INTESA SANPAOLO BANKA
Bosna i Hercegovina

2022 Annual Report

Bank of INTESA SANPAOLO

GALLERIE D'ITALIA.
FOUR MUSEUMS, A NATIONWIDE CULTURAL NETWORK.

Gallerie d'Italia enables Intesa Sanpaolo to share its artistic and architectural heritage with the general public: the art collections of the Bank, ranging from archaeological artefacts to contemporary works of art, are housed in historic buildings located in four cities, in a unique network of museums.

Gallerie d'Italia - Piazza Scala in Milan hosts, in a highly prestigious architectural setting, a selection of two hundred masterpieces of the nineteenth century in Lombardy, that are part of art collections of Fondazione Cariplo and Intesa Sanpaolo, and an exhibition dedicated to twentieth century Italian art.

Gallerie d'Italia - Palazzo Leoni Montanari, Vicenza is home to art of the region Veneto from the 1700s as well as pottery from Attica and Magna Graecia. It also holds one of the most important collections of Russian icons in the West.

Gallerie d'Italia - Palazzo Zevallos Stigliano, Naples hosts the Martyrdom of Saint Ursula, the last known painting by Caravaggio, alongside more than 120 examples of Neapolitan art dating from the early 17th to the early 20th century. New premises within the majestic building which was formerly the Bank of Naples in Via Toledo mean that the museum space is tripled in size, increasing exhibition opportunities.There is also the newly-open fourth location of Gallerie d'Italia in Piazza San Carlo in Turin, a site which is mainly dedicated to photography and the digital world.

Gallerie d'Italia - Torino: the recent architectural project designed by Michele De Lucchi - AMDL Circle transforms the spaces of Palazzo Turinetti into a place where photography and video art document and preserve images, events and reflections to promote issues related to the evolution of sustainability. Gallerie d'Italia – Torino is also home to an invaluable collection of Piedmontese works, withpaintings, sculptures, tapestries and furnishings from the 14th to the 18th centuries, including the nine large canvases produced in the second half of the 17th century for the old Oratory of the Saint Paul Company, which has since been destroyed; it also holds the Intesa Sanpaolo Publifoto Archive, which is a collection of more than seven million images from the news as well as political, cultural and social events from the 1930s to the 1980s.

Gallerie d'Italia - Torino
Sala Turinetti
Piazza San Carlo 156, Torino
Inside the new museum complex,
Project by AMDL CIRCLE i Michele De Lucchi-a
Photo: DSL Studio

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LETTER FROM THE PRESIDENT OF THE SUPERVISORY BOARD

On behalf of the Supervisory Board of Intesa Sanpaolo Banka Bosnia and Herzegovina, I am honored to present you the business results of the Bank for the year 2022.

In Bosnia and Herzegovina, after strong growth of GDP in first half (4.7% in first quarter and 5.5% in second quarter) economy slowed down to +2.6% in third quarter, mainly due to inflationary pressures. In the light of worsened macroeconomic scenario, the expectations for 2022 have been reduced to +3.8% growth for GDP. Strong inflation pressure marked the 2022, largely contributed by the strong rise in the prices of energy, food and production materials on international markets caused by the war in Ukraine. Increase in prices in the country was much faster than in the Euro zone, due to the strong pressures in certain economic sectors, primarily the food and non-alcoholic beverages, transportation, and utility costs. After +2% average increase in 2021, consumer prices continued to grow in 2022, reaching the average annual level of 14%. Raising inflation hit the already low standard of living of citizens, as the growth of average real wage was much slower than growth of inflation. From July 2022, the Central bank of BiH started aligning its reserve requirement policy to the trends of the reference rates of the European Central Bank (ECB), with the aim of mitigating the impact on the operations of banks in the country.

The banking system performed well in 2022. Loans to private sector increased by +5.3% y/y. Loans to households increased by 5.2% y/y, with the leading role in credit growth on the consumer loans, which contributed to two thirds of the growth. Loans to corporate sector grew by 5.3% y/y, a level significant lower compared to other countries in the region indicating low investment activity of BH corporate sector.

Private sector deposits grew by 3.2% y/y, as a result of 0.8% y/y decrease of households` deposits, caused by the uncertainties related the war in Ukraine and the resolution of Sberbank Group, and strong growth of 11.2% y/y of deposits from companies, which continued keeping a conservative approach in investments policy.

On the wake of the improved economic environment in the country in 2022 the Bank delivered sound results.

Loans to customers amounted to 1,583 mln BAM, slightly below level of previous year (-1%). This result is due to underperformance of Corporate segment, still affected by low appetite for new investments, partially offset by the marked increase of SME portfolio and also at lower extent of Retail driven by housing and mortgages.

Customers deposits increased by +8.1% y/y, mainly due to current accounts from legal entities, which continued to be very liquid. Deposits of Retail increased in Current Account/sight Deposits, as clients have still very low appetite for long maturities, as consequence of very low rates offered in the market.

The Bank In 2022 recorded a Net Profit of 26.1 mln BAM and is lower by 4.6 mln BAM compared to previous year. The reduction in net profit is the result of increased operating Income, especially in the component of net commission and trading income. significant increase of loans loss provision and higher operating costs, mostly on personnel expenses.

The solid performance of net commission (especially current accounts, payments, POS acquiring and insurance) and trading income more than offset the reduction in net interest income. Interest income on performing loans decreased, due to excessive liquidity in the market and aggressive pricing competition pushing down the rates, and higher cost for reserves at Central Bank BiH.

The Bank implemented salary increases to align with labor market conditions and inflation support measures for employees, which along with additional bonus provision resulted in higher personnel expenses by 1.7 mln BAM. Despite increasing inflation, general and administrative costs recorded moderate increase of 3.8%, thanks to effective cost management.

The Bank`s enjoys a sound and stable liquidity position, with all indicators far above prescribed regulatory limits (LCR at 200%). Capital adequacy ratio according to local methodology is at 19.72% (excluding net profit of the year), far above total minimum requirements of 15.5%.

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

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

Report on Supervisory Board activities of Intesa Sanpaolo Banka d.d. Bosna i Hercegovina for 2022

During During the year 2022, the Supervisory Board of Intesa Sanpaolo Banka d.d. Bosna i Hercegovina (hereinafter:" the Bank") held 22 meetings on the following dates: 27.01.; 18.02.; 03.03.; 18.03.; 12.04.; 27.04.; 13.05.; 20.05.; 06.06.; 10.06.; 14.06.; 23.06.; 28.06.; 25.07.; 29.07.; 26.08.; 14.11.; 17.11.; 17.11.; 01.12., 08.12. and 28.12. and which were recorded under sequential numbers from 1 to 22.

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

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

The Supervisory Board also paid special attention to AML activities and reports, provided by the AML Office.

During 2022, special attention was paid by the Board to the assessment of the adequacy of the internal control system of the Bank, in general and in specific operational areas, receiving information from the Management Board, Internal Auditing Department and AML Office on potential and identified weaknesses and the progress in implementation of the necessary remedial actions.

The control functions of risk management and control functions of compliance submitted reports and information to the Supervisory Board for consideration, in order to ensure the effective establishment of a system of internal controls.

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

The Supervisory Board of the Bank, through adoption of Operational Reports and Report of independent External Auditors acknowledged work of the Management Board, assessing it as compliant with laws, internal acts, decisions, policies, procedures and programs.

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

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

From Jan 1st, 2022 until August 28th, 2022 the composition of the Supervisory Board of Intesa Sanpaolo Banka d.d. Bosna i Herzegovina was: Mr. Alessio Cioni (Chairman), Mr. Matija Birov (Deputy Chairman), Mr. Miroslav Halužan, Mr. Gianluca Tiani, Mr. Alden Bajgorić (independent SB member), Mr. Massimo Lanza (independent member), Mr. Andrea Fazzolari until April 28, 2022 and Mr. Massimo Malagoli (independent member) from April 29, 2022. The composition of the Bank's Supervisory Board changed from November 14, 2022 as follows: Mr. Dario Massimo Grassani (Chairman), Mr. Petak Sopek (Deputy Chairman), Mr. Jadranko Grbelja, Ms. Ivana Jović, Ms. Michela Boiocchi, Mr. Alden Bajgorić (independent member) and Mr. Massimo Malagoli (independent member). In its new composition, the Supervisory Board took immediate care of resolving on topics that had not been approved in the period of vacancy created between expiry of appointment of former SB members and the approval of appointment of the new ones.

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

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

- Decision on adoption of Financial Statements of Intesa Sanpaolo Banka d.d. Bosna i Hercegovina for the period 01.01. – 31.12.2022 prepared in accordance with the FBA Reporting Standards together with the Report of External and Internal Auditors, Report on Supervisory Board Activities and Report on Audit Committee Activities

- Decision on adoption of Annual Statements of Accounts for the period 01.01. - 31.12.2022 and Distribution of Profit for 2022,

- Decision on adoption of Budget 2023,

- Decision on adoption of Financial Plan 2023-2026,

- Decision on adoption of Capital Plan 2023-2026,

- Decision on adoption of Liquidity and Funding Plan 2023-2026,

- Decision on adoption of the Reports on agreements concluded between the Bank and persons in a special relationship with the Bank as of 30.09.2022 and 31.12.2022,

- Information for the GSM of the Bank, related to salaries, benefits and all other earnings of the members of the Supervisory Board, Management Board and of Top Management of the Bank,

- Decision on suitability of the Members of Supervisory Board of Intesa Sanpaolo Banka d.d. Bosna i Hercegovina for 2022,

- Decision on adoption of the Supervisory Board Self-assessment results for 2022,

- Decision on acknowledgment of submitted Property Statements of the Supervisory Board Members for 2022.

MANAGEMENT BOARD'S REPORT ON BANK'S OPERATIONS FOR 2022

The Management Board is honored to present you the Annual Report and Financial Statements of Intesa Sanpaolo Banka d.d. Bosna i Hercegovina (hereinafter `the Bank` or `Intesa Sanpaolo Banka BiH`) for the year ended on 31 December 2022.

The recovery of key macroeconomic indicators in 2021, after the crisis caused by the COVID-19 pandemic, was stopped in 2022 under the influence of the crisis caused by the war in Ukraine, resulting in lower GDP growth compared to expectations and a high inflation rate. In addition, the banking sector was additionally significantly influenced by the movement of reference interest rates on international markets. In an uncertain macroeconomic environment, such as was present during 2022, the Bank achieved solid results, achieving some of the key goals outlined in the business plan. **Net Profit** amount to 26 mln BAM and is lower by 4.6 mln BAM (-15%) compared to previous year. The decrease in net profit is the result of lower realized income from interest, which is partially covered by higher net income from fees and commissions, and an increase in provisions for loan losses and employee expenses.

Net interest income ended at 56.6 mln BAM and decreased by 4.6 mln BAM (-7,5%) versus 2021, mainly due to decrease of interest income on Retail loans at -3.6 mln BAM (-8,2%). Interest Income reduced by -4.8 mln BAM (-6,8%) compared to previous year, where in all lending segments, due to the reduction of interest rates, lower interest income was generated. Interest expense is slightly lower compared to 2021 (-0.3 mln BAM or -2.6%) mainly due to the reduction of time deposits of citizens and slightly lower interest rates on time deposits of legal entities.

Net Commission ended at 29.1 mln BAM, significantly higher by 2.6 mln BAM or +9.8% compared to 2021. Compensation for high average balances on the transaction accounts of legal entities and a significant increase in the volume of foreign payment traffic are the key reasons for the increase in income from fees and commissions, which in 2022 amounted to +3.8 mln BAM or +11.1%. Expenses from fees and commissions increased by +1.2 mln BAM or +15.6%, mainly due to higher expenses related to card business, which completely neutralized the increase in income from fees on the same basis. The contribution of net income from commissions in operating income is 34%.

Trading income significantly grew by 3.2 mln BAM or 124,6% compared to previous year as result of increase in the volume of transactions and positive movements in exchange rate differences.

Operating Income amount to 85.7 mln BAM and is lower by -2.0 mln BAM (-2,3%) compared to previous year.

Operating expenses amount to 55.2 mln BAM and increased by 2.6 mln BAM (+5,0%) compared to 2021. The increase of Personnel Expenses in due to higher gross salaries Administrative expenses recorded an increase of +0.9 million BAM compared to the previous year, mainly as a result of the impact of inflation and the increase in the prices of products and services in the BiH economy.

