BANK

As at 31 December 2022., the Bank had 549 employees, out of which 271 employees relates to the business network of the Bank.

2. DATA AND INFORMATION RELATING TO THE OWNERSHIP STRUCTURE AND MEMBERS OF THE BANK'S SUPERVISORY AND MANAGEMENT BOARD

Pursuant to Article 4. 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 31.12.2022. 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%	55.00%
2.	Others	0.00%	45.00%

INTESA SANPAOLO BANKA
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2. DATA AND INFORMATION RELATING TO THE OWNERSHIP STRUCTURE AND MEMBERS OF THE BANK'S SUPERVISORY AND MANAGEMENT BOARD (continued)

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

In the business year of 2022. members of the Supervisory Board of the Bank were the following persons:

Table 3

Members of the Bank's Supervisory Board		
No.	**Name and surname**	**Short biography** **(or the location where the bank publishes the mentioned)**
1.	Alessio Cioni President of the Supervisory Board until 28.08.2022	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	Matija Birov Deputy President until 28.08.2022	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.

2. DATA AND INFORMATION RELATING TO THE OWNERSHIP STRUCTURE AND MEMBERS OF THE BANK'S SUPERVISORY AND MANAGEMENT BOARD (continued)

2.2. Members of the Supervisory Board and Management Board of the Bank and their biographies (continued)

Table 3

No.	Name and surname	Short biography (or the location where the bank publishes the mentioned)
3	Miroslav Halužan Member until 28.08.2022	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.
4	Gianluca Tiani Member until 28.08.2022	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.
5	Andrea Fazzolari member until 28.04.2022	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.
6	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.

2. DATA AND INFORMATION RELATING TO THE OWNERSHIP STRUCTURE AND MEMBERS OF THE BANK'S SUPERVISORY AND MANAGEMENT BOARD (continued)

2.2. Members of the Supervisory Board and Management Board of the Bank and their biographies (continued)

Table 3

Members of the Bank's Supervisory Board		
No.	Name and surname	Short biography (or the location where the bank publishes the mentioned)
7	Massimo Lanza Independent member until 28.08.2022	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.
8	Massimo Malagoli Independent member as of 29.04.2022.	Education/vocation: B.Sc. Econ (Laurea in Economia a Commercio) at the Universita degli Studi Verona, 1983, cuma cum laude Experience: Work experience commenced in 1983 in Andersen Consulting (presently - Accenture) in the Banking and Finance Division at the positions from lower staff member to the manager position. From 1998, he is at the position of the Head of the Banking Finance Unit with Banca Intesa and, subject to his long standing experience, he has fulfilled conditions for the position of the Supervisory Board member in several banks of the Intesa Sanpaolo Group: member (deputy president since 2012) of the Supervisory Board of VUB bank (Slovakia), deputy president of the Management Board of Intesa Sanpaolo banka Albania, deputy president of the Supervisory Board of CIB banka (Hungary), member (president since March 2013) of the Management Board of Intesa Beograd (Serbia), member of the Supervisory Board of PBZ (Croatia), member of the Audit Committee of Banca Intesa Russia, member of the Supervisory Board of ISP BiH, deputy president of the Supervisory Board of ISP Card Zagreb and ISP Card Ljubljana. Mr. Malagoli was appointed to the Supervisory Board of Intesa Sanpaolo Banka on 29.04.2022 at the position of the member of the Supervisory Board with continued term of office and re-appointment on 14.11.2022.
9	Dario Massimo Grassani Chairman of the Supervisory Board as of 14.11.2022.	Education/Profession: Postgraduate degree at UNIVERSITA' CATTOLICA DEL SACRO CUORE, Faculty of Economics, topic "Fundamentals of microeconomics" Experience: Mr. Grassani's work experience in the Intesa Sanpaolo Group began in 2001 at positions in the Accounting and Financial Reporting Division. Mr. Grassani continued his career in CIB Bank in Hungary at leadership/managerial positions. In the period from 2010 to 2017, Mr. Grassani held the position of CFO at Intesa Sanpaolo Banka d.d. Bosnia and Herzegovina, while in November 2022 he was appointed to the position of Deputy President of the Management Board of Privredna Banka Zagreb d.d. Mr. Grassani was appointed President of the Supervisory Board of the Bank on 14 November 2022.
10	Petar Sopek Deputy Chairman of the Supervisory Board as of 14.11.2022.	Education/Profession: Bachelor of Engineering, Financial and Business Mathematics, Faculty of Science, Zagreb Experience: Mr. Sopek's work experience began in 2009 at Privredna Banka Zagreb d.d. at the position of chief coordinator in the Risk Management Division. In the period from January 2017 to May 2020, he was appointed as a member of the Audit Committee of Intesa Sanpaolo Banka d.d. Bosnia and Herzegovina, while in February 2022, he started working as Executive Director - Head of the Risk Management Department in PBZ d.d. Mr. Sopek was appointed to the Supervisory Board of the Bank on 14 November 2022 as its member/Deputy President.
11	Jadranko Grbelja Member as of 14.11.2022.	Education/Profession: Master of Laws, Faculty of Law, Zagreb, Croatia Experience: Mr. Grbelja's work experience began in 1988 at the Municipal Court in Zagreb as an intern. In 1990, Mr. Grbelja continued his career at Privredna Banka Zagreb d.d., while in 1993 he passed the Bar Exam before the Ministry of Justice in Zagreb. He has been a manager of the Compliance Department since 2018. Mr. Grbelja was appointed to the Supervisory Board of the Bank on 14 November 2022 as its member.

2. DATA AND INFORMATION RELATING TO THE OWNERSHIP STRUCTURE AND MEMBERS OF THE BANK'S SUPERVISORY AND MANAGEMENT BOARD (continued)

2.2. Members of the Supervisory Board and Management Board of the Bank and their biographies (continued)

Table 3

Members of the Bank's Supervisory Board		
No.	**Name and surname**	**Short biography (or the location where the bank publishes the mentioned)**
12	Michela Boiocchi Member as of 14.11.2022.	Education/Profession: Bocconi University, Milan, Bachelor of Economics Experience: Ms. Boiocchi's work experience began in 2003 at Banca Intesa S.p.a., in the Group's Planning and Control Department, Banche Italia Office, while from July 2015 to May 2018 she held the position of Head of the Non-Business Results Analysis Office at Intesa Sanpaolo S.p.A., ISBD, Planning and Control. Mrs. Boiocchi has been Head of the Financial Monitoring Office for International Branches since May 2018. Ms. Boiocchi was appointed to the Supervisory Board of the Bank on 14 November 2022 as its member.
13	Ivana Jović Member as of 14.11.2022.	Education/Profession: Master's degree, Faculty of Economics, University of Zagreb Experience: Ms. Jović's work experience began in 1998 at the Ministry of Finance in Zagreb, Croatia, at the position of Head of the Macroeconomic Analysis Division. After that, she had a research position at the World Bank, Office of Croatia, and she was Economic Adviser at the European Commission, delegation in Croatia. Ms. Jović continued her career at Privredna Banka Zagreb d.d. in 2004, and she currently performs the duties of the Executive Director of the Economic Research Department. Ms. Jović was appointed to the Supervisory Board of the Bank on 14 November 2022 as its member

As at 31 December 2022., the Management Board of the Bank is comprised of the President and two members of the Management Board. The following persons performed those functions within the year:

Table 4

Members of the Management Board		
No.	**Name and surname**	**Short biography (or the location where the bank publishes the mentioned)**
1.	Marco Trevisan President of the Management Board	Education / Title: Master of Corporate Finance - Bocconi University, BA in Economics, University of Trieste Experience: Mr. Trevisan has gained his first experience in the banking sector since 1995. Intesa Sanpaolo Bank holds a professional position in the fields of real estate, finance and corporate banking. From 2014 to 2019, he served as General Manager and General Manager in Istanbul, Turkey and Dubai, UAE. In Intesa Sanpaolo Bank, he served as an advisor to the Management Board in the period from September 2020 to December 2020. In Intesa Sanpaolo Bank d.d. Bosnia and Herzegovina has been appointed President of the Management Board in 2021.
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.

2. DATA AND INFORMATION RELATING TO THE OWNERSHIP STRUCTURE AND MEMBERS OF THE BANK'S SUPERVISORY AND MANAGEMENT BOARD (continued)

2.2. Members of the Supervisory Board and Management Board of the Bank and their biographies (continued)

Table 4

Members of the Management Board		
No.	Name and surname	Short biography (or the location where the bank publishes the mentioned)
3	Stefano Borsari Member until 17.11.2022	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	Michele Castoro Member as of 14.06.2022	Education/vocation: University in Parma (Italy) – gained academic degree in economics (five-year program), thesis in the segment of financial intermediaries titled "Technology and banking services for customers – private individuals". B.Sc. Econ Experience: Work experience dates back to 2001 - Cedacri spa in the consulting segment. From July 2016 to August 2018, he was employed with Intesa Sanpaolo Banka (Slovenia), Intesa Sanpaolo Group SpA, at the position of the Head of the Risk Management Department. From September 2018, the position held is Deputy Director and Director of the Risk Management and Control Division in Eximbank (Moldova) and on 14.06.2022 he was officially appointed to the position of the Management Board member – Deputy President of the Management Board of Intesa Sanpaolo Banka d.d. Bosna I Hercegovina.
5	Alek Bakalović Member until 22.03.2022	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.

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.

2. DATA AND INFORMATION RELATING TO THE OWNERSHIP STRUCTURE AND MEMBERS OF THE BANK'S SUPERVISORY AND MANAGEMENT BOARD (continued)

2.3. Number of Director functions of members of the Supervisory Board and management Board (continued)

Table 5

No.	Name and surname of a member of the supervisory board or management board of the bank	Number of executive head functions (in total)	Number of non-executive head functions (in total)	Of which the number of executive head functions in Group	Of which the number of non-executive head functions in Group	Number of head functions in institutions in the non-profit institutions
1.	Alessio Cioni	2	2	1	2	1
2.	Gianluca Tiani	0	3	0	3	0
3.	Andrea Fazzolari	0	4	0	4	0
4.	Matija Birov	0	1	0	1	0
5.	Miroslav Halužan	0	2	0	2	0
6.	Alden Bajgorić	1	1	0	1	0
7.	Massimo Lanza	0	4	0	2	2
8.	Marco Trevisan	1	0	1	0	0
9.	Stefano Borsari	1	0	1	0	0
10.	Edin Izmirlija	1	0	1	0	0
11.	Alek Bakalović	1	0	1	0	0
12.	Dario Massimo Grassani	1	1	1	2	1
13.	Petar Sopek	1	2	1	1	0
14.	Jadranko Grbelja	1	1	1	1	0
15.	Michela Boiocchi	1	1	1	1	0
16.	Ivana Jović	1	1	1	1	0
17.	Massimo Malagoli	0	1	0	1	0

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

During 2022., the Bank applied the following documents when assessing the members of the Supervisory Board and the Management Board of the Bank:

- Policies for Assessment of the Supervisory Board of Intesa Sanpaolo Banka d.d. Bosnia and Herzegovina
- Policies for the assessment of members of the Management Board and key function holders of Intesa Sanpaolo Banka d.d. Bosnia and Herzegovina
- Policies on suitability assessment

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

2. DATA AND INFORMATION RELATING TO THE OWNERSHIP STRUCTURE AND MEMBERS OF THE BANK'S SUPERVISORY AND MANAGEMENT BOARD (continued)

2.4. Policy for selection and evaluation of members of the Supervisory Board and the Management Board of the Bank (continued)

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.

2.5. MEMBERS OF THE AUDIT COMMITTEE AND THEIR BIOGRAPHIES

Within 2022., members of the Audit Committee were as follows:

Table 6

Members of the Audit Committee		
No.	Name and surname	Short biography (or the location where the bank publishes the mentioned)
1.	Andrea Nani, President	Education / Title: "Banking and Financial Diploma", specialized executive master organized by the Italian Banking Association - ABI Formazione - 2001; Degree in Economics at Pavia University Experience: Mr. Nani began gaining experience in 1996 at Deutsche Bank SpA as Foreign Activities Officer in Deutsche Bank SpA.. Since 2001, Mr. Nani has been the Internal Auditor at ISP Bank, and in 2019 he held the position of Head of International Subsidiaries Banks Audit Sub-Department in ISP Chief Audit Officer Area. The position of Chairman of the Audit Committee of Intesa Sanpaolo Bank d.d. Bosnia and Herzegovina Mr. Nani performs from 27.07.2021.
2.	Massimiliano Masturzo Member as of 16.05.2022	Education/Title: Degree in Management Economics, Federico II University - Napoli Experience: Mr. Masturzo started his carieer in 2003 in Masini & C. S.a.S. - Naples - Italy, continuing his carieer path as Consultant in banks' "Regulatory Management" and "Finance & Accounting" areas in 2004 in Accenture S.p.A. – Milan - Italy. In 2015, Mr. Masturzo became Head of Specialized Functions governance and remuneration systems Office - Compliance Department in Intesa Sanpaolo spA. Currently, he performs function as Head of Subsidiaries in governance Coordination Sub-Department - Compliance Department. He holds the position of the member of the Audit Committee of Intesa Sanpaolo Banka d.d. Bosnia and Herzegovina as of 16.05.2022.
3	Ana Jadrešić member from 16.05.2018.	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.

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2. DATA AND INFORMATION RELATING TO THE OWNERSHIP STRUCTURE AND MEMBERS OF THE BANK'S SUPERVISORY AND MANAGEMENT BOARD (continued)

2.5. Members of the Audit Committee and their biographies (continued)

Members of the Audit Committee		
No.	Name and surname	Short biography (or the location where the bank publishes the mentioned)
4.	Jadranko Grbelja Member until 15.05.2022	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.
5.	Dražen Karakašić	Permanent invitee, until 15.05.2022.
6.	Salvatore Giuliano	Permanent invitee until 15.05.2022..
7.	James Vason	Permanent invitee from 27.07.2021.
8.	Davor Vodanović	Permanent invitee from 16.05.2022.

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/Dario Massimo Malagoli, Chairman	Seven meetings in 2022
2.	Matija Birov/Jadranko Grbelja/Ivana Jović, Member	
3.	Andrea Fazzolari/Massimo Malagoli, Member	
Risk Committee		Frequency of meetings
1.	Alden Bajgorić, pro tempore Chairman/Massimo Malagoli, Chairman	Nine meetings in 2022
2.	Matija Birov/Petar Sopek, Member	
3.	Gianluca Tiani/Michela Boiocchi, Member	
4.	Cesare De Bona Bottegal, Permanent invitee	
Remuneration Committee		Frequency of meetings
1.	Massimo Lanza/Alden Bajgorić, Chairman	Ten meetings in 2022
2.	Alessio Cioni/Dario Massimo Grassani, Member	
3.	Miroslav Halužan/Jadranko Grbelja, Member	

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

2. DATA AND INFORMATION RELATING TO THE OWNERSHIP STRUCTURE AND MEMBERS OF THE BANK'S SUPERVISORY AND MANAGEMENT BOARD (continued)

2.7. Internal Audit (continued)

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.

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[3] Guidelines on the Supervisory Review and Evaluation Process. Each RM associated with one of the SREP

[3] European Banking Authority

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2. DATA AND INFORMATION RELATING TO THE OWNERSHIP STRUCTURE AND MEMBERS OF THE BANK'S SUPERVISORY AND MANAGEMENT BOARD (continued)

2.7. Internal Audit (continued)

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.

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

2. DATA AND INFORMATION RELATING TO THE OWNERSHIP STRUCTURE AND MEMBERS OF THE BANK'S SUPERVISORY AND MANAGEMENT BOARD (continued)

2.7. Internal Audit (continued)

- Annual work report.

The internal audit of ISP BiH was the subject of a quality assurance review in 2021, in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. Deloitte performed a QAR Assessment and based on the information and evidence gathered during the analysis, it was concluded that the Internal Audit Function of Intesa Sanpaolo Bank d.d. Bosnia and Herzegovina operate in a way that is "Generally Conformed" with International Standards and the Code of Ethics. In 2022, the internal audit continued to carry out all activities in accordance with the International Standards of Professional Practice of Internal Auditing.

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

During 2022, Muamera Zuko performed the function of the Director of the Internal Audit of the Bank.

2.8. APPOINTMENT OF THE COMPANY FOR THE AUDIT OF FINANCIAL STATEMENTS

The appointment of the external audit is prescribed by:

- the Law on Accounting and Auditing of the Federation of BiH (Official Gazette of the Federation of BiH 15/2021),
- 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 04-1-3-2445-4/22 dated 16 June 2022, gave its prior consent for the selection of an external auditor for the audit of the financial statements for 2022. Consent was given to appoint the company Ernst & Young d.o.o. Sarajevo.

At its session held on 26.08.2022, the General Assembly of the Bank (54_GSM_26.08..2022/3) adopted the Decision on the selection of the external auditor for the audit of financial statements for 2021 – Ernst & Young d.o.o. Sarajevo.

3. DATA AND INFORMATION RELATING TO THE REMUNERATION POLICY

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

3.1. REMUNERATION POLICIES AND PRACTICES FOR IDENTIFIED EMPLOYEES

Pursuant to the Banking Act and the Decision on the Bank's Internal Management System, the Supervisory Board, at the proposal of the Remuneration Committee, has adopted the Remuneration and Incentives Policies of ISP Banka d.d. BiH. The Supervisory Board of the Bank periodically revises the Policies, and supervises the implementation of the Policies. Remuneration policies set out the methods and rules related to the remuneration system for the Bank's employees.

Remuneration policies must be specified and applied in proportion to the positions, contributions and influence of employees on the Bank's risk profile.

For this reason, Intesa Sanpaolo Banka BiH identifies the so-called "Legal entity risk takers" and among them, shows - based on the identification process at the level of the ISP Group - Risk takers that have a material impact on the risk profile of the ISP Group (so-called "Group risk takers").

In particular, the Risk takers of the legal entity ISP Banka BiH are employees whose professional activities have a material impact on the Bank's risk profile, including employees authorized to conclude contracts or to take risky positions, ie. who make decisions that affect the Bank's risk exposure, and within the assigned powers and responsibilities. The same provisions will also apply to those employees whose collective professional activities (ie. as members of a group of employees) affect the Bank's risk profile.

Also, in accordance with internal acts, the Bank conducts a comprehensive process of determining the existing and projected risk profile. Given the defined profile and assessment of the significance of identified risks, the Bank defines a risk management strategy once a year, which determines the risk appetite, basic strategic guidelines for capital planning and basic principles of risk management.

In this process, the Bank classifies its risks into categories of low, medium or high importance and defines the management system in accordance with the importance of risk.

3.2. 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.

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3. DATA AND INFORMATION RELATING TO THE REMUNERATION POLICY (continued)

3.2. Decision-making procedure for the Remuneration Policy definition (continued)

Bank's Shareholders Meeting confirms the remuneration paid to the members of the Supervisory Board for the previous business year. The information must specify the remuneration of each member individually, must show at least the share between fixed and variable remuneration, profit sharing, options and other benefits, cost compensation, insurance premiums, remuneration 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, which submits to the Supervisory Board of the Bank, before consulting the Remuneration Committee, proposals on reference issues and is immediately informed of the decisions of the Supervisory Board related to remuneration policies, proposes Remuneration Policies to the Supervisory Board for approval and adoption and is responsible for their implementation, and implements the decisions of the Supervisory Board that are within its competence.

Supervisory Board of the Bank is responsible for approving and reviewing Intesa Sanpaolo Banka BiH Remuneration and Incentive Policies, then oversees, in cooperation with the Bank's Remuneration Committee, the application of remuneration rules, and reviews remuneration processes and practices and compliance with Intesa Sanpaolo Bank's Remuneration Policies. During the process of reviewing, amending and approving these policies, the Board must consider the long-term interests of shareholders, the medium-term and long-term strategies and corporate objectives of Intesa Sanpaolo Banka BiH and its risk profile. He is also responsible for approving the list of Legal Entity Risk takers, and periodically reviews specific criteria, and at the proposal of the Remuneration Committee, approves fixed remuneration levels for the President of the Management Board, other members of the Management Board and Heads of control functions, and in relation to the Management Board (including President) and Heads of control functions, approves and reviews - at the proposal of the Remuneration Committee and in cooperation with ISBD HR - the allocation of KPIs and performance scorecards objectives, assessment of the level of achievement in relation to performance objectives and the amount of bonuses to be paid, if any.

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 judgement 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 independently assesses the principles of remuneration and provides support to the Supervisory Board regarding the adoption and regular review of general principles of the Policies and identification of identified employees, prepares proposals of decisions for the Supervisory Board on the total amount of variable

3. DATA AND INFORMATION RELATING TO THE REMUNERATION POLICY (continued)

3.2. Decision-making procedure for the Remuneration Policy definition (continued)

remuneration which the Bank will pay to employees for a certain business year, compensation to members of the Bank's Management Board and Heads of control functions, on an individual basis, reduction or abolition of variable remuneration for employees, including activation of provisions on malus or return of remuneration, prepares proposals of decisions of the Supervisory Board that affect the Bank's risks and risk management, evaluates procedures and methods with aim to take into account all the Bank's risks and the Bank's capital and liquidity, and that the Remuneration Policies is consistent with the scope of the assumed risk, effective and reliable risk management, business strategy, objectives, corporate culture, values and long-term interests of the Bank, performs an examination of different scenarios to assess the impact of external and internal developments on remuneration policies and practice, including assumptions for reverse stress testing, support the Supervisory Board and the Bank's Management Board in monitoring the implementation of remuneration rules and reviewing reward and compliance procedures and practices polices, assesses fixed salary levels for members of the Bank's Management Board and heads of control functions, with regard to the President of the Management Board, other members of the Management Board and heads of control functions, reviewing key performance indicators and performance indicators targets; assessment of the level of achievement in relation to performance targets and the amount of bonus for payment, and review, before approval by the Supervisory Board, of the list of Risk takers of Intesa Sanpaolo Banka BiH identified according to the criteria set out in the Federal Banking Agency Decision.

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 consider long-term interests of shareholders and other stakeholders in the Bank as well as the public interest.

In 2022. ten sessions of the Supervisory Board and ten 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:

- preparing the Remuneration and Incentive Policies of Intesa Sanpaolo Banka BiH and ensuring its full implementation;
- determining (and periodically reviewing) the Risk takers of the legal entity, and presenting it to the Remuneration Committee and / or the Supervisory Board;
- proposing to the Supervisory Board the level of fixed remuneration for members of the Management Board (including the President) and heads of control functions;

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3. DATA AND INFORMATION RELATING TO THE REMUNERATION POLICY (continued)

3.2. Decision-making procedure for the Remuneration Policy definition (continued)

- with regard to the Management Board Members and the Heads of Control Functions, in collaboration with ISB Division HR, assessing the variable remuneration accrued for the reference year and, in this context, also proposing to the Supervisory Board the assignment of the KPIs and targets of the performance scorecards, the assessment of the level of achievement against performance targets and the amount of the bonus to be paid

CFO, in cooperation with the Planning & Control Department of the Sector, is involved in defining the Remuneration and Incentive Policies of Intesa Sanpaolo Banka BiH, in order to ensure the consistency of the Incentive System with:

- strategic short-term and medium-term goals of Intesa Sanpaolo Banka BiH;
- capital strength and liquidity level of Intesa Sanpaolo Banka BiH and the Group.

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 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**, in collaboration with the Audit Function of PBZ Group, verifies the compliance of the remuneration implementation procedures to 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.

3.3. 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

3. DATA AND INFORMATION RELATING TO THE REMUNERATION POLICY (continued)

3.3. Information on the relationship between pay and performance (continued)

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.

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

3. DATA AND INFORMATION RELATING TO THE REMUNERATION POLICY (continued)

3.3. Information on the relationship between pay and performance (continued)

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.

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

The impact assessment is based on a Performance Card that includes financial and non-financial KPIs.

It should be noted that this system is subject to constant analysis in order to strengthen its effectiveness and compliance with the regulations in force from time to time.

3.4. THE MOST IMPORTANT CHARACTERISTICS OF THE REMUNERATION SYSTEM

Remuneration and Incentive Policies of Intesa Sanpaolo Banka BiH are based on the logic of staff segmentation, which enables operational adjustment of the principles of merit and fairness in order to appropriately differentiate total remuneration and regulate payment mechanisms specific to different clusters, with special emphasis on those of regulatory importance for which stricter requirements are set.

The variable component of remuneration is related to employee performance and is aligned with the results achieved and the risks taken carefully, and consists of:
• Short-term variable components, which are paid through Incentive Systems;
• All variable short-term and long-term parts related to the duration of employment in the company or special contracts;
• All discretionary benefits.

In accordance with the regulatory guidelines, Intesa Sanpaolo Banka BiH, in accordance with the ISP Group's Remuneration and Incentives Policies, adopts a combination of remuneration payments that is properly balanced in order to:

• Enable flexible management of labor costs, as the variable part can be significantly reduced, even to zero, depending on the results achieved during the year or when the Bank / Group is unable to maintain or return a solid capital base;
• Discouraged behavior focused on achieving short-term results, especially if it involves taking higher risk.

In order to achieve the above objectives, Intesa Sanpaolo Banka BiH, in accordance with the ISP Group Policies, has established ex ante limits in terms of uniform maximums for variable remuneration, by defining specific ceilings for increasing bonuses in case of exceeding the set performance.

3. DATA AND INFORMATION RELATING TO THE REMUNERATION POLICY (continued)

3.4. The most important characteristic of the remuneration system (continued)

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

3.5. RATIO BETWEEN FIXED AND VARIABLE REMUNERATIONS

The remuneration and incentive policy determine 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 BAM gross, 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

3. DATA AND INFORMATION RELATING TO THE REMUNERATION POLICY (continued)

3.5. Ratio between fixed and variable remunerations (continued)

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. 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 BAM gross.