Net provisions at 9.6 mln BAM and are higher by 3.1mln BAM compared to previous year.

The overall Bank`s balance sheet increased by 2,9%, reaching the level of 2.558 mln BAM, mainly due to increase of placements to other banks (56 mln BAM). This is consequence of over liquidity of both Households and Corporates and low volume of new loans, mostly in Corporate.

Loans to customers (net) reach the level of 1,583 mln BAM at the end of 2022 and decreased by -0.6% compared to previous year. The decrease in the loan portfolio mainly occurs in the segment of legal entities, where clients in macroeconomic conditions of uncertainty and rising prices were much more cautious when it comes to long-term investments. The cautious risk policy aimed at preventing new low-quality loans and portfolio quality deterioration affected the entire development of the loan portfolio. In 2022, loans to individuals increased by +1.4%, while loans to legal entities decreased by -1.7%. When it comes to the market share in the total loans of the banking sector, at the end of 2022 a decrease of over 20 basis points was recorded, equally distributed in the segment of loans to legal entities and in the segment of loans to citizens.

Customers deposits amount to 1.771 mln BAM and increased by 8.1% compared to 2021, reflecting the trust that customers have continued to place in the Bank and Intesa Sanpaolo Group as a reliable partner. Deposits from Individuals increased by 2,0 % mainly in current accounts, as clients have very low appetite for long maturities, as consequence of very low rates offered for term deposits in the market. Similar trend is recorded also in the banking system, where total deposits grow, but with a re-composition between Avista and time deposits. Deposits from Legal entities grew by 13,1%, as clients accumulated liquidity reserves, postponing investments caused by macroeconomic trends.

The Bank enjoys a sound and stable liquidity position, with all liquidity indicators far above prescribed regulatory limits and is sufficient to sustain a further expansion of credit portfolio. In order to optimize interest expenses, during 2022 due to regular repayments there was a reduction in loans from other financial institutions. However, it should be noted that the Bank has significant amounts of contracted undrawn new debt, which clearly indicates the stability of the liquidity position as well as a sufficient basis for the growth of the credit portfolio in the coming period.

The Bank's capital amounts to 334 mln BAM, slightly decreased by 1.3 mln BAM compared to previous year. **Capital adequacy** according to local methodology has improved compared to the end of 2021 and is 19.72%, far above minimum requirements.

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

Business description of Intesa Sanpaolo Banka BiH

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

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

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

AS of December 2022, the Bank is ranked 6th in Bosnia and Herzegovina by Total Assets with a market share of 6,9 %. Business operations are mainly concentrated in the Federation of Bosnia and Herzegovina (95 percent of Total Assets), where the Bank ranks 4rd in total assets, total loans and total deposits, with respective market shares of 9.4 percent in Total Assets, 10.1 percent in loans and 8.8 percent in Deposits

Intesa Sanpaolo Banka BiH services approximately 150.000 customers in the country, using a well-dispersed network of 45 branches and modern digital banking channels. The Bank employs n.549 employees as of 31 December 2022.

RETAIL DIVISION

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

Retail Division covers the entire territory of Bosnia and Herzegovina, with a network of 5 regional centers and 45 branches, that represents 6% of the total number of branches in Bosnia and Herzegovina banking sector. Federation of Bosnia and Herzegovina is covered with 39 branches, Republika Srpska with 5 and Brčko District with 1 branch.

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

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

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

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

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

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

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

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

During 2022, Retail's mission was to continuously use available resources, through expanding and improving the offer, price and quality of services for clients, while maintaining the highest level of services, in order to improve overall business.

The most important projects in 2022 was the adoption of new service model, in line with Intesa Sanpaolo Group best practices, with a 3-years' time horizon. The new model is aimed at increasing commercial salesforce, through the introduction of new roles in the network, and lowering cost-to-serve, mainly for low-value clients.

During 2022, the product offer for the population has been enriched with several new products and services: we have enabled our clients to pay in installments on all POS devices in the country and abroad, we have introduced the Prestige Product Package, intended for the group of affluent and private clients, we have enabled policy contracting insurance (CPI) in addition to housing loans and the loan product My ECO Home aligned with verified international practices for ESG.

CORPORATE & SME DIVISION

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

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

Thanks to the whole array of services offered to legal entities and its presence in both entities and the Brčko District, Intesa Sanpaolo Banka BiH is one of the leading banks in the BiH market and is recognized for his ability to provide integrated financial solutions designed to satisfy the individual requirements of our clients.

In 2022, we would especially emphasize the achievements in the promotion of ESG products, which has positioned the Bank as one of the market leaders in this segment.

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

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

SME department manages the business with SME clients and local government units. SME department is organized through 5 Regions and has good geographical coverage of the whole country.

Given the structure of the economy in BiH, a special focus was on strengthening this organizational unit to increase market share.

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

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

CORPORATE GOVERNANCE

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

Supervisory Board

During 2022 and until 28.08.2022, the Supervisory Board had the following composition: Alessio Cioni chairman, Matija Birov deputy chairman, Miroslav Halužan member, Gianluca Tiani member, Andrea Fazzolari member until 28.04.2022, Massimo Malagoli independent member from 04.29.2022, Alden Bajgorić independent member and Massimo Lanza independent member. From 14.11.2022. year and up to the date of this Report, the Supervisory Board had the following composition: Dario Massimo Grassani chairman, Petar Sopek deputy chairman, Ivana Jović, member, Jadranko Grbelja member, Michela Boiocchi member, Alden Bajgorić independent member, Massimo Malagoli independent member.

Audit Committee

During 2022 and up to the date of this Report, the Audit Committee had the following composition: Audit Committee Andrea Nani chairman, Ana Jadrešić member, Jadranko Grbelja member until 05.15.2022, Massimiliano Masturzo member from 05.16.2022, Dražen Karakašić permanently invited person until 15.05.2022, Salvatore Giuliano permanently invited person until 05.15.2022, James Vason permanently invited person and Davor Vodanović permanently invited person from 05.16.2022.

Management Board

The Management Board consists of the president and three members who performed their duties during the year in question and up to the date of this report, as follows:

Marco Trevisan, President of the Management Board, Edin Izmirlija, Management Board Member and Head of Risk Management and Controlling Division, Stefano Borsari, Management Board Member until 17.11.2022. and CFO until the end of 2022, Alek Bakalović, Management Board member and Head of Corporate & SME Division until 03.22/2022, Michele Castoro, Management Board Member from 06.14.2022. and responsible Management Board Member for Finance Division from 18.11.2022.

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MANAGEMENT BOARD'S REPORT

The Management Board has pleasure in submitting its report for the year ended 31st December 2022.

Review of operations

The result for the year ended 31st December 2022 of the Bank is set out in the statement of profit or loss and other comprehensive income on page 9.

Supervisory Board, Management Board and Audit Committee

During the course of 2022 and up to the date of this report, the Supervisory Board comprised:

Supervisory Board	
Dario Massimo Grassani	Chairman, from 14.11.2022
Petar Sopek	Vice-Chairman, from 14.11.2022
Jadranko Grbelja	Member, from 14.11.2022
Ivana Jović	Member, from 14.11.2022
Michela Boiocchi	Member, from 14.11.2022
Massimo Malagoli	Independent member, from 14.11.2022
Alden Bajgorić	Independent member, from 14.11.2022
Alessio Cioni	Chairman, until 28.08.2022
Matija Birov	Vice-Chairman, until 28.08.2022
Miroslav Halužan	Member, until 28.08.2022
Gianluca Tiani	Member, until 28.08.2022
Andrea Fazzolari	Member, until 28.04.2022
Massimo Malagoli	Independent member, from 29.04.2022 until 28.08.2022
Alden Bajgorić	Independent member, until 28.08.2022
Massimo Lanza	Independent member, until 28.08.2022

During the course of 2022 and up to the date of this report, the Audit Committee comprised:

Audit Committee	
Andrea Nani	Chairman
Ana Jadrešić	Member
James Vason	Permanent invitee person
Massimiliano Masturzo	Permanent invitee person, from 16.05.2022
Davor Vodanović	Permanent invitee person, from 16.05.2022
Jadranko Grbelja	Member, until 15.05.2022
Dražen Karakašić	Permanent invitee person, until 15.05.2022
Salvatore Giuliano	Permanent invitee person, until 15.05.2022

MANAGEMENT BOARD'S REPORT

As of 31st December 2022, the Management Board comprised a President and four Members, who served during the year and up to the date of this report as follows:

Management Board	
Marco Trevisan	President of the Management Board, responsible person for Retail Division, from 23.03.2022. responsible person for Corporate Division
Edin Izmirlija	Management Board Member and Head of Risk Management and Controlling Division
Michele Castoro	Deputy President of the Management Board from June 14, 2022; from 18.11.2022. responsible MB member for Finance Division
Stefano Borsari	Management Board Member for Finance Division until 17.11.2022., CFO during all year
Alek Bakalović	Management Board Member and Head of Corporate & SME Division until 22.03.2022

On behalf of the Bank:

INTESA SANPAOLO BANKA d.d.
Bosna i Hercegovina

Marco Trevisan
President of the Management Board

Stefano Borsari
Chief Financial Officer

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

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

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

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

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

For and on behalf of Management Board:

On behalf of the Bank:

INTESA SANPAOLO BANKA d.d.
Bosna i Hercegovina

Marco Trevisan
President of the Management Board

Stefano Borsari
Chief Financial Officer

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Building a better working world

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Independent auditor's report

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Intesa Sanpaolo Banka d.d. Bosna i Hercegovina (the Bank), which comprise the statement of financial position as at 31 December 2022, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2022 and of its financial performance and its cash flows for the year then ended in accordance with Legal accounting regulations applicable on banks in Federation of Bosnia and Herzegovina.

Basis for opinion

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

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

Key audit matters

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

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

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Independent auditor's report *(continued)*

Key audit matters *(continued)*

Adequacy of the allowance for the expected credit losses

The carrying amount of loans to customers amounts to BAM 1,583,216 thousand (or 62% of total assets) as at 31 December 2022. As described in Note 5.1 Financial risk management - Credit risk. The allowances for expected credit losses are determined under application of Legal accounting regulations applicable on banks in Federation of Bosnia and Herzegovina.

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

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

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

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

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

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

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

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

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

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Independent auditor's report *(continued)*

Key audit matters *(continued)*

Adequacy of the expected credit losses

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

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

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

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

Other information included in the Bank's annual business report

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

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

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Independent auditor's report *(continued)*

Responsibilities of Management and Audit Committee for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Legal accounting regulations applicable on banks in Federation of Bosnia and Herzegovina and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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Independent auditor's report *(continued)*

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

We communicate with Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

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

Sarajevo, 15 February 2023

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

Danijela Mirković,
Procurist

Dzenita Kadrić,
Authorized auditor

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

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

PROFIT AND LOSS	Notes	2022.	2021.
Income from interest and similar income at the effective interest rate	*8*	66.354	71.196
Interest expenses and similar expenses at the effective interest rate	*9*	(9.752)	(10.011)
Net income/(expenses) from interest and similar income at the effective interest rate		**56.602**	**61.185**
Income from fees and commissions	*10*	38.301	34.465
Expenses from fees and commissions	*11*	(9.189)	(7.952)
Net income/(expenses) from fees and commissions		**29.112**	**26.513**
Impairments and provisions	*12*	(9.574)	(6.437)
Other gains and (losses) from financial assets	*13*	8	(3)
Net positive/(negative) exchange rate differences	*14*	5.617	2.501
Gains and (losses) from long-term non-financial assets	*15*	(44)	212
Income from dividends	*16*	6	15
Other income	*17*	2.813	2.947
Personnel expenses	*18*	(24.996)	(22.895)
Depreciation costs	*27,28*	(5.299)	(5.699)
Other costs and expenses	*19*	(24.941)	(24.028)
PROFIT/(LOSS) FROM REGULAR BUSINESS BEFORE TAX		**29.304**	**34.311**
Current income tax		(3.386)	(3.756)
Deferred income tax		160	137
TOTAL TAX FOR THE YEAR	*20*	**(3.226)**	**(3.619)**
NET PROFIT FOR THE YEAR		**26.078**	**30.692**

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

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

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

	Notes	2022	2021
Profit for the year		**26.078**	**30.692**
Other comprehensive income for the year			
Items that may be reclassified subsequently to profit or loss			
Net loss from change in fair value of financial assets through other comprehensive income (Note 24)		(3.404)	(1.657)
Other comprehensive (expense)/income		**(3.404)**	**(1.657)**
Total comprehensive income for the year		**22.674**	**29.035**
Basic and diluted earnings per share (BAM)	21	**58,24**	**68,55**

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

Statement of financial position

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

ASSETS	Notes	31 December 2022	31 December 2021
Cash and cash equivalents	*22*	624.067	572.870
Financial assets at fair value through profit and loss	*23*	161	295
Financial assets at fair value through other comprehensive income	*24*	103.131	78.723
Financial assets at amortized cost	*25*	1.795.983	1.801.189
Derivatives financial instruments	*26*	-	10
Prepaid income tax		4.266	3.692
Deferred tax assets	*33*	616	451
Tangible assets	*27*	24.255	23.439
Intangible assets	*28*	3.661	2.489
Long-term assets for sale	*29*	5	-
Other assets and receivables	*30*	1.796	2.512
TOTAL ASSETS		**2.557.941**	**2.485.670**
LIABILITIES			
Financial liabilities valued at amortized cost	*31*	2.217.273	2.143.056
Derivative financial instruments	*32*	-	7
Deferred tax liabilities	*33*	60	54
Provisions	*34*	5.512	6.325
Other liabilities	*35*	967	773
TOTAL LIABILITIES		**2.223.812**	**2.150.215**
EQUITY			
Share capital	*36*	44.782	44.782
Share premium		57.415	57.415
Reserves		207.001	200.971
Revaluation reserves		(1.147)	1.595
Profit		26.078	30.692
TOTAL EQUITY		**334.129**	**335.455**
TOTAL LIABILITIES AND EQUITY		**2.557.941**	**2.485.670**

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

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

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

	Issued share capital	Share premium	Reserves	Fair value reserves on Property	Fair value reserves on Assets at FVOCI	Profit	TOTAL
Balance as of 1st January 2022	**44.782**	**57.415**	**200.971**	**1.701**	**(106)**	**30.692**	**335.455**
General Assembly Decision – profit distribution	-	-	6.692	-	-	(6.692)	-
Dividend payment	-	-	-	-	-	(24.000)	(24.000)
General Assembly Decision - Correction of FVOCI			(662)		662		
Net profit for the year	-	-	-	-	-	26.078	26.078
	-						
Other comprehensive income							
Net loss from change in fair value of financial assets through other comprehensive income *(Note 24)*	-	-	-	-	(3.404)	-	(3.404)
	-						
Total other comprehensive income	-	-	-	-	(3.404)	-	(3.404)
Total comprehensive income	**-**	**-**	**-**	**-**	**(3.404)**	**26.078**	**22.674**
Balance as of 31st December 2021	**44.782**	**57.415**	**207.001**	**1.701**	**(2.848)**	**26.078**	**334.129**

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

Statement of changes in shareholders' equity for the year ended 31st December 2021

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

	Issued share capital	Share premium	Reserves	Fair value reserves on Property	Fair value reserves on Assets at FVOCI	Profit	TOTAL
Balance as of 1st January 2021	**44.782**	**57.415**	**197.202**	**1.701**	**1.551**	**18.245**	**320.896**
General Assembly Decision – profit distribution	-	-	3.245	-	-	(3.245)	-
Dividend payment	-	-	-	-	-	(15.000)	(15.000)
Correction of Income Tax for 2020			524			-	524
Net profit for the year	-	-	-	-	-	30.692	30.692
	-						
Other comprehensive income							
Net loss from change in fair value of financial assets through other comprehensive income *(Note 24)*	-	-	-	-	(1.657)	-	(1.657)
	-						
Total other comprehensive income	-	-	-	-	(1.657)	-	(1.657)
Total comprehensive income	**-**	**-**	**-**	**-**	**(1.657)**	**30.692**	**29.035**
Balance as of 31st December 2021	**44.782**	**57.415**	**200.971**	**1.701**	**(106)**	**30.692**	**335.455**

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

Cash flow statement

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

CASH FLOWS FROM OPERATING ACTIVITIES	Notes	31 December 2022	31 December 2021
Interest inflows and similar inflows based on EIR		64.073	69.913
Interest outflows and similar outflows based on EIR		(10.086)	(10.912)
Fee and commission inflows		52.955	44.967
Fee and commission outflows		(16.527)	(14.030)
Inflows from repayment of principal and interest previously written-off		2.336	2.397
Outflows from payments to employees		(23.911)	(21.975)
Outflows from payments of operating costs and expenses		(22.095)	(23.295)
Other inflows from operating activities		479	772
Other outflows from operating activities		-	-
Payment of income tax		(3.961)	(4.271)
Cash flows from operating activities before changes in operating assets and operating liabilities		**43.263**	**43.566**
Net (increase) / decrease in mandatory reserve with Central bank		(6.184)	(6.609)
Net (increase) / decrease in placements with other banks		-	-
Net (increase) / decrease in loans and receivables from clients		9.360	(26.557)
Net (increase) / decrease in receivables from financial leases		-	-
Net (increase) / decrease in other assets and receivables		(4.881)	(163)
Net increase / (decrease) in deposits from banks and other fin. institutions		(2.403)	(80.380)
Net increase / (decrease) in deposits from clients		131.233	147.789
Net increase / (decrease) in other financial liabilities at amortized cost		2.892	3.752
Net increase / (decrease) in provisions		(1.519)	(246)
Net increase / (decrease) in other liabilities		208	(126)
Net cash flows from operating activities		**171.969**	**81.026**

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

Cash flow statement

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

CASH FLOWS FROM INVESTMENT ACTIVITIES	Notes	31 December 2022	31 December 2021
Purchases of debt instruments at fair value through OCI		(70.013)	(99.342)
Inflows from sales of debt instruments at fair value through OCI		42.808	81.018
Purchases of property, plant and equipment	*27*	(1.728)	(893)
Inflows from sale of property, plant and equipment		3	-
Purchases of intangible assets	*28*	(2.215)	(290)
Dividends received	*16*	6	15
Other inflows from investing activities		(146)	-
Other outflows from investing activities		294	-
Net cash flows from investing activities		**(30.991)**	**(19.492)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(24.000)	(15.000)
Inflows from loans granted by banks		14.682	126.183
Repayments of principal regarding loans granted by banks		(61.752)	(50.409)
Repayments of principal regarding loans granted by other fin. institutions		(6.628)	(6.628)
Repayments of principal regarding leases		(4.225)	(3.908)
Other inflows from financing activities		-	-
Other outflows from financing activities		(7.997)	-
Net cash flows from financing activities		**(89.920)**	**50.238**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		51.058	111.772
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		572.870	458.938
EFFECTS OF CHANGES IN CURRENCY EXCHANGE RATES OF CASH AND CASH EQUIVALENTS		139	2.160
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		624.067	572.870

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

Notes to the financial statements

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

1. GENERAL

Incorporation and registered activities

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

The Bank's main operations are as follows:

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

2. BASIS OF PREPARATION

Basis of accounting

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

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

- The Law of Banks of FBiH determines the preparation of annual financial reports in accordance with the previous mentioned Law of Accounting and Auditing of FBiH, by this law, and bylaws enacted under both laws.

- The FBiH Banking Agency adopted the Decision on Credit Risk Management and determination of expected credit losses (the "Decision"), which applies from 1 January 2020 and which is resulted in certain differences, arising from the calculation of value adjustments for credit losses due to application of the minimum rates determined by the Decision, which are not required by IFRS 9: "Financial instruments" ("IFRS 9"). The decision also has an impact on the valuation of non-financial assets derived from credit transactions (acquired material assets whose valuation is within the scope of other relevant IFRS).

- The Rulebook on Chart of Accounts, Account Content and Application of Chart of Accounts for Companies (Official Gazette FBiH 81/21), Rulebook on Content and Form of Financial Statements for Companies (Official Gazette FBiH 81/21) and the Rulebook on Amendments to the Rulebook on the Content and Form of Financial Statements for Companies (Official Gazette FBiH 102/22) prescribe forms of statement of financial position, statement of comprehensive income, statement of cash flows and statement of changes in equity. These local regulations governing the measurement and presentation of financial statements take precedence over the requirements defined in this regard by IFRS published by the Association.

- In accordance with the provisions of the Decision, the Bank formed higher value credit allowances for credit losses in the amount of 10,159 thousand BAM as of December 31, 2022 (8,603 thousand BAM as

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

of December 2021) in relation to the amount obtained by calculation resulting from the Bank's internal model, as it is required by IFRS 9. This difference is due to the following reasons:

- application of the minimal expected credit losses threshold determined in Article 23. of the Decision for level exposures credit risk 1 - difference in the amount of 4,304 thousand BAM as of December 31, 2022 (3,094 thousand BAM, as of December 2021)
- application of the minimal expected credit losses rates determined in Article 24. of the Decision for level exposures credit risk 2 - difference in the amount of 489 thousand BAM as of December 31, 2022 (184 thousand BAM, as of December 2021).
- application of the minimal expected credit losses rates prescribed in Article 25. of the Decision for level exposures credit risk 3 (non-performing assets) - the difference in the amount of 5,218 thousand BAM as of December 31, 2022, out of which the amount of 3,693 thousand BAM refers to exposures not secured by eligible collateral, the amount of 1,525 thousand BAM on exposures which are secured by acceptable collateral (5,198 thousand BAM as of December 2021, of which the amount of 3,122 thousand BAM refers to exposures not secured by eligible collateral, the amount of 2,076 thousand BAM on exposures which are provided with acceptable collateral).
- application of the minimum rates of expected credit losses rates determined in Article 26. of the Decision on receivables, receivables based on factoring and financial leasing and other receivables - difference in the amount of 148 thousand BAM as of December 31, 2022 (126 thousand BAM as of December 2021).
- Also, in this year above effect included following adjustments in local ECL methodology:
    - Application of the 12 months PD for exposures in Stage 1 for the exposures with maturity less than 12 months (effect is 942 thousand BAM)
    - Implementation of the minimal expected credit losses rates for the exposures with significant increase of interest rates according to FBA Decision on temporary measures to mitigate increasing interest rate risk (effect is 881 thousand BAM).
- Write-off of exposures to off-balance after the bank recorded the expected credit losses in the amount of 100% of the gross book value of that exposure and declared it fully due in the total amount of BAM 5,576 thousand (4,124 thousand BAM as of December 2021).

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

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

Acquired material property	2022.			2021.		
	Gross amount	Impairment	Net amount	Gross amount	Impairment	Net amount
Assets which has been acquired in the last three years	5	0	5	0	0	**0**
Assets which has been acquired over a period of more than three years	23	23	0	29	29	**0**
Total	**28**	**23**	**5**	**29**	**29**	**0**

2. BASIS OF PREPARATION (continued)

Basis of accounting (continued)

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

	31 December 2022 IFRS	Effects of FBA Decision 31 December 2022	31 December 2022
Assets	(72.371)	(81.786)	(9.415)
Liabilities	1.937	2.681	744
Equity	(74.308)	(84.467)	(10.159)
	31.12.2022 IFRS	Effects of FBA Decision 31.12.2022	31.12.2022
Assets	(69.125)	(77.239)	(8.114)
Liabilities	1.815	2.304	489
Equity	(70.940)	(79.543)	(8.603)
Financial result before tax for the year ended 31.12.2022 if IFRS methodology is used would be higher by 1,556			

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

a) Functional and presentation currency

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

b) The concept of going concern

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

c) Use of estimates and judgments

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

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

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

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

d) Comparative figures

Financial statements for the year ended 31 December 2022 have been prepared in accordance with the requirements of the Rulebook on Chart of Accounts, Account Content and Application of Chart of Accounts for Companies (Official Gazette FBiH 81/21), Rulebook on Content and Form of Financial Statements for Companies (Official Gazette FBiH 81/21) and the Rulebook on Amendments to the Rulebook on the Content and Form of Financial Statements for Companies (Official Gazette FBiH 102/22). Bank adjusted comparative figures for 2021 accordingly.