3.6. 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.

3.7. 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 (considering 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 consider 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 considered.

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 consider 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 considered.

3. DATA AND INFORMATION RELATING TO THE REMUNERATION POLICY (continued)

3.8. 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 8

Business area	Gross fee in KM					
	Fixed fees		Variable fees			Total
	In money / things	*Number of employees paid fixed compensation*	*Cash payment*	*Shares, financial instruments related to shares*	*Number of employees paid variable compensation*	
Management functions	1,548,493	4	145,604	361,690	3	2,055,787
Business functions and risks	141,191	2	18,047	-	2	159,238
Supports	332,503	3	69,289	-	3	401,792
Control functions *	362,828	4	68,123	-	4	430,951
Supervisory Board **	58,197	2	-	-	-	58,197
Total	**2,443,212**	**15**	**301,063**	**361,690**	**12**	**3,105,965**

** 4 control functions in accordance with Group rules*
*** fixed fee paid to independent members of the Supervisory Board*
*Related to the number of employees the actual number of FTE is taken in accordance with the number of months of work**

3.9. TOTAL REMUNERATIONS BY EMPLOYEES' CATEGORIES

Gross remuneration divided by categories of employees:

Table 9

Business area	Gross fee in KM					
	Fixed fees		Variable fees			Total
	In money / things	*Number of employees paid fixed compensation*	*Cash payment*	*Shares, financial instruments related to shares*	*Number of employees paid variable compensation*	
Management Board	1,548,493	4	145,604	361,690	3	2,055,787
Supervisory Board	2,314,087	51	170,519	-	27	2,484,606
Central functions	8,209,859	224	518,239	22,771	174	8,750,869
Back Office	7,515,836	295	393,725	-	218	7,909,561
Sales	58,197	2	-	-	-	58,197
Total	**19,646,472**	**576**	**1,228,087**	**384,461**	**422**	**21,259,020**

** fixed fee paid to independent members of the Supervisory Board*
Related to the number of employees the actual number of FTE is taken in accordance with the number of months of work

The Bank did not pay discretionary benefits to its employees.

3.10. THE MOST IMPORTANT PARAMETERS AND ARGUMENTS FOR THE VARIABLE REMUNERATION SYSTEM

The variable component is related to employee performance and is aligned with the results achieved and the risks taken carefully, and consists of:

- Short-term variable components, which are paid through Incentive Systems;
- All variable short-term and long-term parts related to the duration of employment in the company or special contracts;
- All discretionary benefits.

Division of the variable part of remuneration into short-term and long-term part stimulates the attraction and retention of staff and allows directing the effect on the accounting period longer

3. DATA AND INFORMATION RELATING TO THE REMUNERATION POLICY (continued)

3.10. The most important parameters and arguments for the variable remuneration system (continued)

than one year and medium-long-term results resulting from the implementation of the Business Plan.

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

Incentive systems for Intesa Sanpaolo Bank BiH staff 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.

The incentive system for Risk takers and middle management members aims to direct behavior and management activities towards achieving the goals set in the Bank's strategy and Business Plan and to reward the best annual indicators that are evaluated in order to optimize the risk / return ratio.

The Incentive System for Experts aims to reward the best annual performance in order to optimize the risk-return ratio. The individual award of bonuses is at the discretion of the immediate supervisor, considering the results of the performance evaluation, in absolute and relative terms. In other words, the bonus proposal must be in line with the level of efficiency achieved and also consider colleagues in the same position.

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

In 2022., there were 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.

4. INFORMATION ON THE APPLICATION SCOPE OF THE REGULATORY REQUIREMENTS

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

4.1. 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.

4.2. 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 2022.:

Table 10

INTESA SANPAOLO GROUP
INTESA SANPAOLO SPA
PRIVREDNA BANKA ZAGREB
INTESA SANPAOLO BANK, SLOVENIA
BANCA INTESA A.D. BEOGRAD
INTESA SANPAOLO ROMANIA S.A.
INTESA SANPAOLO S.P.A. LONDON
PBZ CARD DOO ZAGREB
PBZ LEASING DOO
ISP INTERNATIONAL VALUE SERVICES
INTESA SANPAOLO RENT FORYOU S.P.A

Overview of transactions with the Intesa Sanpaolo Group as at 31 December 2022., is indicated below:

4. INFORMATION ON THE APPLICATION SCOPE OF THE REGULATORY REQUIREMENTS (continued)

4.2. Transactions with related parties (continued)

Table 11

Assets	
Bank accounts and loans	99,259
Loans and advances from clients	0
Financial assets at fair value through profit or loss	161
Other receivables	3,101
Total	**102,521**
Liabilities	
Borrowings and time deposits	127,545
Financial liabilities at fair value through profit or loss	0
Other liabilities	671
Total	**128,216**
Commitments and contingent financial commitments	
Financial guarantees	**1,573**

Table 12

Incomes	
Interest income	175
Other income	212
Total	**387**
Expenses	
Interest expense	440
Other expenses	3,187
Total	**3,627**

5. DATA AND INFORMATION RELATING TO THE BANK'S RISK MANAGEMENT STRATEGY, GOALS AND POLICIES

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

5.1. BRIEF DESCRIPTION OF THE STRATEGY AND POLICY FOR EACH INDIVIDUAL RISK

Risk Management Strategy is document which provides a **structured, coherent and holistic overview of risk identification and assessment and definition of acceptable risk appetite.** The definition of Risk Management Strategy is interconnected with budgeting and business planning process, taking in consideration macroeconomic developments as well as areas that require specific attention. The goal of the risk management strategy is to establish a framework for careful and continuous management of all risks inherent in the bank's operations.

Key pillars of ISP BiH Risk Management Strategy and beyond:

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.

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:

5. DATA AND INFORMATION RELATING TO THE BANK'S RISK MANAGEMENT STRATEGY, GOALS AND POLICIES (continued)

5.1. Brief description of the strategy and policy for each individual risk (continued)

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

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 13

ISP BiH risk type	ISP BiH definition/ risk categories
Strategic Risk	**Strategic risk** is the risk of loss due to lack of a long-term develompment strategy of bank, wrong business decisions, or lack of responsiveness to changes in corporative environment and similar. Strategic risk includes **the Business risk**. The Business risk shall represent a negative, unexpected change of scope of business operations and/or profit margins of the bank, which may lead to significant losses and thus reduce the bank's market value. Business risk may occur primarily due to a significant deterioration of the market environment and changes in market competition or behaviour of consumers on the market Strategic risk includes **the Profitability risk** (the risk of earnings) arising from the inadequate system and the distribution of earnings or inability of the bank to ensure an adequate, stable and sustainable level of profitability. Strategic risk includes **Management risk**. Management risk shall be the risk of loss arising from the fact that due to its size and/or complexity, the bank has a limited capacity for establishment of sophisticated managerial 3 mechanisms, systems and controls
Reputational Risk[4]	**Reputational risk** risk of loss of trust in the integrity of a bank caused by the adverse public opinion on the bank's business practices, which stems from the activities of the bank, the bank's business relationships with individual clients or activities of members of the bank bodies, regardless of whether there are any grounds for such public opinion. 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 the 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.

[4] *As also highlighted by the "Guide on climate-related and environmental risks" issued by European Central Bank, this type of risk can also derive from factors related to Environmental, Social & Governance risks (so-called ESG risks), i.e. risks deriving from potential negative impacts, direct or indirect, on the environment, on people and communities and more generally on all stakeholders, or deriving from the governance of the company. Climate change risk also belongs to the category of ESG risks, understood as a risk deriving from climate change caused by the accumulation of greenhouse gases in the atmosphere and which can be declined into transition risk (understood as the financial risk that could derive from the process of adjustment towards a low-carbon economy) and in physical risk related to the environmental impacts of climate change (e.g. sea level rise following average temperature increase or extreme climatic events such as floods and droughts).*

ISP BiH risk type	ISP BiH definition/ risk categories
Credit risks[2]	**Credit risks comprise:** **1) Credit risk,** **2) Residual risk,** **3) Country risk,** **4) Concentration risk,** **5) Currency induced credit risk,** **6) Migration risk,** **7) Counterparty risk,** **8) Interest rate induced credit risk.** **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 recognised basic credit risk mitigation techniques used by the Bank prove less effective than expected. **Country risk is** the risk specific for facilities approved outside the of Bosnia & 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. **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 the application of credit risk mitigation techniques which may lead to losses that could jeopardise 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 their liabilities. **Interest rate induced credit risk** is the risk of loss arising from a borrower's failure to meet its financial obligations to a credit institution, to which the credit institution is additionally exposed due to granting of facilities which are linked to floating interest rate.
Market Risks[2]	**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. **Credit value adjustment (CVA**) represents adjustment to OTC derivative portfolio value in order to capture counterparty credit risk.

ISP BiH risk type	ISP BiH definition/ risk categories
	Settlement risk shall be understood to mean the risk of possible negative effects on the financial result and capital of the bank stemming from the difference in the agreed settlement price for a debtinstrument, equity, foreign currency or commodity instrument and its present market value
Risk of Equity Holdings in the Banking Book	**Risk of equity holdings** in the banking book is the risk of loss due to adverse market movements that relate 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 due to changes of market values of real estate portfolio owned by the Bank.
Interest Rate Risk in the Banking Book	**Interest rate risk** in the banking book is the risk of possible negative effects on the financial result and capital of the bank based on banking book position arising from potential changes in interest rates.
Liquidity Risks[2]	**Liquidity risks** are the risks of losses arising from the Bank's existing or expected inability to meet its financial obligations as they become due. **Liquidity risks comprise:** **1) Funding liquidity risk,** **2) Market liquidity risk.** **Funding liquidity 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 condition the Bank. This subcategory of risk includes: - Risks related to **intraday liquidity** is the risk related to the inability to make payments on an intraday basis due to the lack of liquidity. Intraday liquidity risks may be referred to unexpected due payments during day, unpaid bills. - Risk related to **liquidity outflows** is risk due to possibility of outflows due to early repayment or redemption of funding provided by clients. This risk may include outflows due to the exercise of early repayment options, outflows due to not renewal of the deposits, outfows due to the early termination of dated contracts, withdraval of credit lines or liquidity lines. - **Funding concentration** risk is risk that may arise due to bank's dependence on a small number of funding providers. - **Structural liquidity risk** - The risk that arise from the transformation of maturities in case of excessive reliance on unstable funding components used for medium / long-term investments, giving rise to excessive imbalances to be financed in the short-term **Market liquidity** is the 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. This subcategory of risk includes risk related to **liquidity assets** associated with the Bank's inability to eliminate a position due to inadequate market depth, asset type, time horizon.
Operational Risk[2]	**Operational risk** is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes **legal risk**, which is 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 or breach of 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 significant financial losses or other damage that company may suffer

ISP BiH risk type	ISP BiH definition/ risk categories
	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 and communication technology and information system. **Information and communication technology risk** is the risk of losses due to inappropriateness or failure in operation of hardware and software components of technical infrastructure, which can undermine availability, integrity, accessibility and security of such infrastructure and data **Cyber risk** is the risk of losses due to breach of confidentiality, loss of integrity of systems and data, inappropriateness or unavailability of systems and data or inability to change information technology within a reasonable time and with reasonable costs when the environment or business requirements change (i.e. agility). This includes security risks resulting from inadequate or failed internal processes or external events, including cyber-attacks or inadequate physical security Operational risk includes **model risk** which means 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. **Conduct risk** is existing or potential risk of lossess due to providing inapropriate financial services including cases of mallicious behaviour or indifference. Operational risk includes **Financial crime risk** which means the risk of losses due to money laundering, terrorist financing, violation of embargos, as well as risks related to corruption and armaments provisions. Operational risk includes **Tax risk** which means the risk of losses due to operating in violation of tax regulations or in contrast with the principles or purposes of the tax system in the various jurisdictions in which the Group operates. Operational risk includes **Business continuity risk** which means the risk of losses deriving from the prolonged interuption of critical or systemically important services due to the unavailability of corporate assets to support them (people, premises, information systems, infrastructure services, documentation, essential equipment and / or suppliers). Operational risk includes the **Physical security risk** which means the risk of incurring damage as a result of events caused by physical or info-physical threats. Operational risk includes the **Third-party risk** which means the risk of incurring losses arising from the use of third parties for the procurement of goods or services (including outsourcing). **Outsourcing** is a contracted bank activity entrusted to service providers for activities, which would otherwise be performed by the bank itself. Activities that would normally be performed by the bank itself are activities that enable bank conducting banking business and/or providing financial services, including activities that support those activities. Operational risk includes **Data quality risk** which means the risk related to potential damage deriving from the use of data characterized by an inadequate quality level with respect to the purpose of usage. Operational risk includes **Employer risk** which means the risk of incurring losses as a result of violation of labour regulation (including social security or occupational health and safety) or deriving from inadequate management of the contractual position and relationship with employees or connected to the use of new ways of working. Operational risk includes **Fraud risk** which means the risk of incurring losses as a result of fraudulent behavior attempted or perpetrated by internal or external parties. Operational risk includes **Process risk** which means the risk of incurring losses as a result of errors in the management of processes or in the execution of operations. Operational risk includes **Financial reporting risk** that means the risk that quantitative or qualitative accounting or financial information contained in Bank communications disclosed to the public is not true, correct or complete due to anomalies in administrative processes or ICT applications used to produce it.