3. SUMMARY OF ACCOUNTING POLICIES

(a) Foreign currency transactions

Transactions in currencies other than Convertible Marks ("BAM") are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities are translated at the rates prevailing on the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Profits and losses arising on translation are included in the profit or loss statement for the period.

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

31 December 2021	**EUR 1= BAM 1.95583**	**USD 1 = BAM 1.725630**
31 December 2022	**EUR 1= BAM 1.95583**	**USD 1 = BAM 1.833705**

(b) Net trading income

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

(c) Lease payments

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

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or, if that rate cannot

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(c) Lease payments (continued)

be readily determined, the Bank's incremental borrowing rate. Generally, Bank uses its incremental borrowing rate as the discount rate.

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

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

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

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

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

(d) Income tax expense

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

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

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

(e) Property and equipment

Recognition and measurement

Equipment is stated at historical cost less accumulated depreciation and impairment losses. The cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent cost is included in net book value or is accounted for as separate assets only if it is probable that the future

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(e) Property and equipment (continued)

economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The costs of day-to-day repairs and maintenance are recognized in the profit or loss statement as incurred.

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

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

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

Depreciation

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

The depreciation rates used by the Bank are as follows:

	2022	2021
Computers	20%	20%
Furniture and equipment	10%-15%	10%-15%
Business premises	5%	5%
Leasehold improvements	20%	20%

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

(f) Intangible assets

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

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

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

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

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(g) Assets repossessed from disbursement of loans

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

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

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

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

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

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

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

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

(h) Assets held for sale

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

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

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

(i) Impairment of non-financial assets

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

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(i) Impairment of non-financial assets (continued)

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

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

(j) Employee benefits

Short-term benefits

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

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

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

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

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

Share-based payments

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

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

(k) Provisions for liabilities and charges

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

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

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(k) Provisions for liabilities and charges (continued)

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

(l) Equity

Issued share capital

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

Reserves

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

Fair value reserve

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

Other reserves

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

Dividends

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

(m) Off-balance sheet commitments and contingent liabilities

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

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

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

(o) Segment reporting

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

The Bank has identified 3 primary business segments: Retail, Corporate and Treasury. The primary segmental information is based on the Bank's internal reporting structure by business segment. Geographical concentration is not presented as the Bank's operations are concentrated in Bosnia and Herzegovina.

(p) Interest income and expense

Interest income

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(p) Interest income and expense (continued)

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

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

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

(q) Fee and commission income and expenses

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

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

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

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

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

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

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

Net income from other financial instruments at FVTPL relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedging relationships, financial assets and financial liabilities designated as at FVTPL and, from 01 January 2018, also non-trading assets mandatorily measured at FVTPL. The line item includes fair value changes, interest, dividends and foreign exchange differences.

(s) Dividend income

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

3. SUMMARY OF ACCOUNTING POLICIES (continued)

(t) Financial assets and financial liabilities

1. Recognition and initial measurement

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

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

2. Classification and subsequent measurement

Financial assets

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

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

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

Debt instruments

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

Classification and subsequent measurement of debt instruments depend on:

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

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

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

- **Financial assets measured at amortized cost**

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

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

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

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

3. SUMMARY OF ACCOUNTING POLICIES (continued)

2. Classification and subsequent measurement (continued)

Debt instruments (continued)

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

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

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

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

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

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

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

Purpose of managing financial assets (Business model)

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

Business models of the Bank are:

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

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

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

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

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

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

3. SUMMARY OF ACCOUNTING POLICIES (continued)

2. Classification and subsequent measurement (continued)

Purpose of managing financial assets (Business model) (continued)

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

Contractual cash flow characteristics (SPPI)

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

The SPPI test is performed:

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

- **Equity instruments**

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

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

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

- **Financial liabilities**

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

Designation at fair value through profit or loss

Financial assets

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

3. SUMMARY OF ACCOUNTING POLICIES (continued)

2. Classification and subsequent measurement (continued)

Designation at fair value through profit or loss (continued)

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

Financial liabilities

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

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

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

Loans and receivables from customers

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

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

Investment securities

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

- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

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

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

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

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

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

Financial guarantees and loan commitments

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

3. SUMMARY OF ACCOUNTING POLICIES (continued)

2. Classification and subsequent measurement (continued)

Financial guarantees and loan commitments (continued)

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

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

- The Bank recognizes a loss allowance

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

3. Derecognition

Financial assets

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

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

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

Financial liabilities

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

4. Modifications of financial assets and financial liabilities

Financial assets

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

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

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

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

3. SUMMARY OF ACCOUNTING POLICIES (continued)

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

Financial assets (continued)

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

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

According to regulation prescribed by Federal Banking Agency of BiH from 01.01.2020, Decision on Credit Risk Management and determination of expected credit losses, modification can be:

1. triggered by the debtor's current needs (e.g. effective interest rate reduction due to changes in the market, collateral swap, etc.), and not by the debtor' financial distress,

2. triggered by the debtor's current financial distress or distress that will arise soon, i.e. deterioration of their creditworthiness, timeliness in meeting of their obligations to the bank or other creditors

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

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

Effects

The Bank calculated modification effects for loans that had some changes in contractual original terms during 2022 and 2021. Calculation was done manually, and the Bank is developing IT solution for automatic calculation.

Financial liabilities

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

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

3. SUMMARY OF ACCOUNTING POLICIES (continued)

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

Financial liabilities (continued)

- **Offsetting**

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

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

5. Impairment

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

Impairment of financial assets is recognized on the basis of the expected credit loss model (ECL) for assets subsequently measured at amortized cost and assets subsequently measured at fair value through other comprehensive income (other than equity instruments).

Regulatory decision requires entities to enter the expected losses at the level of losses expected in the next 12 months (Stage 1) from the initial entry of the financial instrument. The time horizon for calculating the expected loss becomes the entire remaining life of the asset that is the subject of the valuation where the credit quality of the financial instrument has experienced a "significant" deterioration in relation to the initial measurement (Stage 2) or in case the asset is partially or fully non-performing (Stage 3). More specifically, the introduction of new impairment provisions includes:

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

The following table summarizes requirements for impairment under IFRS 9.

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

3. SUMMARY OF ACCOUNTING POLICIES (continued)

5. Impairment (continued)

Measurement of ECL

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

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

Presentation of allowance for ECL in the statement of financial position

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

Write-off

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

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

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

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

Accounting Write-off

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

3. SUMMARY OF ACCOUNTING POLICIES (continued)

5. Impairment (continued)

Accounting Write-off (continued)

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

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

(u) Derivative financial assets

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

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

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

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

(v) Cash and Cash equivalents

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

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

(z) Borrowings

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

aa) Related parties transactions

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

- companies that directly or indirectly through one or more intermediaries control the reporting company or are under his control, that is, which the reporting company controls together with another subjects;
- associated companies in which the Bank has significant influence and which are neither a related entity nor a joint venture investor investment;

3. SUMMARY OF ACCOUNTING POLICIES (continued)

5. Impairment (continued)

aa) Related parties transactions (continued)

- natural persons who directly or indirectly have the right to vote in the Bank, which allows them a significant influence on the Bank, as well as any other entity that is expected to influence or be influenced related persons in business with the Bank;
- managers in key positions, i.e. persons who have authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and key management.

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

ab) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following IFRS amendments which have been adopted by the Bank as of 1 January 2022:

- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)**

The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

- **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the previous version of the IASB's Conceptual Framework for Financial Reporting to the current version issued in 2018 without significantly changing the accounting requirements for business combinations.
- **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment any proceeds from the sale of items produced while bringing the asset to the location and condition necessary for it be capable of operating in the manner intended by management. Instead, a company recognizes such sales proceeds and related cost in profit or loss.
- **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous. The amendments clarify, the costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to the contract activities.
- **Annual Improvements 2018-2020** make minor amendments to **IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture** and the Illustrative Examples accompanying **IFRS 16 Leases.**

The amendments had no impact on the financial statements of the Bank.

- **IFRS 16 Leases-Covid 19 Related Rent Concessions beyond 30 June 2021 (Amendment)**

  The Amendment applies to annual reporting periods beginning on or after 1 April 2021, with earlier application permitted, including in financial statements not yet authorized for issue at the date the amendment is issued. In March 2021, the Board amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic. Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendments had no impact on the financial statements of the Bank.

ac) Standards issued but not yet effective, and translated by Association of accountant and auditors of Federation of Bosnia and Herzegovina

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**

3. SUMMARY OF ACCOUNTING POLICIES (continued)

ac) Standards issued but not yet effective, and translated by Association of accountant and auditors of Federation of Bosnia and Herzegovina) (continued)

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

- **IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)**

  The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty, if they do not result from a correction of prior period error. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The requirements of this standard are not expected to have a material impact on the Bank's financial statements.

ad) Standards issued but not yet effective, and not translated by Association of accountant and auditors of Federation of Bosnia and Herzegovina

- **IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)**

  The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments narrow the scope of and provide further clarity on the initial recognition exception under IAS 12 and specify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement, having considered the applicable tax law, whether such deductions are attributable for tax purposes to the liability or to the related asset component. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. The requirements of this standard are not expected to have a material impact on the Bank's financial statements.

- **IFRS 16 Leases: Lease Liability in a Sale and Leaseback (amendments)**

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

3. SUMMARY OF ACCOUNTING POLICIES (continued)

ad) Standards issued but not yet effective, and not translated by Association of accountant and auditors of Federation of Bosnia and Herzegovina(continued)

16. The requirements of this standard are not expected to have a material impact on the Bank's financial statements.

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

  The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The requirements of this standard are not expected to have a material impact on the Bank's financial statements.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

(a) Impairment losses on loans and receivables

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

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

(b) Taxation

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

(c) Regulatory requirements

The Agency is entitled to carry out regulatory inspections of the Bank's operations and to request changes to the carrying values of assets and liabilities, in accordance with the underlying regulations.

In addition to impairment allowances calculated and recognised in accordance with IFRS, the Bank also calculates impairment losses in accordance with the Agency regulations for capital adequacy calculation purposes.

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

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

a) for low-risk exposures – 0.1% of exposures,

b) for exposures to central governments and central banks outside Bosnia and Herzegovina for which there is a credit assessment by a recognized external credit rating institution, which is assigned to credit quality step 3 and 4 – 0.1 % in accordance with Article 69. of the Decision on calculating the bank's capital.

c) for exposures to banks and other financial sector entities for which there is a credit assessment by a recognized external institution for credit rating assessment, which is in accordance with Article 69 of the Decision on calculating the bank's capital is classified in credit quality step 1, 2 or 3 - 0.1 % exposure,

d) for other exposures - 0.5% of exposures.

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

a) 5% exposure,

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

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

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

(c) Regulatory requirements (continued)

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

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

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

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

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

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

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

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

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

Number:	Days of delay	Minimum expected credit loss
1.	no delay in material significant amount	0.5%
2.	up to 30 days	2%
3.	from 31 to 60 days	5%
4.	from 61 to 90 days	10%
5.	from 91 to 120 days	15%
6.	from 121 to 180 days	50%
7.	from 181 to 365 days	75%
8.	over 365 days	100%

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

(d) Litigation and claims

The total amount of litigations and claims amounts to BAM 8,104 thousand as of 31.12.2022 (31.12.2021: BAM 9,178 thousand).

The Bank performs an individual assessment of all court cases and creates provisions in accordance with the assessment. The assessment of risks and proposal for provisions for legal cases is performed by the Legal Affairs Department and Finance Division, and a decision on the creation of provisions is made by the Bank's management.

As stated in Note 34, the Bank provided BAM 1,955 thousand as of 31.12.2022 (31.12.2021: BAM 3,185 thousand), which management estimates as sufficient. Since the estimate is made considering the specifics of each individual case based on the likelihood and magnitude of an outflow of resources.