ISP BiH risk type	ISP BiH definition/ risk categories
Risk of excessive financial leverage	**Risk of excessive leverage** means the risk resulting from an institution's vulnerability due to leverage or contingent leverage that may require 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.

Credit Risk

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.

5. DATA AND INFORMATION RELATING TO THE BANK'S RISK MANAGEMENT STRATEGY, GOALS AND POLICIES (continued)

5.1. Brief description of the strategy and policy for each individual risk (continued)

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.

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.

The Bank applies a standardized approach for calculation of minimum capital requirements for credit risk in accordance with the provisions of the Decision on the calculation of the bank's capital and the Decision on amendments to the decision on the calculation of the bank's capital.

5. DATA AND INFORMATION RELATING TO THE BANK'S RISK MANAGEMENT STRATEGY, GOALS AND POLICIES (continued)

5.1. Brief description of the strategy and policy for each individual risk (continued)

Operational Risk

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:

- **Centralized management and supervisory level** is responsible for **setting up the operational risk management system** and for monitoring and supervision of the operational risk exposure and operational risk management adequacy. Centralized management and supervisory level comprise the following bodies: Supervisory Board of the Bank, Subcommittees of Supervisory Board (Audit Committee, Risk Committee), Management Board of the Bank, Chief Risk Officer (CRO), Operational Risk Committee.
- decentralized level of managers of organizational units, processes and projects in charge of identification, recording, assessment and monitoring of identified operational risks;
- 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. Self-assessment process includes

5. DATA AND INFORMATION RELATING TO THE BANK'S RISK MANAGEMENT STRATEGY, GOALS AND POLICIES (continued)

5.1. Brief description of the strategy and policy for each individual risk (continued)

risk assessment of information and communication technology (hereinafter: ICT risk) and risk / loss estimates that may arise from partial methods of measuring operational risks (projects, products, outsourcing, business process changes, etc.)

- 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 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

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.

5. DATA AND INFORMATION RELATING TO THE BANK'S RISK MANAGEMENT STRATEGY, GOALS AND POLICIES (continued)

5.1. Brief description of the strategy and policy for each individual risk (continued)

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.

Interest Rate Risk 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

5. DATA AND INFORMATION RELATING TO THE BANK'S RISK MANAGEMENT STRATEGY, GOALS AND POLICIES (continued)

5.1. Brief description of the strategy and policy for each individual risk (continued)

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** (ΔNII) 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.

Liquidity Risk

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 entire liquidity management procedure is well defined by internal acts regulating the area of liquidity management, which covers both liquidity financing risk and market liquidity risk - liquidity risk is defined as the risk that the Bank will not be able to meet its payment obligations due to inability to raise funds or to liquidate its assets (market liquidity risk).

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.

Furthermore, according to the defined key strategic objectives set out in the Risk Management Strategy (where the Bank annually determines the risk appetite in accordance with the business strategy, basic strategic guidelines for capital planning, risk management objectives and basic risk mitigation principles, including risks arising from the macroeconomic environment) in which the Bank operates, considering the status of its business cycle), the risk appetite of the ISP BiH Bank is defined through the Bank's objectives in the field of risk management determined in accordance with its business strategy, environmental factors and vulnerabilities, as well as regulatory requirements and PBZ Guidelines / ISP Group.

The detailed target liquidity risk profile of the Bank is defined in detail in the Liquidity Risk Management Policy approved by the Management Board and the Supervisory Board of the Bank as well, which represents the framework for liquidity risk management primarily through:

5. DATA AND INFORMATION RELATING TO THE BANK'S RISK MANAGEMENT STRATEGY, GOALS AND POLICIES (continued)

5.1. Brief description of the strategy and policy for each individual risk (continued)

- establishing liquidity risk exposure limits;
- definition of models used to monitor and measure liquidity risk;
- reporting on liquidity risk exposure.

The Supervisory Board and the Management Board of the Bank define and approve the liquidity risk threshold, which is considered the maximum risk exposure, that is acceptable during the normal course of business, integrated stress situations.
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);
   - Net stable funding ratio (NSFR).

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);
   - liquidity coverage ratio (LCR);
   - survival period;
   - stress testing;
   - concentration ratios;
   - liquidity crisis plan indicators[5]

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.

Stress test

Stress testing is an integral part of the risk management system, and is carried out for internal management needs and at the request of supervisory authorities. In testing its resilience to stress, the Bank included all significant risk factors specific to its business environment, including macroeconomic factors and ESG risks. The results of stress testing are used to help manage risk, capital planning and the decision-making process within the Bank. Stress test for internal management needs includes comprehensive stress testing as well as stress testing at the level of individual risk:

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

5. DATA AND INFORMATION RELATING TO THE BANK'S RISK MANAGEMENT STRATEGY, GOALS AND POLICIES (continued)

5.1. Brief description of the strategy and policy for each individual risk (continued)

- **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.

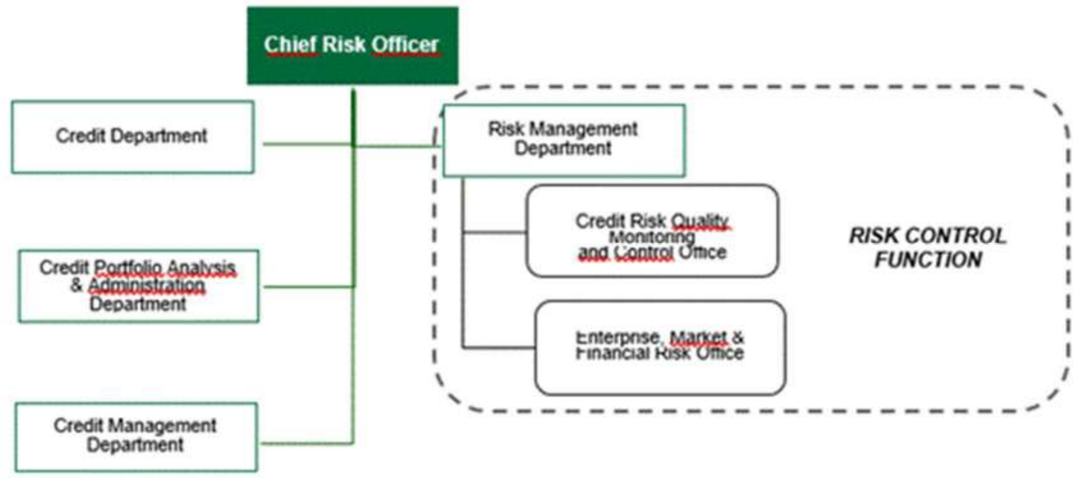
- **Stress test at the level of individual risk**

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).

5.2. STRUCTURE OR ORGANIZATION OF THE RISK MANAGEMENT FUNCTIONS INCLUDING ITS POSITION ROLE AND STATUS IN THE ORGANIZATIONAL STRUCTURE OF THE BANK

The Risk Control Function of the Bank is organised within the Risk Management and Control Division within Risk Management Department.

Scheme 2



The Supervisory Board appoints a person responsible for the work of the Bank's risk control function.

The key roles and responsibilities of the risk control function in the risk management process, which are mostly incorporated into the comprehensive ICAAP and ILAAP framework, 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;
- 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;

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5. DATA AND INFORMATION RELATING TO THE BANK'S RISK MANAGEMENT STRATEGY, GOALS AND POLICIES (continued)

5.2. Structure or organization of the risk management functions including its position role and status in the organizational structure of the bank (continued)

- 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 2022, 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.

5.3. COVERAGE AND CHARACTERISTICS OF THE RISK REPORTING SYSTEM AS WELL AS WAY OF MEASURING RISK

The Bank's risk reporting system at all levels provides timely, accurate and sufficiently detailed information necessary for business decisions and efficient risk management, for safe and stable operations of the Bank. The Bank has established a system of reporting to the regulator, the Bank's Management Board, the Supervisory Board, the Risk Committee, the Audit Committee and other relevant committees, which is based on the principles of timeliness, accuracy and information.

The Risk Management Department prepares monthly reports on the Bank's exposure to individual types of risks, which are considered and adopted at regular ALCO meetings. Also, on a quarterly basis, the Department prepares a comprehensive Risk Management Report, which is considered and adopted at regular meetings of the Bank's Management Board, Risk Committee, Audit Committee and the Bank's Supervisory Board. The Risk Management Department, as a control function of risk management, prepares a quarterly Report. The Risk Management Department report on the proposal of the Bank's Management Board and the

5. DATA AND INFORMATION RELATING TO THE BANK'S RISK MANAGEMENT STRATEGY, GOALS AND POLICIES (continued)

5.3. Coverage and characteristics of the risk reporting system as well as way of measuring risk

proposal / opinion of the Audit Committee and the Risk Committee is adopted by the Bank's Supervisory Board and submitted to the FBiH Banking Agency in accordance with Article 40. of the Bank's Internal Management System Decision.

The list of key reports and users of reports is provided in the following graph:

Scheme 3

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	✓	✓		✓				
RISK ANALYSIS AIM AT ADEQUATE APPLICATION OF THE PROPORTIONALITY PRINCIPLE OF ISP BiH	✓	✓	✓	✓				
REPORT ON UTILIZATION OF LIMITS FOR LIQUIDITY, INTEREST AND MARKET RISKS (ALCO REPORT)					✓			

The Risk Management Department, as a control function of risk management, prepares a quarterly Report. The report on the work of the Risk Management Department at the proposal of the Bank's Management Board and the proposal / opinion of the Audit Committee and the Risk Committee is adopted by the Bank's Supervisory Board and submitted to the FBiH Banking Agency in accordance with Article 40. of Decisions on the internal management system in the bank.

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5. DATA AND INFORMATION RELATING TO THE BANK'S RISK MANAGEMENT STRATEGY, GOALS AND POLICIES (continued)

5.3. Coverage and characteristics of the risk reporting system as well as way of measuring risk (continued)

The Bank has drafted and adopted a Code of Ethics which contains basic ethical principles and rules of business conduct, which are based on the mission and values of the Bank, ensuring honest and fair treatment of all employees, clients, business partners and compliance with laws and regulations, other regulations and internal acts of the Bank. The Code contributes to the rapid detection of situations that are contrary to the Bank's ethical principles. The Bank has channels through which employees can report suspected harmful and undesirable behavior or conduct. Completely anonymous registration is possible via e-mail address and telephone. Records of conducted investigations into suspected harmful conduct are kept in the Department of Internal Audit, which, together with the Department for the Prevention of Money Laundering, the Department for Compliance, the Department for Cyber Security and the BCM, is responsible for conducting investigations.
All employees are obliged to get acquainted, understand and harmonize their activities with the Code of Ethics and other internal acts of the Bank. We are convinced that if all employees carefully follow the principles and provisions of the Code, it will increase the Bank's work efficiency, strengthen its reputation and promote the development of strong business relationships with clients and partners.

The Bank supports and encourages its employees, as well as business partners and clients, to follow established ethical standards. Third parties who do certain business with the Bank should have a good reputation and share the highest ethical business principles established by the Code.
The Bank places significant emphasis on understanding and competencies of risk management throughout the organization. Great emphasis is also placed on continuously improving the culture of risk and awareness about it throughout the organization. The key objective of the Bank's risk management is to comprehensively assess and monitor risks throughout the Bank. A comprehensive approach to risk management is based on prudent and reasonable conservative risk-taking orientations, considering relevant professional criteria. At the same time, the Bank performs development activities in this area through the development of methods and models for assessing, monitoring and determining criteria for mitigating all relevant types of risks. The comprehensiveness and reliability of the risk management system and the method of risk measurement is also based on the work of individual committees specially created for the management of certain types of risk:

The Bank's Management Board Committees relevant to risk management are:

- **Credit Risk Governance Committee** – The Credit Risk Governance Committee (CRGC) is a permanent decision-making and advisory body whose mission is to provide professional and coordinated credit risk management within the scope of the Bank's authority in terms of credit operations and in compliance with the applicable laws, ISP Group Policy and strategic decisions of the parent company. The Committee's main responsibility is to define and update strategic guidelines for credit risk management and credit risk management policies based on ongoing loan portfolio monitoring.
- **Credit Committee (CC)** – The Credit Committee (CC) of the Bank is a standing committee of the Bank in charge of making decisions on regular clients. The Committee's main responsibility is to make credit decisions within the scope of the

5. DATA AND INFORMATION RELATING TO THE BANK'S RISK MANAGEMENT STRATEGY, GOALS AND POLICIES (continued)

5.3. Coverage and characteristics of the risk reporting system as well as way of measuring risk (continued)

- authority of the Bank within the scope of the Bank's authority, in accordance with the issued strategic guidelines and credit policies and in compliance with the positive regulations of BiH, internal enactments of the Bank and the ISP/PBZ guidelines/regulations.
- **Problem Assets Committee** – The Problem Assets Committee (PAC) is a standing committee of the Bank in charge of making decisions on risk-bearing and irregular clients. The main responsibility of the Committee is to undertake the measures necessary to prevent and mitigate the loss on risk-bearing and bad loans. The Committee makes decisions in compliance with the applicable positive regulations of BiH, internal enactments of the Bank and ISP/PBZ regulations/guidelines.
- **Assets and Liabilities Management Committee (ALCO)** - The Assets and Liabilities Management Committee is a decision-making and advisory body focused on financial risk management, active asset management, strategic and operational asset and liability management in accordance with regulations / guidelines ISPs and PBZ Groups, internal acts of the bank, laws, rules and regulations of the competent authorities. The Board, within the limits of its powers and competences determined by the Bank's Management Board, shall act in the following areas:
  - Financial risk management and assessment;
  - Operational management.
- **Product Governance Coordination Committee -** Credit Risk Governance Committee (CRGC) and Assets and Liabilities Management Committee (ALCO) will be further supported by a Product Governance Coordination Committee whose role consists in:
  - Providing support to the ALCO and CRGC Committees in terms of carrying out and formalizing any preliminary analysis needed for the assessment of New Products;
  - Ensuring the adequate coordination with the ISP Group, specificially:
    - With PBZ and ISBD business functions in terms of implementing specific business initiatives;
    - In cases where the Bank acts as a Distributor, with Product Manufacturers to the extent related to assessing and lanuch of the Product Manufacturers' Products.
- **The Operational Risk Committee (ORC)** is a permanent decision-making and consulting body whose mission is to provide qualified and professional management of operational risk issues (including ICT / cyber and security risks) and outsourcing risk, in accordance with applicable laws, regulations ISP / PBZ Group and internal procedures.
- **Information Systems Management Committee (ISMC)** - The Information Systems Management Committee is a decision-making / consulting body whose mission is to provide professional and coordinated management of the Bank's information system in accordance with applicable laws, rules of the Group and strategic decisions of the parent company. The main responsibility of the Board is to coordinate initiatives and monitor the development of information system activities, to align the information system goals with the bank's business goals and business strategy, as well as to comply with regulations and other issues relevant to the management of the information system.

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5. DATA AND INFORMATION RELATING TO THE BANK'S RISK MANAGEMENT STRATEGY, GOALS AND POLICIES (continued)

5.4. ADEQUACY ASSESSMENT OF THE ESTABLISHED RISK MANAGEMENT SYSTEM IN RELATION TO ITS RISK PROFILE, BUSINESS POLICY AND STRATEGY

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.

In accordance with the strategic goals 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 in accordance with the rules defined for risk management and defined limit structures. Therefore, the 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 on a semi-annual basis a risk profile report is prepared which contains an overview of the Bank's risk profile and analysis of exposure to the most significant risks.

The following rules apply when determining the risk profile:

- The Bank analyzes the current relative importance of different types of risks and the distribution of concentrations between individual types of risks, in order to provide a framework for further progress towards the target risk profile;
- Risks that are considered material are quantified or qualitatively assessed in order to determine the overall current risk profile of the Bank;

5. DATA AND INFORMATION RELATING TO THE BANK'S RISK MANAGEMENT STRATEGY, GOALS AND POLICIES (continued)

5.4. Adequacy assessment of the established risk management system in relation to its risk profile, business policy and strategy (continued)

- The Bank identifies risks that are unacceptable given its experience and resources;
- The Bank derives its target risk profile based on the current profile, business plans and risk appetite;
- Targeted risk profile forms the basis for determining consistent risk limits;
- Targeted risk profile supports the capital planning and management process.

For the purpose of effective risk management and taking into account the need to reduce conflicts of interest between risk takers, limit and control risk levels, as well as risk management audit system, the Bank's organizational structure was formed with special attention to the necessary separation of functions and responsibilities between business units. Banks, and in accordance with the principle of "3 lines of defense".

- The first line of defense of the Bank in the process of risk management is represented by organizational units that actively take risks. The goal of the first line of defense is to ensure compliance with the risk limits established in the second line of defense.
- The Bank's second line of defense primarily includes control functions, compliance monitoring and risk management (including the organizational units that make it up). The goal of the second line of defense is independence from the first line of control and compliance with the established restrictions.
- The third line of the Bank's defense is provided by the internal audit function. This function plays a significant role in independently assessing risk management and implementing risk control measures, as well as assessing the compliance of risk management systems with internal and external requirements.

Through its internal acts, the Bank prescribes the manner of conduct and creates an environment that seeks to ensure the adequacy of risk identification, measurement and monitoring, and in accordance with regulatory requirements, the Bank's appetite for risks and their acceptance. Regular review, updating and adoption of internal acts related to risk taking and risk management ensures the application of the correct approach in accordance with legal regulations and the Bank's business strategy, while additionally assessing the effectiveness of internal acts. Every owner of acts in the field of risk taking and risk management is obliged to revise acts within its competence at least once a year (if necessary and more often).

The established risk management system of the Bank is comprehensive and of satisfactory quality, ensuring that all hierarchical levels are provided with adequate information in order to make business decisions. All decisions related to risk management are discussed and made at the levels of the Management Board and the Supervisory Board.

With the available capacities, the Bank strives to constantly improve its knowledge on risk management through available trainings both on the local market and outside BiH.

5. DATA AND INFORMATION RELATING TO THE BANK'S RISK MANAGEMENT STRATEGY, GOALS AND POLICIES (continued)

5.5. RISK HEALTH POLICIES AND POLICIES (INFORMATION ON APPLIED CREDIT RISK REDUCTION TECHNIQUES) RISK REDUCTION AS WELL AS WAYS USED BY THE BANK TO ENSURE AND MONITOR EFFICIENCY

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.

5. DATA AND INFORMATION RELATING TO THE BANK'S RISK MANAGEMENT STRATEGY, GOALS AND POLICIES (continued)

5.5. Risk health policies and policies (information on applied credit risk reduction techniques) risk reduction as well as ways used by the bank to ensure and monitor efficiency (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

- cash deposit with another creditor bank
- life insurance policy[6] (the value of the policy is its repurchase value determined by the insurance company issuing the insurance policy)
- Instruments issued by another bank to be repurchased by that bank upon request

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.

[6] 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.

5. DATA AND INFORMATION RELATING TO THE BANK'S RISK MANAGEMENT STRATEGY, GOALS AND POLICIES (continued)

5.6. BRIEF DESCRIPTION OF THE RELATIONSHIP BETWEEN THE BANK'S RISK PROFILE AND ITS BUSINESS STRATEGY AS WELL AS A SUMMARY OF THE BANK'S KEY BUSINESS INDICATORS RELATED TO THE RISK MANAGEMENT AND THEIR VALUES, ON THE BASIS OF WHICH INTERESTED PARTICIPANTS IN THE FINANCIAL MARKET CAN EVALUATE THE RISK MANAGEMENT OF THE BANK AS WELL AS THE WAY TOLERANCE TO RISKS INCLUDED IN THE RISK MANAGEMENT SYSTEM

The Bank's strategy is aimed at ensuring sustainable growth for all participants with whom it has business relations. The Bank is on the path to growth by ensuring sustainable results, preserving financial strength and capital stability, based on long-term customer relationships. The Bank aims to increase profitability and efficiency, while maintaining a low risk profile, which results from the creation of solid revenues, efficient cost management and dynamic risk management.

The risk strategy includes key principles for ensuring consistent adequacy of the Bank's total capital and liquidity, as well as adequate protection by full integration of risk management into business activities, strategic planning throughout the organization and business development in accordance with defined risk appetite. It ensures the financial stability of the Bank, while reducing the impact of potential financial losses caused by risks that the Bank has accepted in accordance with the Bank's Financial Plan and Capital Plan.
The Financial Plan and the Capital Plan must be agreed with the Risk Management Department to ensure that the appetites and objectives of the business segments do not exceed the level of capital that can cover the risks posed by these objectives, ensuring adequate capacity of the Bank's resources for long-term risk. The risk management strategy is in line with the planned portfolio movements and the expected macroeconomic trends described in the Bank's Financial Plan.

Review of key risk indicators as of 31, December 2022. are shown in the table below:

Table 14

Indicators	As of 31.12.2022	
Regulatory capital adequacy ratio	19,72%	✔
Common equity Tier 1 (CET1) capital ratio	19,71%	✔
Core Capital Ratio (Tier 1)	19,71%	✔
Leverage Ratio	11,08%	✔
Liquidity coverage ratio (LCR)	204,04%	✔
Net Stable Funding Ratio (NSFR)	145,51%	✔
Loan to deposite ratio	81,24%	✔
Sensitivity of net interest income (EVE) in EUR milion	-1,78	✔
NPL Coverage ratio	62,34%	✔
Gross NPL growth rate (% YoY)	-9,80%	✔
Change of economic value of banking book	2,03%	✔

Finally, when looking back at the 2022. fiscal year, we can conclude as follows:

- **There were no significant changes in the overall risk profile.** Credit risk remains the most significant risk in the coming period, taking into account that the credit portfolio makes up the largest part of the Bank's total assets and considering the

5. DATA AND INFORMATION RELATING TO THE BANK'S RISK MANAGEMENT STRATEGY, GOALS AND POLICIES (continued)

5.6. Brief description of the relationship between the Bank's risk profile and its business strategy as well as a summary of the Bank's key business indicators related to the risk management and their values, on the basis of which interested participants in the financial market can evaluate the risk management of the Bank as well as the way tolerance to risks included in the risk management system (continued)

uncertainty of the future development of the global geopolitical situation related to the crisis in Ukraine. As an integral part of credit risk, the Bank has recognized a relatively significant exposure to concentration risk, and calculates capital requirements taking into account individual and sectoral concentration. Items sensitive to the risk of interest rate changes make up the largest part of total assets and total liabilities, and thus make up the largest part of the balance sheet of ISP BiH that is subject to interest rate risk. Taking into account significant interest rate fluctuations and uncertain future interest rate movements, despite the fact that the Bank reacts to changes in a timely manner, actively reviews and adjusts the principles of interest rate risk management, it is still important to carefully manage interest rate risk. The exposure is fully in accordance with the regulatory limits, so during 2022 there were no regulatory limits exceeded (the ratio of changes in the economic value of the banking book and the bank's regulatory capital as of Decembar 31, 2022 was 2.03%), but it is the subject of monitoring by the relevant function. Therefore, it is important to continue to carefully monitor and manage interest rate risk. During 2023, the Bank will treat this risk as highly significant, taking into account the levels of acceptable appetite, exposure, but also the challenges related to risk management possibilities. Although the Bank has been operating successfully for more than 10 years, the Bank strategic risk, which in its definition includes business risk, profitability risk and management risk considers extremely significant and calculates capital requirements for them. Also, in a situation of global crisis, reputational risk is one of the key factors of stability, so the internal capital requirement is calculated for it as well.

- The Bank is well capitalized: regulatory capital and available internal capital mostly consist of capital components (Tier I), which is generally considered the highest quality capital;
- Monitoring and reporting activities did not establish serious violations of internal policies and rules;
- The Bank was in compliance with all key strategic limits

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5. DATA AND INFORMATION RELATING TO THE BANK'S RISK MANAGEMENT STRATEGY, GOALS AND POLICIES (continued)

5.7. DESCRIPTION OF THE REPORTING TO THE SUPERVISORY BOARD AND MANAGEMENT BORD ESPECIALLY FREQUENCY, SCOPE, AND MANNER OF INCLUSION OF THE SUPERVISORY BOARD AND THE BANK'S MANAGEMENT BOARD IN DETERMINING THE CONTENT

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.

Reports of control functions are prepared and presented in person on a quarterly, annual and semi-annual basis, and include an overview of the most important facts identified during inspections, illegalities and irregularities, and shortcomings and weaknesses identified during inspections, as well as proposals, recommendations and deadlines for eliminating illegalities, shortcomings and weaknesses. The reports are submitted to the Audit Committee / Risk Committee and the Bank's Supervisory Board for consideration, informing the Bank's Management Board for timely and efficient implementation of recommendations for eliminating illegalities, irregularities, deficiencies and weaknesses identified during previous inspections. The Bank's Supervisory Board adopts reports on control functions, and on the proposal of the Bank's Management Board and on the proposal / opinion of the Audit Committee / Risk Committee.