5. FINANCIAL RISK MANAGEMENT

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

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

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

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

5.1 Credit risk

5.1.1 Risk limit control and mitigation policies

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

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

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

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

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.1 Risk limit control and mitigation policies (continued)

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

Off-balance-sheet credit instruments

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

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

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

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

	2022				2021
	Stage 1	Stage 2	Stage 3	Total	Total
Cash and cash equivalents – Note 22					
Performing - Stage 1	624.671	-	-	**624.671**	**573.416**
Total Gross	624.671		-	**624.671**	**573.416**
Less: impairment allowance	(604)	-	-	**(604)**	**(546)**
Carrying amount	**624.067**	-	-	**624.067**	**572.870**
Reserves with Central Bank - Note 25.1					
Performing - Stage 1	203.265	-	-	**203.265**	**197.081**
Total Gross	203.265	-	-	**203.265**	**197.081**
Less: impairment allowance	(203)	-	-	**(203)**	**(197)**
Carrying amount	**203.062**	-	-	**203.062**	**196.884**
Loans and receivables from customers at amortized cost - Note 25.2					
Performing - Stage 1	1.485.354	-	-	**1.485.354**	**1.522.524**
Performing - Stage 2	-	117.490	-	**117.490**	**79.464**
Past due impaired	-	-	6.419	**6.419**	**7.102**
unlikely to pay	-	-	17.758	**17.758**	**20.846**
doubtful	-	-	36.255	**36.255**	**39.047**
Total Gross	1.485.354	117.490	60.432	**1.663.276**	**1.668.983**

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

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

Less: impairment allowance	(20.224)	(16.984)	(42.852)	**(80.060)**	**(75.608)**
Carrying amount	**1.465.130**	**100.506**	**17.580**	**1.583.216**	**1.593.375**
Other financial assets at amortized cost -Note 25.4					
Performing - Stage 1					
Total Gross	10.623	-	-	10.623	**5.614**
Loss allowance	(918)	-	-	(918)	(789)
Carrying amount	**9.705**	-	-	**9.705**	**4.825**
Financial assets at FVOCI - Note 24					
Performing - Stage 1	103.131	-	-	103.131	**78.586**
Total Gross	103.131	-	-	103.131	**78.586**
Loss allowance	-	-	-	-	-
Carrying amount	**103.131**	-	-	**103.131**	**78.586**
Financial assets at FVPL- Note 23					
Performing - Stage 1	161	-	-	161	**295**
Carrying amount	**161**	-	-	**161**	**295**
Debt instruments at amortized cost - Note 25.3					
Performing - Stage 1	-	-	-	-	**6.203**
Total Gross	-	-	-	-	**6.203**
Loss allowance	-	-	-	-	(98)
Carrying amount	-	-	-	-	**6.105**
Total on-balance exposure	**2.405.256**	**100.056**	**17.580**	**2.523.342**	**2.453.077**

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

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

	2022				2021
	Stage 1	Stage 2	Stage 3	Total	Total
Contingent liabilities - Note 38					
Stage 1	155.785	-	-	**155.785**	**142.668**
Stage 2	-	7.017	-	**7.017**	**3.065**
Stage 3	-	-	-	-	-
Total Gross	155.785	7.017	-	**162.802**	**145.733**
Less: impairment allowance	(356)	(187)	-	**(543)**	**(490)**
Carrying amount	**155.429**	**6.830**	-	**162.259**	**145.243**
Loan commitments - Note 38					
Stage 1	370.729	-	-	**370.729**	**375.383**
Stage 2	-	9.392	-	**9.392**	**5.662**
Stage 3	-	-	699	**699**	**1.957**
Total Gross	370.729	9.392	699	**380.820**	**383.002**
Less: impairment allowance	(1.473)	(334)	(331)	**(2.138)**	**(1.814)**
Carrying amount	**369.256**	**9.058**	**368**	**378.682**	**381.188**
Total off balance exposure	**524.685**	**15.888**	**368**	**540.941**	**526.431**
Total exposure to credit risk	**2.929.941**	**115.944**	**17.948**	**3.064.283**	**2.979.508**

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.3 Collateral held and other credit enhancements

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

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

Residential mortgage lending

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

	31 December 2022	31 December 2021
LTV ratio		
Less than 50%	44.271	36.528
51–70%	63.840	53.108
71–90%	56.015	54.973
91–100%	10.265	11.253
More than 100%	104	329
Total	**174.495**	**156.191**

Credit-impaired loans	2022	2021
Less than 50%	880	1.102
51–70%	542	514
More than 70%	1.114	1.384
Total	**2.536**	**3.000**

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.3 Collateral held and other credit enhancements (continued)

Assets obtained by taking possession of collateral

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

	2022	2021
Assets	28	29
Total	**28**	**29**

5.1.4 Allowance for expected credit losses

(i) Significant increase in credit risk (SICR)

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

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

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

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

(ii) Definition of default

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

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

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.4 Allowance for expected credit losses (continued)

(ii) Definition of default (continued)

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

Stage assignment for Loans:

Stage 1	Stage 2	Stage 3
1. Performing exposures without days past due 2. Performing exposures with less than or equal to 30 days past due under New DoD rules	1. Performing exposures with more than 30 days past due under New DoD rules 2. Performing exposures with significant increase in PD since origination 3. Forborne performing exposures 4. Forborne probation period 5. Performing exposures of Corporate customers showing Early Warning signals (**) (orange, red and light blue) or present in local PCEM 6. Exposures to customers whose account(s) in Intesa Sanpaolo Banka BiH are blocked at reporting date (***) 7. Exposures to Retail Individual customers that has automatically cancelled Overdraft with due amount of principal (****) 8. Retail individuals performing exposures showing signs of increased credit risk based on internal behavioral indicators (*****) or exposure is on internal watchlist due to negative underwriting opinion at origination	1. Exposures with more than 90 days past due under New DoD rules 2. Past Due Probation period 3. Unlikely to Pay 4. UTP Probation Period 5. Doubtful 6. Forborne Non-performing NPV test>1% in case of distressed

Note: (**) EWS Model for Corporate customers incorporates level or risk estimated based on financial statement of the customer, transactions made in customer's account, blocking of account, behavioral data, AQR triggers.

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

- For Legal entities any type of blockage is taken into consideration as a part of EWS model, while for
- Retail Individuals customers, technical blockages are not taken into consideration, such as one that occur when customer loses his debit card to prevent theft are not considered. Only external blockades that come from court decisions are used as Stage 2 trigger

Note: (****) In cases when customer doesn't have any more inflows to his account, automatic procedure cancels the Overdraft and client must repay entire amount. Until Overdraft is repaid, this is a signal of increased credit risk and all customer's exposures are classified into Stage 2. Automatic procedure is performed once in three months, checking if

- the customers had less than 3 inflows to his account, and if
- there is unauthorized overdue amount of overdraft until the end of current month.

If any of those two conditions is met, procedure will cancel utilization of overdraft.

Note:(*****) Signs of increased risk are applied on retail individuals' customers that don't have Residential Mortgage loan in the Bank, and have:

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.4 Allowance for expected credit losses (continued)

(ii) Definition of default (continued)

1. average quarterly more than 1% of overdue amount on all exposures in the Bank, and more than 110 BAM of overdue amount on revolving products on average in the last month, or
2. average quarterly more than 1% of overdue amount on all exposures in the Bank, and more than 250 BAM of overdue amount on all products at reporting date.

In case of negative underwriting opinion, based on FBA Regulation it is necessary to include all exposures approved despite negative underwriting opinion, on internal watchlist, and classify them in Stage 2. Internally defined Period for inclusion on internal watchlist is 9 months since origination date, which will be followed by 3 months Stage 2 probation period, keeping such exposures in Stage 2 for at least 12 months.

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

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

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

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

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

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

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

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

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

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

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

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

(iii) Inclusion of forward-looking element

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

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

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.4 Allowance for expected credit losses (continued)

(iii Inclusion of forward-looking element (continued)

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

During 2022, in accordance with the forecasts published by the EBA, the Bank adjusted the future macroeconomic elements through the coefficients of the EBA stress resilience test.

In addition, recognizing objective difficulties in forming forward looking expectations in this particular year, the Bank has decided to implement the management overlays as additional conservative elements in calculation of IFRS9 allowances at the end of 2022 (considered as post-model management adjustments): Management overlay based on sensitivity analysis for Retail portfolio with respect to the downside risks and uncertainties related to the expectations for 2023. Management overlay based on sensitivity analysis in Retail portfolio is estimated to BAM 2.2 million, primarily related to the potential increase in NPL portfolio.

(iv) Modified financial assets

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

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

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

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

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

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

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

(v) Expected Credit Loss Measurement

The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. In

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.4 Allowance for expected credit losses (continued)

(v) Expected Credit Loss Measurement (continued)

general, the Bank calculates ECL using three main components: a probability of default ("PD"); a loss given default ("LGD"); and the exposure at default ("EAD").

The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively.

Probability of default (PD) is the likelihood of a default over a particular time horizon. It provides an estimate of the likelihood that a borrower will be unable to meet its debt obligations. IFRS9 PD parameter is estimated starting from a set of matrices (at least three) that describe transitions between Stages of counterparties in the Bank's portfolio. These estimated matrices have 12 months' time horizon.

Loss given default (LGD) measures the expected loss suffered by the Bank in the event of counterparty's default. In Intesa Sanpaolo Banka BiH, LGD is estimated for Non-performing exposures, while for Expected loss estimation of Performing exposures, LGD is calculated as LGD Proxy – average provisioning level (LGD) of new defaulted NPI exposures in that particular Risk segment.

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities.

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

	2022				2021			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January	18.503	13.264	43.841	75.608	20.380	11.041	40.203	71.624
First time adoption of FBA Impairmnets	-	-	-	-	0	0	0	0
Transfer to Stage 1	5737	-5.493	-244	0	6.074	-5.680	-394	0
Transfer to Stage 2	-1.120	3.498	-2.378	0	-1.167	4.499	-3.332	0
Transfer to Stage 3	-245	-2.378	2.623	0	-394	-3.332	3.726	0
Net remeasurementof loss allowance	7.892	2.121	2.872	12.885	8.428	2.191	2.479	13.098
New financial assets originated or purchased	-5.551	10.828	10.596	15.873	-8.635	8.825	11.261	11.451
Financial assets that have been derecognized	-4.992	-4.856	-9.428	-19.276	-6.183	-4.280	-7.441	-17.904
Total effect through Profit and Loss (Note23)	-2.651	8.093	4.040	9.482	-6.390	6.736	6.299	6.645
Writte off-s	-	-	-4.626	-4.626	0	0	-2.255	-2.255
Unwinding the discount	-	-	-404	-404	-	-	-406	-406
Sale and other movements	-	-	0	0	0	0	0	0
Balance as at 31 December	**20.224**	**16.984**	**42.852**	**80.060**	**18.503**	**13.264**	**43.841**	**75.608**

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

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

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

31 December 2022	Stage 1	Stage 2	Stage 3	Total
Gross exposure				
Retail loans				
Consumer loans	382.273	17.275	35.684	435.232
Housing loans	236.279	5.186	7.330	248.795
Credit card loans and overdrafts	43.344	3.043	3.603	49.990
Total	661.896	25.504	46.617	734.017
Corporate loans				
Large	403.738	39.154	3.048	445.940
Other	419.720	52.832	10.767	483.319
Total	823.458	91.986	13.815	929.259
Total Gross exposure	**1.485.354**	**117.490**	**60.432**	**1.663.276**

	Stage 1	Stage 2	Stage 3	Total
Impairment				
Retail loans				
Consumer loans	10.410	4.614	28.380	43.404
Housing loans	2.124	726	4.004	6.854
Credit card loans and overdrafts	1.417	603	2.781	4.801
Total	13.951	5.943	35.165	55.059
Corporate loans				
Large	3.147	4.665	624	8.436
Other	3.126	6.376	7.063	16.565
Total	6.273	11.041	7.687	25.001
Total Impairment	**20.224**	**16.984**	**42.852**	**80.060**
Total Net Exposure	**1.465.130**	**100.506**	**17.580**	**1.583.216**

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.4 Allowance for expected credit losses (continued)

(v) Expected Credit Loss Measurement (continued)