5.8 GENERAL FRAMEWORK OF THE INTERNAL CONTROL SYSTEM AND MANNER OF ORGANIZATION OF CONTROL FUNCTIONS

The internal control system and the way of organizing control functions

The internal control system is a system of processes and activities 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:

In organizing the internal control system, the Bank took care to establish a system that insures:

- implementation of an efficient system of internal controls in all areas of business;

5. DATA AND INFORMATION RELATING TO THE BANK'S RISK MANAGEMENT STRATEGY, GOALS AND POLICIES (continued)
5.8. General framework of the internal control system and manner of organization of control functions (continued)

- establishment of independent control functions of the Bank;
- that no person employed by the Bank may be in a position to make significant mistakes or commit violations established by law, other regulations and internal acts of the Bank, which would not be disclosed in the short term;
- adequate organizational structure;
- adequate control activities and division of powers and responsibilities;
- adequate internal controls integrated into the bank's business processes and activities;
- adequate administrative and accounting procedures;
- establishment of appropriate procedures for protection of bank assets;
- effective protection of the bank from abuse and criminal activities (money laundering, terrorist financing, robbery, etc.);
- calculation and review of capital requirements for risks in accordance with relevant regulations;
- calculation and review of the risk capital requirements under the provisions of the Decision on the Calculation of Bank Capital;
- identification and monitoring of large exposures, as well as alignment of large exposures with regulations governing this area;
- conclusion of transactions with persons in a special relationship with the bank and reporting system and oversight procedures for conclusion of transactions with persons in a special relationship with the bank;
- accounting controls and keeping of the accounts, other business documentation and records, asset and liability valuation and preparation, disclosure and delivery of financial statements which must be kept in accordance with all prescribed and established accounting and banking principles, as well as international standards;
- a process which ensures timely, true and accurate public disclosure of the bank’s data and information;
- accuracy verification procedure for data and information required for the supervision on a consolidated basis;
- organizational and technical controls of access to the bank’s assets and utilization of access rights;
- management, logical and physical controls in the information system;

- reporting to the supervisory authorities and other authorities and
- an assessment of the effects of outsourcing of business activities on the bank’s internal controls systems.

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

- an adequate organizational structure,
- adequate control activities and division of the authorities and responsibilities,
- adequate internal controls integrated in the bank’s business processes and activities,
- adequate administrative and accounting procedures,
- establishment of appropriate procedures for the protection of the bank’s assets,
- establishment of the bank’s control functions,

5. DATA AND INFORMATION RELATING TO THE BANK'S RISK MANAGEMENT STRATEGY, GOALS AND POLICIES (continued)

5.8. General framework of the internal control system and manner of organization of control functions (continued)

- efficient protection of the bank against misuses and criminal actions (money laundering, terrorism financing, robbery, etc.).

The Bank established and implements effective internal control systems in all areas of business operations and established 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 2022., within the control functions of the internal audit, compliance and the risk control function, there was no change of manager.

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.

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

5. DATA AND INFORMATION RELATING TO THE BANK'S RISK MANAGEMENT STRATEGY, GOALS AND POLICIES (continued)

5.8. General framework of the internal control system and manner of organization of control functions (continued)

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 Department 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 Department, 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.

The holder of the compliance function is the Compliance Department with the primary task of achieving the compliance goals and activities described hereunder. The Head of the Compliance Department manages the Compliance Department.

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.

5. DATA AND INFORMATION RELATING TO THE BANK'S RISK MANAGEMENT STRATEGY, GOALS AND POLICIES (continued)

5.8. General framework of the internal control system and manner of organization of control functions (continued)

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 FBiH, 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 and in case of significance of this risk it should be included in the ICAAP;
- 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 Department subrelates 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 and Organization Department and, regarding 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 the 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/ILAAP 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;
- to carry out the analysis of the compliance of the remuneration policy with the laws, by-laws and other acts of the Agency, as well as the internal policies and risk culture of the Bank and to report on the findings to the Bank's bodies and to participate in the procedure of determining the risk takers in accordance with their role

5. DATA AND INFORMATION RELATING TO THE BANK'S RISK MANAGEMENT STRATEGY, GOALS AND POLICIES (continued)

5.8. General framework of the internal control system and manner of organization of control functions (continued)

In this view, the Compliance Department 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 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 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 regarding 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 and 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 the Compliance Department, 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 bank.

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

5. DATA AND INFORMATION RELATING TO THE BANK'S RISK MANAGEMENT STRATEGY, GOALS AND POLICIES (continued)

5.8. General framework of the internal control system and manner of organization of control functions (continued)

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 Department** is the holder of the compliance control function. Employees of the Bank are obliged to provide persons employed in Compliance Department with access to all documentation in their possession and to provide all necessary information.

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

Risk control function

The risk control function is organized within the Risk Management and Control Division, specifucally, 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;

5. DATA AND INFORMATION RELATING TO THE BANK'S RISK MANAGEMENT STRATEGY, GOALS AND POLICIES (continued)

5.8. General framework of the internal control system and manner of 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 2022., 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.

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6. DATA AND INFORMATION RELATING TO REGULATORY CAPITAL, CAPITAL REQUIREMENTS AND ADEQUACY OF CAPITAL, PROTECTIVE LAYERS OF CAPITAL AND FINANCIAL LEVERAGE

The Bank hereby publishes the following information pursuant to Article 8., 9., 10. and 11. of the Decision.
All information is indicated in BAM 000, unless stated otherwise.

6.1. BANK'S CAPITAL STRUCTURE AND DATA RELATING TO PROTECTIVE LAYERS OF CAPITAL

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 2022. amounted to 302,689 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.

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6. DATA AND INFORMATION RELATING TO REGULATORY CAPITAL, CAPITAL REQUIREMENTS AND ADEQUACY OF CAPITAL, PROTECTIVE LAYERS OF CAPITAL AND FINANCIAL LEVERAGE (continued)

6.1. Bank's capital structure and data relating to protective layers of capital (continued)

The Bank's capital structure as at 31 December 2022. was the following:

Table 15

Capital	Iznos
REGULATORY CAPITAL	**302,689**
COMMON EQUITY	**302,683**
COMMON EQUITY TIER 1 (CET1)	**302,683**
Capital Instruments recognised as CET1	**93,581**
Paid capital instruments	44,776
Share premium	48,805
Profit or loss belonging to the ultimate shareholder	26,078
(–) 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	-26,078
Other accumulated aggregate profit	-2,848
Other reserves	215,611
(–) Other intangible assets	-3,661
ADDITIONAL TIER 1 CAPITAL (AT1)	**6**
Capital instruments recognised as AT1	6

6.2. DESCRIPTION OF BASIC CHARACTERISTICS OF FINANCIAL INSTRUMENTS INCLUDED IN THE CALCULATION OF REGULATORY CAPITAL

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

Table 16

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 loss in the amount of 2.848 thousand BAM related to a fair value of the assets measured through the Other Comprehensive Income;
- other reserves amounting to 215,611 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 3.661 thousand BAM (software and licenses) which, according to the Decision, are a capital deductible item.

6. DATA AND INFORMATION RELATING TO REGULATORY CAPITAL, CAPITAL REQUIREMENTS AND ADEQUACY OF CAPITAL, PROTECTIVE LAYERS OF CAPITAL AND FINANCIAL LEVERAGE (continued)

6.2. Description of basic characteristics of financial instruments included in the calculation of regulatory capital (continued)

Basic characteristics of financial instruments included into the Bank's regulatory capital are given below:

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 maturity 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

6. DATA AND INFORMATION RELATING TO REGULATORY CAPITAL, CAPITAL REQUIREMENTS AND ADEQUACY OF CAPITAL, PROTECTIVE LAYERS OF CAPITAL AND FINANCIAL LEVERAGE (continued)

6.2. Description of basic characteristics of financial instruments included in the calculation of regulatory capital (continued)

Adjustments to the regulatory capital calculation amount to 6 thousand BAM and refer to paid-in priority shares.

Table 17

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

6.3. DESCRIPTION OF ALL RESTRICTIONS APPLICABLE TO THE CALCULATION OF REGULATORY 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 which makes the total regulatory capital rate a minimum of 14.5% (12 % + 2.5%).
The bank is obliged to ensure and maintain a financial leverage rate of at least 6% in accordance with Article 37 of the Decision.

Table 18

Regulations related with capital ratios and concentrations	Required restrictions (%)
Common equity Tier 1 (CET1) capital ratio	min. 6.75%
Core Capital Ratio (Tier 1)	min. 9%
Regulatory capital adequacy ratio	min. 12%
Total capital adequacy ratio	min. 14.5%
Leverage Ratio	min. 6%

In accordance with the FBA capital calculation decision, the Bank report Form KA 3 - Capital rates and capital levels and Form FP - calculation of the financial leverage rate (C 47.00), and submits them to the regulator quarterly by the following month at the end of the quarter.
In addition to the above, the Bank monitors and reconciles its operations on a monthly basis with the aim of maintaining coefficients within the prescribed limits.

6.4. TYPE AND AMOUNT OF REGULATORY ADJUSTMENTS, ADJUSTMENTS AND ITEMS THAT THE BANK IS NOT OBLIGED TO DEDUCT FROM ELEMENTS OF REGULATORY CAPITAL IN ACCORDANCE WITH THE PROVISIONS OF THE DECISION ON CALCULATION OF CAPITAL

The Bank did not have regulatory adjustments that reduced regulatory capital that were not obligatory according to the Decision on calculation of the bank's capital.

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6. DATA AND INFORMATION RELATING TO REGULATORY CAPITAL, CAPITAL REQUIREMENTS AND ADEQUACY OF CAPITAL, PROTECTIVE LAYERS OF CAPITAL AND FINANCIAL LEVERAGE (continued)

6.5. CAPITAL REQUIREMENTS AND CAPITAL RATES

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

Table 19

Capital adequacy			
No.	**Item**	**Risk-weighted exposure amount**	**Capital requirements**
1.	Exposures to central governments and central banks	27,189	3,263
2.	Exposures to regional governments and local authorities	37,425	4,491
3.	Exposures to public sector entities	7,491	899
4.	Exposures to multilateral development banks	0	0
5.	Exposures to international organisations	0	0
6.	Exposures to institutions	67,895	8,147
7.	Exposures to companies	412,676	49,521
8.	Exposures to retail	385,822	46,299
9.	Exposures to secured with real estate	429,919	51,590
10.	Exposures with default status	17,710	2,125
11.	High risk items	14,824	1,779
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	890	107
16.	Other exposures	24,260	2,911
17.	Total capital requirements for credit risk		**171,132**
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		**13,106**
21.	CET1 ratio		**19.71%**
22.	T1 ratio		**19.71%**
23.	Regulatory capital ratio		**19.72%**

6. DATA AND INFORMATION RELATING TO REGULATORY CAPITAL, CAPITAL REQUIREMENTS AND ADEQUACY OF CAPITAL, PROTECTIVE LAYERS OF CAPITAL AND FINANCIAL LEVERAGE (continued)

6.6. BANK'S CREDIT RISK EXPOSURE

6.6.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.

6. DATA AND INFORMATION RELATING TO REGULATORY CAPITAL, CAPITAL REQUIREMENTS AND ADEQUACY OF CAPITAL, PROTECTIVE LAYERS OF CAPITAL AND FINANCIAL LEVERAGE (continued)

6.6. Bank's credit risk exposure (continued)

6.6.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[7] 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.

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.

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

6. DATA AND INFORMATION RELATING TO REGULATORY CAPITAL, CAPITAL REQUIREMENTS AND ADEQUACY OF CAPITAL, PROTECTIVE LAYERS OF CAPITAL AND FINANCIAL LEVERAGE (continued)

6.6. Bank's credit risk exposure (continued)

6.6.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 2022.

Table 20

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	758,101	767,171
2.	Exposures to regional governments and local authorities	52,269	50,792
3.	Exposures to public sector entities	7,619	8,190
4.	Exposures to multilateral development banks	537	635
5.	Exposures to international organisations	0	0
6.	Exposures to institutions	185,515	139,880
7.	Exposures to companies	649,489	631,087
8.	Exposures to retail	678,465	663,307
9.	Exposures to secured with real estate	688,781	685,545
10.	Exposures with default status	18,344	20,880
11.	High risk items	11,419	8,253
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	314	295
16.	Other exposures	53,118	56,411
17.	**Total**	**3,103,971**	**3,032,446**

6.6.d. Geographical division of exposure categories

Geographical division of exposures is given below:

Table 21

No.	Items	Bosnia and Herzegovina	Italy	Austria	Germany	Croatia	USA	Great Britain	Switzerland	Sweden	Other	Total
1.	Exposures to central governments and central banks	655,123	0	0	0	54,377	0	0	0	0	48,601	758,101
2.	Exposures to regional governments and local authorities	52,269	0	0	0	0	0	0	0	0	0	52,269
3.	Exposures to public sector entities	7,619	0	0	0	0	0	0	0	0	0	7,619
4.	Exposures to multilateral development banks	0	0	0	0	0	0	453	0	0	84	537
5.	Exposures to international organisations	0	0	0	0	0	0	0	0	0	0	0
6.	Exposures to institutions	36,857	101,165	24,153	7,296	3,994	7,463	412	727	588	2,860	185,515
7.	Exposures to companies	649,489	0	0	0	0	0	0	0	0	0	649,489
8.	Exposures to retail	677,245	151	0	4	248	0	0	0	0	817	678,465
9.	Exposures to secured with real estate	688,383	0	51	129	0	0	0	0	0	218	688,781
10.	Exposures with default status	18,342	0	0	2	0	0	0	0	0	0	18,344
11.	High risk items	11,419	0	0	0	0	0	0	0	0	0	11,419
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	53	161	0	0	0	0	0	0	0	100	314
16.	Other exposures	53,118	0	0	0	0	0	0	0	0	0	53,118
17.	**Total**	**2,849,917**	**101,477**	**24,204**	**7,431**	**58,619**	**7,463**	**865**	**727**	**588**	**52,680**	**3,103,971**

6. DATA AND INFORMATION RELATING TO REGULATORY CAPITAL, CAPITAL REQUIREMENTS AND ADEQUACY OF CAPITAL, PROTECTIVE LAYERS OF CAPITAL AND FINANCIAL LEVERAGE (continued)

6.6. Bank's credit risk exposure (continued)

Countries shown under the item Other are: Belgium, China, Denmark,Spain, Franch, Luxembourg, Montenegro, Macedonia, Norway Romania, Serbia, the Russian Federation, Slovenia.

6.6.e. Exposure categories as per types of activities

Table 22

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	0
3.	Exposures to public sector entities	0	0	0	0	0	0	0	4,109	0	0	0
4.	Exposures to multilateral development banks	0	0	0	0	0	0	0	0	0	0	537
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	185,515
7.	Exposures to companies	7,552	9,208	157,227	7,187	0	125,902	245,422	34,866	2,663	17,799	1,254
8.	Exposures to retail	1,967	422	20,626	1,208	0	27,673	46,513	25,556	1,282	4,617	5,318
9.	Exposures to secured with real estate	7,828	2,096	81,469	48,675	0	26,864	180,419	11,272	25,887	5,946	0
10.	Exposures with default status	0	0	667	0	0	68	254	2,462	1	179	3
11.	High risk items	0	0	0	0	0	3,061	1,940	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	100	164
16.	Other exposures	0	0	0	0	0	0	0	0	0	0	0
17.	**Total**	**17,347**	**11,726**	**259,989**	**57,070**	**0**	**183,618**	**474,548**	**78,265**	**29,833**	**28,641**	**192,791**

6.6.e. Exposure categories as per types of activities (continued)

Table 22 - 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	103,219	0	0	0	654,882	758,101
2.	Exposures to regional governments and local authorities	0	0	0	52,269	0	0	0	0	52,269
3.	Exposures to public sector entities	0	0	5	3,504	0	1	0	0	7,619
4.	Exposures to multilateral development banks	0	0	0	0	0	0	0	0	537
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	185,515
7.	Exposures to companies	2,271	15,233	2,229	0	236	4,023	304	16,113	649,489
8.	Exposures to retail	2,330	3,225	606	0	2,028	1,029	1	534,064	678,465
9.	Exposures to secured with real estate	19,118	10,512	3,553	0	916	5,058	110	259,058	688,781
10.	Exposures with default status	1,274	213	0	0	1,051	0	0	12,172	18,344
11.	High risk items	6,418	0	0	0	0	0	0	0	11,419
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	314
16.	Other exposures	0	0	0	0	0	0	0	53,118	53,118
17.	**Total**	**31,411**	**29,183**	**6,393**	**158,992**	**4,231**	**10,111**	**415**	**1,529,407**	**3,103,971**

Note: the following exposures are indicated under the Item other activities: service activities (28.610 thousand BAM); retail (792,795 thousand BAM) other exposures (707,999 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 2022. are indicated.

6. DATA AND INFORMATION RELATING TO REGULATORY CAPITAL, CAPITAL REQUIREMENTS AND ADEQUACY OF CAPITAL, PROTECTIVE LAYERS OF CAPITAL AND FINANCIAL LEVERAGE (continued)

6.6. Bank's credit risk exposure (continued)

6.6.f. Exposure categories as per maturity

Table 23

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	63,386	39,834	0	654,881	**758,101**
2.	Exposures to regional governments and local authorities	7,574	17,312	27,383	0	**52,269**
3.	Exposures to public sector entities	671	4,109	2,839	0	**7,619**
4.	Exposures to multilateral development banks	537	0	0	0	**537**
5.	Exposures to international organisations	0	0	0	0	**0**
6.	Exposures to institutions	162,088	23,411	16	0	**185,515**
7.	Exposures to companies	321,018	219,543	108,928	0	**649,489**
8.	Exposures to retail	212,326	232,556	233,583	0	**678,465**
9.	Exposures to secured with real estate	160,361	221,921	306,499	0	**688,781**
10.	Exposures with default status	4,497	5,719	8,128	0	**18,344**
11.	High risk items	2,325	9,094	0	0	**11,419**
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	314	**314**
16.	Other exposures	0	0	0	53,118	**53,118**
17.	**Total**	**934,783**	**773,499**	**687,376**	**708,313**	**3,103,971**

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 165 472,725 thousand BAM for exposures maturing „at sight".

6.6.g. Exposures as per industry

Table 24

Exposures to a significant economic branch of the economy							
No.	**Branches of the economy**	**Exposures in default status**	**Alowances 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	91	91	29	1	17,644	297
2.	Mining and quarrying	1	0	25	2	12,298	573
3.	Manufacturing	1,837	1,170	1,088	555	264,051	4,729
4.	Electricity, gas, steam and air conditioning supply	1	1	90	3	58,185	1,115
5.	Water supply; sewerage, waste management and remediation activities	0	0	0	0	0	0
6.	Construction	777	709	911	695	184,814	1,264
7.	Wholesale and retail trade; repair of motor vehicles and motorcycles	2,440	2,186	2,646	2,091	478,303	4,009
8.	Transport and storage	4,381	1,919	1,437	1,295	76,280	477
9.	Accommodation and food service activities	59	58	137	48	32,812	2,980
10.	Information and communication	404	225	399	163	28,859	397
11.	Financial Institutions	13	10	44	0	193,217	429
12.	Real estate activities	1,598	324	80	2	30,646	509
13.	Professional, scientific and technical activities	377	164	242	127	29,295	325
14.	Administrative and support service activities	12	12	13	0	6,438	45
15.	Public administration and defence, compulsory social security	2	1	170	5	160,570	1,579
16.	Education	1,241	191	376	57	3,286	105
17.	Human health and social work activities	2	2	18	0	10,208	97
18.	Arts, entertainment and recreation	2	2	2	0	466	51
19.	Other services activities	49,049	36,878	28,090	21,213	1,538,780	21,544
20	**Total**	**62,287**	**43,943**	**35,797**	**26,257**	**3,126,152**	**40,525**

6. DATA AND INFORMATION RELATING TO REGULATORY CAPITAL, CAPITAL REQUIREMENTS AND ADEQUACY OF CAPITAL, PROTECTIVE LAYERS OF CAPITAL AND FINANCIAL LEVERAGE (continued)

6.6. Bank's credit risk exposure (continued)

6.6.h. Changes in value adjustment for credit risks

Table 25

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	**45,074**	**34,470**
2.	Increases in allowances and provisions during the period	14,056	19,830
3.	Amount of allowances and provisions losses	-10,120	-14,391
4.	Write-offs and other movements *	-5,067	616
5.	Closing balance	**43,943**	**40,525**

** The item "Write-offs and other movements" includes permanently written off receivables, write-offs based on accounting write-offs (write-off of 100% of reserved receivables due two years ago in the off-balance sheet), and movements in provisions based on assets measured through comprehensive income (FVOCI).*

6.6.i (1-4). 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 26

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

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6. DATA AND INFORMATION RELATING TO REGULATORY CAPITAL, CAPITAL REQUIREMENTS AND ADEQUACY OF CAPITAL, PROTECTIVE LAYERS OF CAPITAL AND FINANCIAL LEVERAGE (continued)

6.6. Bank's credit risk exposure (continued)

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.

6.6.i (5). The amount of exposure before and after the use of credit protection is given as below

Table 27

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	**3,085,627**	**18,344**	**3,086,641**	**17,330**
1.	Exposures to central governments and central banks	758,101	0	758,101	0
2.	Exposures to regional governments and local authorities	52,269	0	126,766	0
3.	Exposures to public sector entities	7,619	0	7,619	0
4.	Exposures to multilateral development banks	537	0	3,754	0
5.	Exposures to international organisations	0	0	0	0
6.	Exposures to institutions	185,515	1	186,683	1
7.	Exposures to companies	649,489	6,146	568,662	5,195
8.	Exposures to retail	678,465	12,197	669,461	12,134
9.	Exposures to secured with real estate	688,781	0	684,837	0
10.	High risk items	11,419	0	11,419	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	314	0	314	0
15.	Other exposures	53,118	0	69,025	0

6.7. FINANCIAL 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.

6. DATA AND INFORMATION RELATING TO REGULATORY CAPITAL, CAPITAL REQUIREMENTS AND ADEQUACY OF CAPITAL, PROTECTIVE LAYERS OF CAPITAL AND FINANCIAL LEVERAGE (continued)

6.7. Financial leverage rate (continued)

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 2022.:

Table 28

Exposure value	Amount
Financial derivatives: current replacement cost	0
Financial derivatives Increase in accordance with the market value methodology	0
Off-balance items with the 10% conversion factor (CCF) in line with Decision on the Bank's Capital Calculation	9,179
Off-balance items with the 20% conversion factor (CCF) in line with Decision on the Bank's Capital Calculation	43,941
Off-balance items with the 50 % conversion factor (CCF) in line with Decision on the Bank's Capital Calculation	114,725
Off-balance items with the 100 % conversion factor (CCF) in line with Decision on the Bank's Capital Calculation	0
Other assets	2,566,691
(-) Amount of the assets deductible items - equity - in line with Decision on the Bank's Capital Calculation	-3,661
Exposure of the financial leverage rate - in line with Decision on the Bank's Capital Calculation	**2,730,875**
Capital	**0**
Common Equity in line with Decision on the Bank's Capital Calculation	**302,683**
Leverage ratio	**0**
Financial leverage rate - in line with Decision on the Bank's Capital Calculation	**11.08%**

7. DATA AND INFORMATION RELATING TO 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 5.

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.

7. DATA AND INFORMATION RELATING TO LIQUIDITY REQUIREMENTS (continued)

On 31 December 2022 the liquidity coverage ratio was 204,04%.

Table 29

No.	LIQUIDITY COVERAGE RATIO (LCR)	Iznos
1.	Liquidity buffer	584,107
2.	Net liquidity outflow	286,273
3.	Liquidity coverage ratio (%)	204.04%
	Liquidity buffer	
4.	L1 excl. EHQCB liquidity buffer, unadjusted	584,107
5.	L1 excl. EHQCB collateral 30 day outflows	0
6.	L1 excl. EHQCB collateral 30 day inflows	0
7.	Secured cash 30 day ouflows	0
8.	Secured cash 30 day inflows	0
9.	L1 excl. EHQCB "adjusted amount"	584,107
10.	L1 EHQCB value, unadjusted	0
11.	L1 EHQCB collateral 30 day outflows	0
12.	L1 EHQCB collateral 30 day inflows	0
13.	L1 EHQCB "adjusted amount" befor applaying the upper limit	0
14.	L1 EHQCB "adjusted amount" after applaying the upper limit	0
15.	Excess liquid asset amount of L1 EHQCB	0
16.	L2A, unadjusted	0
17.	L2A collateral 30 day outflows	0
18.	L2A collateral 30 day inflows	0
19.	Adjusted amount of L2A "before applying the ceiling"	0
20.	Adjusted amount of L2A "after application of the ceiling"	0
21.	"Amount of excess liquid assets" level 2a	0
22.	L2B , unadjusted	0
23.	L2B collateral 30 day outflows	0
24.	L2B collateral 30 day inflows	0
25.	Adjusted amount of L2B "before applying the ceiling"	0
26.	Adjusted amount of L2B "after application of the ceiling"	0
27.	"Amount of excess liquid assets" level 2b	0
28.	Excess liquid asset amount	0
29.	Liquidity buffer	584,107
	Net liquidity outflow	
30.	Total Outflows	471,601
31.	Fully Exempt Inflows	0
32.	Inflows Subject to 75% Cap	185,328
33.	Reduction for Fully Exempt Inflows	0
34.	Reduction for Inflows Subject to 75% Cap	185,328
35.	Net liquidity outflow	286,273

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.

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.

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8. DATA AND INFORMATION RELATING TO EXPOSURES BASED ON EQUITY INVESTMENTS OF THE BANK

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

On 31 December 2022. the amount of equity investments not recorded into the trading book amounted to 314 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 income;
- Investments measured at fair value through profit and loss.