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

31 December 2021	Stage 1	Stage 2	Stage 3	Total
Gross exposure				
Retail loans				
Consumer loans	379.531	21.627	36.805	437.963
Housing loans	215.140	6.198	8.297	229.635
Credit card loans and overdrafts	48.113	3.786	4.120	56.019
Total	642.784	31.611	49.222	723.617
Corporate loans				
Large	460.038	14.707	3.535	478.280
Other	419.702	33.146	14.238	467.086
Total	879.740	47.853	17.773	945.366
Total Gross exposure	**1.522.524**	**79.464**	**66.995**	**1.668.983**
	Stage 1	Stage 2	Stage 3	Total
Impairment				
Retail loans				
Consumer loans	9.033	5.836	28.470	43.339
Housing loans	1.452	727	4.288	6.467
Credit card loans and overdrafts	996	621	3.124	4.741
Total	11.481	7.184	35.882	54.547
Corporate loans				
Large	3.556	1.684	539	5.779
Other	3.466	4.396	7.420	15.282
Total	7.022	6.080	7.959	21.061
Total Impairment	**18.503**	**13.264**	**43.841**	**75.608**
Total Net Exposure	**1.504.021**	**66.200**	**23.154**	**1.593.275**

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.4 Allowance for expected credit losses (continued)

(v) Expected Credit Loss Measurement (continued)

Non-performing loans - Stage 3

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

	Retail loans				Corporate loans			
	Consumer loans	Housing loans	Credit card loans and overdrafts	Ukupno	Veliki	Ostalo	Ukupno
31 December 2022							
Gross exposure	35.684	7.330	3.603	**46.617**	3.048	10.767	**13.815**
Impairment	(28.380)	(4.004)	(2.781)	**(35.165)**	(624)	(7.063)	**(7.687)**
Net	7.304	3.326	822	**11.452**	2.424	3.704	**6.128**
Rate of impairment	*80%*	*55%*	*77%*	*75%*	*20%*	*66%*	*56%*
Estimated value of collateral							
Mortgage	75	3.293	-	**3.368**	952	3.487	**4.439**
Total	75	3.293	-	**3.368**	952	3.487	**4.439**

	Retail loans				Corporate loans		
	Consumer loans	Housing loans	Credit card loans and overdrafts	Total	Large	Other	Total
31 December 2022							
Gross exposure	36.805	8.297	4.120	**49.222**	3.535	14.238	**17.773**
Impairment	(28.470)	(4.288)	(3.124)	**(35.882)**	(539)	(7.420)	**(7.959)**
Neto	8.335	4.009	996	**13.340**	2.996	6.818	**9.814**
Rate of impairment	*77%*	*52%*	*76%*	*73%*	*15%*	*52%*	*45%*
Estimated value of collateral							
Mortgage	150	3.900	-	**4.050**	-	6.405	**6.405**
Total	150	3.900	-	**4.050**	-	6.405	**6.405**

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.4 Allowance for expected credit losses (continued)

(v) Expected Credit Loss Measurement (continued)

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

Loans and receivables with renegotiated terms

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. The Bank renegotiates loans to customers in financial difficulties to maximise collection opportunities and minimise the risk of default (rescheduling). Rescheduling is mainly performed in response to initial deterioration of the clients' financial position or for the prevention of further deterioration of the clients' financial position. The revised terms usually include extending the maturity, changing the timing of interest payments and when possible, obtaining additional instruments of collateral. Following the restructuring the loans remain graded as restructured until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash-flows and there are no other indicators of impairment. Gross carrying amount of loans with renegotiated terms amount to BAM 20,620 thousand for corporate loans and BAM 15,131 thousand for retail loans as of 31st December 2022 (2021: BAM 19,920 thousand for corporate and BAM 14,677 for retail loans.)

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

	Retail loans				Corporate loans		
	Consumer loans	Housing loans	Credit card loans and overdrafts	**Total**	Large	Other	**Total**
31 December 2022							
Gross exposure	13.841	1.290	-	**15.131**	4.069	16.551	**20.620**
Impairment	(8.930)	(265)	-	**(9.195)**	(699)	(3.019)	**(3.718)**
Net	4.911	1.025	-	**5.936**	3.370	13.532	**16.902**
Rate of impairment	*65%*	*21%*	-	*61%*	*17%*	*18%*	*18%*

	Retail loans				Corporate loans		
	Consumer loans	Housing loans	Credit card loans and overdrafts	**Total**	Large	Other	**Total**
31 December 2021							
Gross exposure	13.269	1.408	-	**14.677**	-	19.920	**19.920**
Impairment	(8.973)	(283)	-	**(9.256)**	-	(2.950)	**(2.950)**
Net	4.296	1.125	-	**5.421**	-	16.970	**16.970**
Rate of impairment	*68%*	*20%*	-	*63%*	-	*15%*	*15%*

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.4 Allowance for expected credit losses (continued)

(v) Expected Credit Loss Measurement (continued)

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

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

5.1.5 Concentration of credit risk per geographic location

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

	Bosnia and Herzegovina	EU countries	Non-EU countries	Total
31 December 2022				
FINANCIAL ASSETS				
Cash and cash equivalents	482.569	133.065	8.433	624.067
Financial assets at fair value through other comprehensive income	53	103.078	-	103.131
Financial assets at fair value through P&L	-	161	-	161
Financial assets at amortized cost	1.789.746	6.237	-	1.795.983
TOTAL FINANCIAL ASSETS	**2.272.368**	**242.541**	**8.433**	**2.523.342**

	Bosnia and Herzegovina	EU countries	Non-EU countries	Total
31 December 2021				
FINANCIAL ASSETS				
Cash and cash equivalents	518.502	13.449	40.919	572.870
Financial assets at fair value through other comprehensive income	20.050	58,673	-	78.723
Financial assets at fair value through P&L	-	295	-	295
Financial assets at amortized cost	1.798.787	2.402	-	1.801.189
TOTAL FINANCIAL ASSETS	**2,343.543**	**74.819**	**40.919**	**2.458.986**

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

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

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

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

the Bank prepared Plan of management of interest-induced credit risk that includes

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

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

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

- offer to the clients the possibility of modifying their credit exposure with the aim of continuing to meet their obligations to the bank in an orderly manner. Credit exposure modifications may include one of the following measures: interest rate correction, interest rate type change, loan maturity extension, repayment plan changes, etc. (or a combination of the proposed measures). The treatment of modifications in terms of determining the level of credit risk is defined by the Rulebook for the Classification and Measurement of Credit Exposures
- when changing existing credit agreements, caused by a significant increase in the interest rate, the Bank will not charge fees associated with changing existing credit agreements, nor charge other fees and costs related to the change of the contractual relationship, e.g. fee for early loan repayment
- - when amending existing credit agreements, in the event of a change in the type of interest rate, caused by a significant increase in the interest rate, the Bank will offer clients a fixed interest rate in accordance with the currently valid market conditions, i.e. the interest rate that the Bank currently offers to clients with a similar risk profile and product characteristics
- the bank will start the immediate implementation of a product with a combination of fixed and variable interest rates (fixed to floating), which in the first years of loan repayment would have a fixed interest rate, and after that period the interest rate would be variable so that in the first years of repayments during the existence of significant fluctuations in the interest rate on the market, clients would be protected from interest-induced credit risk - required implementation of an IT solution for the specified product
- Corporate and SME Department and Small Businesses Department are tasked with carrying out extraordinary monitoring for all clients marked as Sensitive to interest rate changes in the Basic and Stress scenarios. The extraordinary monitoring must necessarily contain projections of the company's operations until at least 2024 or until the final repayment of the loan with an increase in interest costs by 3.25% in the basic scenario and 5.25% in the stress scenario and basic information on how to adapt the client's business to new developments on the market. Extraordinary monitoring will include a mandatory opinion of the Credit Department for all clients who are marked as clients Sensitive to interest rate changes in the Basic and Stress scenarios, which will be the basis for further strategy towards the client. All new approvals with a variable interest rate must contain projections based on the baseline and stress scenarios from the Plan.
- The bank will introduce additional monitoring and reporting to the Credit Risk Management Committee on the quality of the portfolio with a variable interest rate in order to recognize potential vulnerabilities and deterioration in the portfolio on time.

As of 31 December 2022 the Bank recorded 98 loans in total amount of BAM 74,905 thousandwith significant increase of interest rate in comparison with reference date from the FBA decision (i.e.30.06.2022.)

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

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

	Stage 1 loans with significat increase in interest rate				ECL for Stage 1 loans with significat increase in interest rate				Stage 2 loans with significat increase in interest rate				ECL for Stage 2 loans with significat increase in interest rate				Krediti na nivou kreditnog rizika 3 kod kojih je utvrđen značajan rast kamatne stope				ECL 1	
			Amount		Variable interest rate		Fixed interest rate				Amount		Variable interest rate		Fixed interest rate				Amount			
	No. Parties		Variable interest rate	Fixed interest rate	ECL 1	ECL 2	ECL 1	ECL 2	No. Parties		Variable interest rate	Fixed interest rate	ECL 1	ECL 2	ECL 1	ECL 2	No. Parties		Variable interest rate	Fixed interest rate	Variable interest rate	Fixed interest rate
TOTAL (1+2)	91	65,637	63,802	1,835	482	1,335	12	37	4	6,997	6,994	3	1,091	1,091	1	1	3	2,271	2,271	0	552	0
1. Corporate loans	58	65,480	63,793	1,687	482	1,335	9	34	3	6,994	6,994	0	1,091	1,091	0	0	3	2,271	2,271	0	552	0
Short-term loans	3	93	0	93	0	0	1	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Revolving loans	1	1,300	0	1,300	0	0	7	26	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Long-term loans	54	64,087	63,793	294	482	1,335	1	6	3	6,994	6,994	0	1,091	1,091	0	0	3	2,271	2,271	0	552	0
1. Retail loans	33	157	9	148	0	0	3	3	1	3	0	3	0	0	1	1	0	0	0	0	0	0
Consumer loans	29	126	6	120	0	0	2	2	1	3	0	3	0	0	1	1	0	0	0	0	0	0
Consumer loans	4	31	3	28	0	0	1	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0

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

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

5. FINANCIAL RISK MANAGEMENT (continued)

5.2 Liquidity risk management

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

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash-settled derivatives. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Bank sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The table below summarizes the maturity profile of the Bank's financial assets and the undiscounted cash flows of its financial liabilities as of 31st December 2022 and 31st December 2021, except for financial assets at fair value through other comprehensive income which have been classified in accordance with their secondary liquidity characteristic as maturing within one month and obligatory reserves which have been classified in the maturity period within one month. Other items of assets and liabilities that have no contractual maturities are classified as having a remaining maturity of over 5 years.

5. FINANCIAL RISK MANAGEMENT (continued)

5.2 Liquidity risk management (continued)

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
31st December 2022						
Financial Assets						
Cash and cash equivalents	624.067	-	-	-	-	624.067
Financial assets at fair value through profit and loss	-	-	161	-	-	161
Financial assets at fair value through other comprehensive income	1.106	9.767	53.220	38.885	153	103.131
Financial assets at amortized cost	287.680	128.324	448.137	664.385	267.457	1.795.983
Reserves with Central Bank	*203.062*	-	-	-	-	203.062
Other financial assets at amortized cost	*74.913*	*128.324*	*448.137*	*664.385*	*267.457*	*1.583.216*
Loans and receivables from customers	*9.705*	-	-	-	-	*9.705*
Prepaid profit tax	4.266	-	-	-	-	4.266
Total	**917.119**	**138.091**	**501.518**	**703.270**	**267.610**	**2.527.608**
Financial Liabilities						
Financial liabilities valued at amortized cost	1.418.505	173.031	194.249	375.972	55.516	2.217.273
Deposits from banks and other financial institutions	22.426	137.667	18.665	28.999	-	*207.757*
Deposits from customers	1.366.075	31.337	138.648	225.597	10.069	*1.771.726*
Liabilities for loans and other borrowings	271	3.613	34.982	113.661	44.110	*196.637*
Lease payables	206	414	1.954	7.622	1.337	*11.533*
Other financial liabilities valued at amortized cost	29.527	-	-	93	-	*29.620*
Total	**1.418.505**	**173.031**	**194.249**	**375.972**	**55.516**	**2.217.273**
Maturity gap	**(501.386)**	**(34.940)**	**307.269**	**327.298**	**212.094**	**310.335**