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

Table 30

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	da	161	161	0	15	0
Other non-banking institutions	FVOCI	BiH	da	3	3	0	0	0
Entities	FVOCI	BiH	ne	50	50	0	0	0
Entities	FVOCI	Belgium	ne	100	100	0	0	63
Ukupno				**314**	**314**	**0**	**0**	**63**
FVTPL - Fair Value through Profit&Loss								
FVOCI - Fair Value through Other Comprehensive Income								

9. DATA AND INFORMATION RELATING TO INTEREST RATE 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;

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9. DATA AND INFORMATION RELATING TO INTEREST RATE RISK IN THE BANKING BOOK (continued)

Analysis of sensitivity to the interest rate change for Intesa Sanpaolo Bank d.d. BiH on 31 December 2022.

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.

Change of the Bank's assets according to periods of interest rate change:

Table 31

Shift Sensitivity +100 b.p. (mln BAM)	Total	0-18 months	18 months - 5 years	over 5 years
EUR	(4.03)	0.51	0.75	(3.80)
USD	0.09	0.03	0.06	0.00
CHF	0.11	0.01	0.00	0.11
Local CcY	(9.74)	(1.50)	(5.10)	(3.14)
Other Ccy	0.00	0.00	0.00	0.00
TOTAL utilization	(13.57)	(0.95)	(5.79)	(6.83)

Sensitivity of the net interest income to interest rate changes:

Table 32

NII Sensitivity +/-50 b.p.	Total	Limit	Utiliz. %
NII Sensitivity	(3.49)	(5.9)	59%

Economic value change-parallel shift 200 bp:

Table 33

Limit Shift by FBA regulations	Change of EVE	Regulatory capital	Limit	Utiliz. %
Change of banking book economic value toward liable capital +200 bps (mln BAM, %)	(6.13)	302.69	20%	2.03%

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10. DATA AND INFORMATION RELATING TO 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

10.1. 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 34

Significant risk	Level of Risk significance	Tretment in ICAAP	
		Qualitative Yes/No	Quantitative Yes/No
Strategic risk	Medium	Yes	Yes
Strategic risk - Business risk	Medium	Yes	Yes
Strategic risk - Profitability risk	Medium	Yes	Yes
Strategic risk - Management risk	Medium	Yes	Yes
Reputational risk	Medium	Yes	Yes
Reputational risk - Compliance risk	Medium	Yes	Yes
Reputational risk - Environmental risk	Medium	Yes	Yes
Credit risk	High	Yes	Yes
Credit Risk - Basic	High	Yes	Yes
Credit Risk - Concentration	Medium	Yes	Yes
Market risk	Medium	Yes	Yes
Market risk - Foreign-exchange risk	Medium	Yes	Yes
Interst rate risk in banking book	High	Yes	Yes
Liquidity risk	High	Yes	No
Liquidity risk - Funding liquidity risk	High	Yes	No
Funding liquidity risk - Intraday liquidity risk	Medium	Yes	No
Funding liquidity risk - Risk related to liquidity outflows	Medium	Yes	No
Funding liquidity risk - Funding concentration risk	Medium	Yes	No
Funding liquidity risk - Structural mismatch risk	Medium	Yes	No
Liquidity risk - Market liquidity risk	Medium	Yes	No
Market liquidity risk - Risk related to liquidity assets	Medium	Yes	No
Operational risk	High	Yes	Yes
Operational risk - legal risk	Medium	Yes	Yes
Operational - complinace risk	Medium	Yes	Yes
Operational risk - information system risk	Medium	Yes	Yes
Operationa risk - model risk	Medium	Yes	Yes
Operational risk - third party risk	Medium	Yes	Yes
Operational risk - finacial crime risk	Medium	Yes	Yes
Operational risk - tax risk	Medium	Yes	Yes
Operational risk - Business continuity risk	Medium	Yes	Yes
Operational risk - Physical security risk	Medium	Yes	Yes
Operational risk - Data quality risk	Medium	Yes	Yes
Operational risk - Employer risk	Medium	Yes	Yes
Operational risk - Fraud risk	Medium	Yes	Yes
Operational risk - Process risk	Medium	Yes	Yes
Operational risk - Financial reporting risk	Medium	Yes	Yes

Risk that are not significant	Level of Risk significance	Tretment in ICAAP	
		Qualititative Yes/No	Quantitative Yes/No
Credit risk - residual	Low	Yes	No
Credit risk - contry	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
Market risk - Position risk in the trading book	Low	Yes	No
Market risk - Commodities risk in the trading book	Low	Yes	No
Market risk - Credit value adjustment (CVA)	Low	Yes	No
Market risk - Settlement 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 excesive financial 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

10. DATA AND INFORMATION RELATING TO INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS- ICAAP AND INTERNAL LIQUIDITY ADEQUACY ASSESSMENT PROCESS – ILAAP (continued)

10.1. Summary of ICAAP (continued)

impact on available financial resources (basically, potential additional loss), 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.
- When determining internal requirement for credit risk, depending on the category of exposre, the Bank uses a Standardized approach in accordance with provisions of the Decision on calculation of the Bank's capital or Internal Rating Based (IRB) approach based on Bank's internal rating systems (internal model).
- 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

10. DATA AND INFORMATION RELATING TO INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS- ICAAP AND INTERNAL LIQUIDITY ADEQUACY ASSESSMENT PROCESS – ILAAP (continued)

10.1. Summary of ICAAP (continued)

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 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 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.

10. DATA AND INFORMATION RELATING TO INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS- ICAAP AND INTERNAL LIQUIDITY ADEQUACY ASSESSMENT PROCESS – ILAAP (continued)

10.2. 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 31.12.2022. they amounted to:

Table 35

Indicator	As of 31.12.2022	
Loan to deposit ratio	81.24%	✔
Liquidity coverage ratio (LCR)*	204.04%	✔
Net Stable Financing Ratio (NSFR)	145.51%	✔

*Applicable from: 31st December 2022.Calculation is done quarterly

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.

11. DATA AND INFORMATION RELATING TO UNENCUMBERED AND ENCUMBERED ASSETS

Pursuant to Article 16. of the Decision the Bank hereby publishes the following information

As at 31 December 2022, the Bank has no assets that meet the criteria of encumbered assets.
An asset is considered encumbered if it is promised or if it is subject to any form of contract to secure, pledge or increase any transaction from which it cannot be freely withdrawn.

Table 36

No.	Type of Assets	Gross book value of encumbered assets	Gross book value of unencumbered assets
1.	Loans	0	1,666,580
2.	Investments in debt instruments	0	101,872
3.	Investments in equity instruments	0	314
4.	Others (cash, fixed assets and other assets)	0	879,712

12. NONPERFORMING AND RESTRUCTURED EXPOSURES AND REPOSESED ASSESTS

Pursuant to Article 17 of the Decision the Bank hereby publishes the following information

As at 31 December 2022, the Bank publishes the data as reported below:

a) quality of credit exposure classified into credit risk levels with related amounts of expected credit losses

Table 37

No.	Type of Assets	Gros Exposure			Expected credit losses		
		Credit risk level 1	Credit risk level 2	Credit risk level 3	Credit risk level 1	Credit risk level 2	Credit risk level 3
1.	Cash, cash receivables and other demand deposits	827,935	0	0	807	0	0
2.	Financial assets at amortized costs	1,493,419	117,853	60,755	20,226	16,984	42,849
	of which Loans	*1,489,288*	*117,196*	*60,096*	*20,165*	*16,865*	*42,304*
3.	Financial assets at fair value through profit or loss	0	0	0	0	0	0
4.	Financial assets at fair value through other corprehensive incore	103,292	0	0	0	0	0
5.	Other financial receivables	9,541	252	833	88	72	761
6.	**TOTAL FINANCIAL ASSETS**	**2,434,187**	**118,105**	**61,588**	**21,121**	**17,056**	**43,610**

b) quality of credit loans according to the sectoral structure of loans classified into credit risk levels with related amounts of expected credit losses

Table 38

No.	Type of Assets	Gros Exposure			Expected credit losses		
		Credit risk level 1	Credit risk level 2	Credit risk level 3	Credit risk level 1	Credit risk level 2	Credit risk level 3
	Total loans to Legal Entities	**822,982**	**91,847**	**13,759**	**6,261**	**11,009**	**7,636**
1.	Agriculture, forestry and fishing	13,292	1,414	0	82	203	0
2.	Mining and quarrying	4,617	5,183	0	23	535	0
3.	Manufacturing	165,509	30,801	1,760	914	3,574	1,099
4.	Electricity, gas, steam and air conditioning supply	53,484	3,632	0	502	589	0
5.	Water supply; sewerage, waste management and remediation activities	0	0	0	0	0	0
6.	Construction	67,092	3,773	729	418	440	686
7.	Wholesale and retail trade; repair of motor vehicles and motorcycles	296,048	14,912	2,325	1,714	1,756	2,078
8.	Transport and storage	38,393	1,764	4,366	302	125	1,906
9.	Accommodation and food service activities	10,987	19,086	0	75	2,771	0
10.	Information and communication	15,994	2,097	333	106	272	158
11.	Financial Institutions	34,617	0	0	173	0	0
12.	Real estate activities	19,541	3,123	1,597	115	376	322
13.	Professional, scientific and technical activities	13,249	2,761	369	105	173	158
14.	Administrative and support service activities	5,717	0	0	40	0	0
15.	Public administration and defence, compulsory social security	49,632	2,669	0	1,419	133	0
16.	Education	1,225	0	1,240	6	0	189
17.	Human health and social work activities	9,668	0	0	92	0	0
18.	Arts, entertainment and recreation	60	402	0	0	50	0
19.	Other services activities	23,857	230	1,040	175	12	1,040
	Total loans to Retail	**666,306**	**25,349**	**46,337**	**13,904**	**5,856**	**34,668**
1.	General consumption	473,760	23,343	43,710	11,956	5,478	33,324
2.	Housing	183,463	1,703	2,520	1,706	281	1,258
3.	Performing activities (craftsmen)	9,083	303	107	242	97	86
		1,489,288	**117,196**	**60,096**	**20,165**	**16,865**	**42,304**

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12. NONPERFORMING AND RESTRUCTURED EXPOSURES AND REPOSESED ASSESTS (continued)

c) the credit quality of restructured exposures;

Table 39

No.	Type of Assets	Gros Exposure			Expected credit losses		
		Credit risk level 1	Credit risk level 2	Credit risk level 3	Credit risk level 1	Credit risk level 2	Credit risk level 3
1.	Cash, cash receivables and other demand deposits	0	0	0	0	0	0
2.	Financial assets at amortized costs	1,528	19,671	14,553	26	3,313	9,575
	from which Loans	*1,528*	*19,671*	*14,553*	*26*	*3,313*	*9,575*
3.	Financial assets at fair value through profit or loss	0	0	0	0	0	0
4.	Financial assets at fair value through other corprehensive incore	0	0	0	0	0	0
5.	Other financial receivables	0	0	0	0	0	0
6.	**TOTAL FINANCIAL ASSETS**	**1,528**	**19,671**	**14,553**	**26**	**3,313**	**9,575**

d) changes in the balances of non-performing exposures and related expected credit losses during the reporting period.

The change in the balance of non-performing loans is given in the table below:

Table 40

No.	Type of Loans	Begining Balance	New non-performing loans in the reporting period (+)	Recovery (-)	Collection (-)	Accounting write-off (-)	Permanent write-off (-)	Other (+/-)	Final balance
1.	Loans to Legal Entities	17,704	5,097	-1,595	-6,855	-146	-446	0	13,759
2.	Loans to Retail	48,931	14,029	-3,589	-9,133	-1,859	-2,042	0	46,337
	Total Non Performing Loans	**66,635**	**19,126**	**-5,184**	**-15,988**	**-2,005**	**-2,488**	**0**	**60,096**

The movement of expected credit losses of previously presented non-performing loans is given in the table below:

Table 41

No.	Changes in allowances and provisions	Allowances and provisions for exposures in default status
1.	**Opening balances**	**43,306**
2.	Increases in allowances and provisions during the perio	13,468
3.	Amount of allowances and provisions losses	-9,428
4.	Write-offs and other movements *	-5,043
5.	**Closing balance**	**42,304**

** The item "Write-off and other movements" includes permanently written off receivables, write-off based on accounting write-off (derecognition of 100% of reserved receivables due two years ago in the off-balance sheet) and other movements.*

e) data on the total amount of the collateral acquired through repossession and conduct of enforcement proceedings.

During 2022, the Bank acquired one new collateral during the collection process, and one was sold.
As at 31 December 2022, the Bank had 7 collateral acquired through collection (land and real estates) with a total purchase value of BAM 27,864 and present value in the amount BAM 5,011.

12. NONPERFORMING AND RESTRUCTURED EXPOSURES AND REPOSESED ASSESTS (continued)

Table 42

Property type	No.	Purchase value	Present value
House	3	10,183	5,011
Land	3	2,379	0
Apartment	1	15,302	0
Final condition	**7**	**27,864**	**5,011**

13. 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.