5. FINANCIAL RISK MANAGEMENT (continued)

5.2 Liquidity risk management (continued)

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
31st December 2021						
Financial Assets						
Cash and cash equivalents	572.870	-	-	-	-	572.870
Financial assets at fair value through profit and loss	-	-	295	-	-	295
Financial assets at fair value through other comprehensive income	-	-	35.211	43.376	136	78.723
Financial assets at amortized cost	286.842	135.863	425.295	675.156	278.033	1.801.189
Reserves with Central Bank	196.884	-	-	-	-	196.884
Loans and receivables from customers	85.133	135.863	425.295	675.156	278.033	1.599.480
Other financial assets at amortized cost	4.825	-	-	-	-	4.825
Prepaid profit tax	3.692	-	-	-	-	3.692
Total	**863.404**	**135.863**	**460.801**	**718.532**	**278.169**	**2.456.769**
Financial Liabilities						
Financial liabilities valued at amortized cost	1.294.581	161.790	208.434	404.870	73.381	2.143.056
Deposits from banks and other financial institutions	43.725	117.071	4.625	44.415	-	*209.836*
Deposits from customers	1.216.373	37.154	143.300	233.023	9.780	*1.639.630*
Liabilities for loans and other borrowings	1.863	7.207	58.807	120.578	61.883	*250.338*
Lease payables	178	358	1.702	6.761	1.718	*10.717*
Other financial liabilities valued at amortized cost	32.442	-	-	93	-	*32.535*
Total	**1.294.581**	**161.790**	**208.434**	**404.870**	**73.381**	**2.143.056**
Maturity gap	**(431.177)**	**(25.927)**	**252.367**	**313.662**	**204.788**	**313.713**

5. FINANCIAL RISK MANAGEMENT (continued)

5.2 Liquidity risk management (continued)

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

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total gross cash flows	Total carrying amount
31 December 2022							
Financial committments and contingencies							
Undrawn credit lines	9.638	25.356	136.723	209.103	-	380.820	380.820
Contigent liabilities	9.661	38.629	84.469	30.027	16	162.802	543.622
Total contingent liabilities and commitments	**19.299**	**63.985**	**221.192**	**239.130**	**16**	**543.622**	**924.442**
31 December 2021							
Financial committments and contingencies							
Undrawn credit lines	20.192	35.449	155.220	172.141	-	383.002	145.733
Contigent liabilities	9.046	36.386	63.908	36.373	20	145.733	145.733
Total contingent liabilities and commitments	**29.238**	**71.835**	**219.128**	**208.514**	**20**	**528.735**	**291.466**

Future cash flows for interest bearing liabilities

The estimated future cash flows for the Bank's interest-bearing liabilities, including expected interest as at 31 December 2022 and as at 31 December 2021 are shown in the following table:

Future cash flows for interest bearing liabilities

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total gross cash flows	Total carrying amount
31 December 2022							
Liabilities							
Due to banks and other financial institutions	22.423	138.172	19.175	29.617	-	**209.387**	**207.757**
Due to borrowings	345	3.714	36.312	117.121	44.665	**202.157**	**196.637**
Due to customers	1.365.430	32.352	140.177	227.769	10.187	**1.727.469**	**1.771.726**
Lease Liabilities	207	458	2.073	7.944	1.337	**12.019**	**11.533**
Total expected outflow	**1.388.405**	**174.696**	**197.737**	**382.451**	**56.189**	**2.199.478**	**2.187.653**

5. FINANCIAL RISK MANAGEMENT (continued)

5.2 Liquidity risk management (continued)

Future cash flows for interest bearing liabilities (continued)

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total gross cash flows	Total carrying amount
31 December 2022							
Liabilities							
Due to banks and other financial institutions	43.753	117.207	5.161	45.723	-	**211.844**	**209.836**
Due to borrowings	1.974	7.289	60.224	124.553	62.860	**256.900**	**250.338**
Due to customers	1.215.866	38.139	144.874	237.452	9.916	**1.646.247**	**1.639.630**
Lease Liabilities	178	383	1.772	6.977	1.718	**11.028**	**10.717**
Total expected outflow	**1.261.771**	**163.018**	**212.031**	**414.705**	**74.494**	**2.126.019**	**2.110.521**

5.3 Market risk

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

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

5.3.1 Foreign exchange risk

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

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

Overall exposure to foreign exchange risks is monitored within Risk Management Department using techniques such as Value-at-Risk ("VaR") and stress testing.

FX Value-at-Risk is an individual, concise, statistical measurement of possible losses in the portfolio. VaR is a measurement of loss under normal movements of risk factors on the market. The likelihood of losses higher than VaR occurring is expected to be low.

The main model assumptions are:

- Being based on the historical methodology
- 99 percent as a confidence interval for Value-at-Risk computation
- One-day held period

5. FINANCIAL RISK MANAGEMENT (continued)

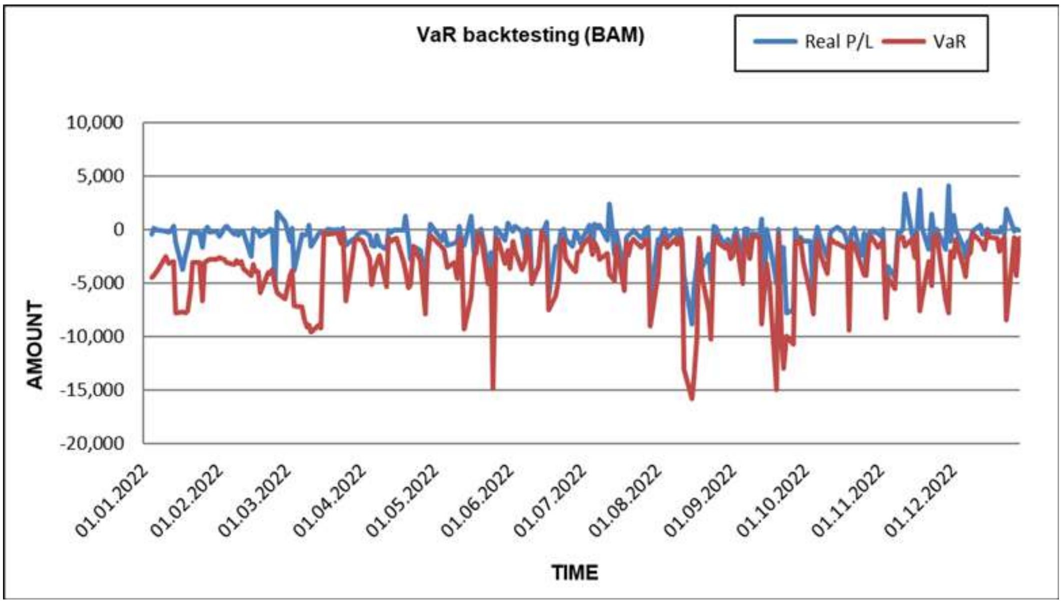
5.3 Market risk (continued)

5.3.1 Foreign exchange risk (continued)

The model covers foreign currency risk – valid for foreign currency transactions and positions denominated on foreign currencies; resulting from foreign currency rate volatility.

The model can compute VaR at different aggregation levels – from a single position to any sub-portfolio level. Therefore, the model allows a detailed analysis of risk profiles for the multi-level portfolio hierarchy and diversity effects occurring. Furthermore, VaR measurement can be expounded based on risk source (risk factors). These features of a more detailed risk monitoring system allow the determination of an efficient limit structure which can be compared through different organisational units.

The quality of the implemented risk measurement model is constantly assessed. The Bank performs back-testing of the computed VaR measures with the actual gain and losses for the same period.



During 2022, the Bank improved the model for calculation of VaR in accordance with best practices and as a result, the Bank recorded 5 (results for 2021: there was 6 exceptions) when actual losses exceeded the daily VAR amount.

The Bank is exposed to foreign currency risk when there is no matching between assets and liabilities and off-balance sheet positions due to cash flows denominated in foreign currencies. Portfolio exposure to foreign currency risk arises from portfolio sensitivity to fluctuations in exchange rate values. The degree of foreign currency risk depends on the amount of open positions and the degree of potential change in foreign currency rates.

The Bank considers that it is not currently exposed to foreign currency risk related to EUR due to the fact that Convertible Mark is pegged to EURO (1 EUR = BAM 1.955830). Exposure is more prominent for USD and CHF. The Bank performs stress testing based on the assumption of a 10% increase or decrease in foreign currency rates against the relevant local currency. The sensitivity rate of 10% is used when reporting internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. Stress testing is performed on an annual basis. The results of the most recent test performed are presented here below:

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 Market risk (continued)

5.3.1 Foreign exchange risk (continued)

31st December 2022			
Currency	**Open position (in BAM)**	**Stress Test**	
		10% Move Up	**10% Move Down**
CHF	6.928	693	(693)
GBP	17.641	(1.764)	1.764
USD	(5.607.393)	560.739	(560.739)
HRK	51.039	5.104	(5.104)
CAD	3.370	(337)	337
SEK	6.885	(688)	688
Other	29.509	(2.951)	2.951
EUR	4.780.806	-	-

31st December 2021			
Currency	**Open position (in BAM)**	**StressTest**	
		10% Move Up	**10% Move Down**
CHF	8.475	(848)	848
GBP	2.126	(213)	213
USD	(58.390)	5.839	(5.839)
HRK	(9.237)	924	(924)
CAD	11.683	(1.168)	1.168
SEK	8.702	(870)	870
Other	17.760	(1.776)	1.776
EUR	(2.756.258)	-	-

The analysis outlined above is based on the open foreign currency position of the Bank, which includes all asset and liability and off-balance-sheet positions.

If the currency position of a foreign currency is “long” (assets exceeding liabilities) and the exchange rate for this currency increases/(decreases) in relation to the BAM, the Bank will experience a foreign exchange gain/(loss).

If the currency position of a foreign currency is “short” (liabilities exceeding assets) and the exchange rate for this currency (increases)/decreases in relation to BAM, the Bank will experience a foreign exchange (loss)/gain.

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank monitors its foreign exchange (FX) position for compliance with the regulatory requirements of the Banking Agency of the Federation of Bosnia and Herzegovina established in respect of limits on open positions. The Bank seeks to match assets and liabilities denominated in foreign currencies to avoid foreign currency exposures.

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 Market risk (continued)

5.3.1 Foreign exchange risk (continued)

Foreign exchange position

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2022 and 31 December 2021. Included in the table are the Bank's assets and liabilities at carrying amounts categorised by currency. The Bank has a number of agreements governed by a foreign currency clause. The BAM value of principal in such agreements is determined by the movement in foreign exchange rates. The principal balance of the related exposure is included in the table below in the column "EURO linked".

The Bank had the following significant currency positions:

31st December 2022	EUR	EUR Linked	EUR Total	USD	Other FX	BAM	Total
Financial Assets							
Cash and cash equivalents	109.534	-	109.534	24.791	13.154	476.588	**624.067**
Financial assets at fair value through profit and loss	161	-	161	-	-	-	**161**
Financial assets at fair value through other comprehensive income	103.078	-	103.078	-	-	53	**103.131**
Financial assets at amortized cost	6.237	678.341	684.578	-	-	1.111.405	**1.795.983**
Reserves with Central Bank	-	-	-	-	-	*203.062*	203.062
Loans and receivables from customers	-	*678.341*	*678.341*	-	-	*904.875*	1.583.216
Other financial assets at amortized cost	*6.237*	-	*6.237*	-	-	*3.468*	**9.705**
Prepaid profit tax	-	-	-	-	-	4.266	**4.266**
Total	**219.010**	**678.341**	**897.351**	**24.791**	**13.154**	**1.592.312**	**2.527.608**
Financial Liabilities							
Financial liabilities valued at amortized cost	752.180	145.893	898.073	30.379	13.022	1.275.799	2.217.273
Deposits from banks and other financial institutions	*140.631*	*42.654*	*183.285*	-	*38*	*24.434*	207.757
Deposits from customers	*411.896*	*103.239*	*515.135*	*29.586*	*12.801*	*1.214.204*	*1.771.726*
Liabilities for loans and other borrowings	*196.637*	-	*196.637*	-	-	-	*196.637*
Obligations based on leases	-	-	-	-	-	11.533	*11.533*
Other financial obligations valued at amortized cost	*3.016*	-	*3.016*	*793*	*183*	*25.628*	*29.620*
Total	**752.180**	**145.893**	**898.073**	**30.379**	**13.022**	**1.275.799**	**2.217.273**
Maturity gap	**(533.170)**	**532.448**	**(722)**	**(5.588)**	**132**	**316.513**	**310.335**

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 Market risk (continued)

5.3.1 Foreign exchange risk (continued)

31st December 2021	EUR	EUR Linked	EUR Total	USD	Other FX	BAM	Total
Financial Assets							
Cash and cash equivalents	16.733	-	16.733	30.215	12.539	513.383	572.870
Financial assets at fair value through profit and loss	-	-	-	-	295	-	295
Financial assets at fair value through other comprehensive income	58.673	-	58.673	-	-	20.050	78.723
Financial assets at amortized cost	23.118	790.033	813.151	-	-	988.038	1.801.189
Reserves with Central Bank	-	-	-	-	-	196.884	196.884
Loans and receivables from customers	20.716	790.033	810.749	-	-	788.731	1.599.480
Other financial assets at amortized cost	2.402	-	2.402	-	-	2.423	4.825
Prepaid profit tax	-	-	-	-	-	3.692	3.692
Total	**98.524**	**790.033**	**888.557**	**30.215**	**12.834**	**1.525.163**	**2.456.769**
Financial Liabilities							
Financial liabilities valued at amortized cost	808.718	68.490	877.208	30.240	14.468	1.221.140	2.143.056
Deposits from banks and other financial institutions	*129.043*	*3.000*	*132.043*	-	*172*	*77.621*	*209.836*
Deposits from customers	*426.302*	*65.490*	*491.792*	*30.130*	*13.986*	*1.103.722*	*1.639.630*
Liabilities for loans and other borrowings	*250.338*	-	*250.338*	-	-	-	*250.338*
Obligations based on leases	-	-	-	-	-	10.717	*10.717*
Other financial obligations valued at amortized cost	3.035	-	3.035	110	310	29.080	32.535
Total	**808.718**	**68.490**	**877.208**	**30.240**	**14.468**	**1.221.140**	**2.143.056**
Maturity gap	**(710.194)**	**721.543**	**11.349**	**(25)**	**(1.634)**	**304.023**	**313.713**

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 Market risk (continued)

5.3.2 Interest rate risk

Interest rate risk is defined as the exposure of a Bank's financial condition to adverse movements in interest rates, referring to the banking book, meaning the set of on- and off-balance-sheet financial assets and liabilities which are part of the core lending and deposit collecting activities performed by the Bank.

The Bank is exposed to interest rate risk as the Bank borrows and lends funds at both fixed and floating interest rates. The risk is managed by the Bank by maintaining an appropriate mix between fixed and floating rate borrowings and lending.

Interest rate risk reflects the possibility of loss of profit and/or erosion of capital due to a change in interest rates. It relates to all products and balances that are sensitive to changes in interest rates. This risk comprises two components: income component and investment component.

The income component arises from a lack of harmonisation between the active and passive interest rates of the Bank (interest on placements is fixed, interest for liabilities is floating and vice versa).

The investment component is a consequence of the inverted relationship between price and interest rate fluctuations of securities.

The Bank strives to protect itself from interest rate risk by harmonizing the type of interest rate (fixed and floating), currency, related interest rate and the date of interest rate change for all products for which it concludes contracts (which are sensitive to interest rate changes). Any mismatch among the abovementioned elements results in exposure of the Bank to interest rate risk.

The adopted system operates at an analytical level commensurate to the complexity and risk of the banking book, and ensures that the risk profile can be examined from two separate, but complementary, perspectives:

- The economic value perspective, which considers the impact of changes in interest rates and related volatilities on the present value of all future cash flows;
- The earnings perspective, focused on analysing the impact that changes in interest rates and related volatilities generate on the net interest income and, therefore, on the related effects on interest margin.

The Bank uses the following methods to measure interest rate risks:

- Shift sensitivity of fair value;
- Shift sensitivity of the interest margin.

The shift sensitivity of fair value measures the changes in economic value of a financial portfolio resulting from a parallel shift in the discount curves. The total value of shift sensitivity is broken down by time bucket (bucket analysis), in order to identify the distribution of risk over the time axis. The operating limit currently in force for shift sensitivity of fair value (by +100 bp parallel shift of yield curves) amounts is 0 thousand BAM / -19,558 thousand BAM (0 thousand EUR / 10,000 thousand EUR). The limit is set up by the Bank with the aim of keeping exposure within low levels.

If changes in interest rates had been 100 basis points higher and all other variables were held constant at 31 December 2022, the effect, in terms of economic value of interest risk-sensitive balance-sheet portfolios, would have been BAM -13,567 thousand (31 December 2021: BAM -12,556 thousand).

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 Market risk (continued)

5.3.2 Interest rate risk (continued)

In 2022 the Bank established the limit by time-buckets on the following way:

Shift Sensitivity Limit (+100 bp)

TOTAL	0-18 months	18 months - 5 years	above 5 years
BAM 0 thousand / BAM -19,558 thousand (0 mio EUR/ - 10 mio EUR)	BAM 3,912 thousand / BAM -5,867 thousand (2 mio EUR/ -3 mio EUR)	BAM 3,912 thousand / BAM -9,779 thousand (2 mio EUR / -5 mio EUR)	BAM 3,912 thousand / BAM -15,647 thousand (2 mio EUR / -8 mio EUR)

The results of the analysis of the shift sensitivity of fair value are below the current operating limit and are presented in the table below:

Shift Sensitivity (+100b.p)	31st December 2022				31st December 2021			
	TOTAL	0-18 month	18 months - 5 years	over 5 years	TOTAL	0-18 month	18 months - 5 years	over 5 years
EUR	(4.032)	513	-747	-3.798	(4.334)	(534)	369	(4.169)
USD	93	34	59	-	154	30	121	3
CHF	116	6	2	108	13	10	3	-
KM	(9.744)	(1.501)	(5.104)	(3.139)	(8.393)	(974)	(4.132)	(3.287)
Other curren-cies	1	1	-	-	4	1	3	-
Total	(13.566)	(947)	(5.790)	(6.829)	(12.556)	(1.467)	(3.636)	(7.453)

The sensitivity of the interest margin quantifies instead the short-term (twelve months) impact on the interest margin of a parallel, instantaneous and permanent shock in the interest rate curve. This measure highlights the effect of changes in interest rates on the portfolio being measured, excluding assumptions on future changes in the mix of assets and liabilities and, therefore, it cannot be considered a predictor of the future levels of the interest margin. The operating limit currently in force for shift sensitivity of interest margin (by -50 bp parallel shift of yield curves) amounts to BAM -5,867 thousand (EUR -3,000 thousand).

The result of shift sensitivity of the interest margin, if changes in interest rates market moving had been 100 basis points higher and all other variables were held constant at 31 December 2022 is an increase of BAM 6,986 thousand (31 December 2021: BAM 5,434 thousand), while if changes in interest rates market moving had been 100 basis points lower the result is decrease of BAM 7,004 thousand as of 31 December 2022 (31 December 2021: decrease of BAM 3,831 thousand). In addition, the Bank also prepares shift sensitivity of the interest margin based on the sensitivity range of +50/-50 bps. Increase by 50 bps of interest rates would increase the result for the year by BAM 3,498 thousand, while a decrease by 50 bps in interest rates would decrease result for the year by BAM 3,490 thousand as of 31 December 2022 (31 December 2021: BAM 2,734 thousand for +50 bps and decrease of BAM 3,596 thousand for -50 bps).

In order to measure the Bank's vulnerability under stressful market conditions the interest rate risk measurement system adopted by the Bank allows a meaningful evaluation of the effect of stressful market conditions on the Bank ("scenario analysis"), or rather abrupt changes in the general level of interest rates, changes in the relationships among key market rates (i.e. basis risk), changes in the slope and the shape

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 Market risk (continued)

5.3.2 Interest rate risk (continued)

of the yield curve (i.e. yield curve risk), changes in the liquidity of key financial markets or changes in the volatility of market rates.

5.4 Capital management

The Bank's objectives for capital management, which is a broader concept, in the opinion of the Management Board, than the 'equity' shown in the statement of financial position, are as follows:

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

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by Banking Agency of Federation of Bosnia and Herzegovina for supervisory purposes. The required information is filed with the Agency on a quarterly basis.

The Bank's regulatory capital for monitoring adequacy according to the Agency's methodology consists of:

- Tier 1 Capital or Core Capital: share capital (net of the carrying value of treasury shares and priority shares), share premium, retained earnings and reserves created by appropriations of retained earnings; amount of revaluation reserves arising from the effects of changes in the fair value of assets and audited profit for the current period, upon approval and retention by the General Shareholders Assembly;
- Tier 2 Capital or Supplementary Capital: priority shares, qualifying principal amounts of subordinated loan capital.
- Deductible items.

Risk-weighted assets are measured by means of a hierarchy of weightings in accordance with FBA regulation classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, considering any eligible collateral or guarantees. A similar treatment is adopted for off-balance-sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the computation of regulatory capital and the capital adequacy ratio of the

5. FINANCIAL RISK MANAGEMENT (continued)

5.4 Capital management (continued)

Bank as of 31 December 2022 and 31 December 2021, taken from the calculations submitted to the Agency in respect of those period-ends.

	31 December 2022	31 December 2021
Tier 1 capital		
Share capital	44.776	44.776
Share premium	57.415	57.415
Reserves	204.153	200.866
Intangible assets	(3.661)	(2.489)
Total qualifying Tier 1 Capital	**302.683**	**300.568**
Tier 2 capital		
Priority shares	6	6
Total qualifying Tier 2 Capital	**6**	**6**
Total regulatory capital	**302.689**	**300.574**
Capital requirements (*)		
Risk weighted assets	1.426.102	1.432.824
Operational risk	109.218	111.246
Total	**1.535.319**	**1.544.070**
Capital adequacy ratio (unaudited)	**19,72%**	**19,47%**

(*) Capital requirements stated above are calculated in accordance with FBA regulatory requirements.

Capital adequacy ratio will be audited during the audit for the regulatory requirements.

Leverage ratio reached 11.08% as of 31 December 2022 (regulatory limit: 6.0%), calculated in accordance with FBA Decision on the Bank's Capital Calculation as ration between Tier 1 Capital and Exposure in accordance with FBA Decision.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

6.1 Valuation models

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurement.

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices, foreign exchange rates, equity prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Bank determines the fair value of debt securities (treasury bills and bonds) using an internal valuation model which considers their remaining maturity and the latest available auction prices of equivalent instruments.

The fair value of foreign currency forward derivatives is estimated using available market data for FX spot and cash curves of relevant currencies. Based on such inputs, forward points and forward rates are computed, which are then used for daily mark-to-market of outstanding deals.

The fair value of equity securities classified through other comprehensive income and at fair value through profit or loss traded on an active market is based on closing bid prices at the reporting date for these securities.

6.2 Financial instruments at fair value - fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date distributed according to the fair value hierarchy. The amounts are based on the values recognised in the statement of financial position.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

6.2 Financial instruments at fair value - fair value hierarchy (continued)

31 December 2022	Note	Level 1	Level 2	Level 3	Total
Financial assets at fair value through other comprehensive income	*24*				
Treasury bills issued by the Croatia		-	14.543	-	**14.543**
Treasury bills issued by the Belgium		19.534	-	-	**19.534**
Treasury bills issued by the Spain		19.408	-	-	**19.408**
Treasury bills issued by the France		9.659	-	-	**9.659**
Bonds issued by the Croatia		39.834	-	-	**39.834**
Equity securities issued by non-resident legal entities		-	99		**99**
Equity securities issued by resident legal entities		-	54	-	**54**
Financial assets at fair value through profit and loss	*23*		-	-	
Equity shares		161	-	-	**161**
Derivatives held for trading – OTC product	*26*	-	-	-	-
Total		**88.596**	**14.696**	**-**	**103.292**

31 December 2021	Note	Level 1	Level 2	Level 3	Total
Financial assets at fair value through other comprehensive income	*24*				
Treasury bills issued by the Federation of Bosnia and Herzegovina		**-**	**19.996**	-	**19.996**
Treasury bills issued by the Croatia		**15.214**	**-**	-	**15.214**
Bonds issued by the Croatia		**43.376**	**-**	-	**43.376**
Equity securities issued by non-resident legal entities		**-**	83	-	**83**
Equity securities issued by resident legal entities		**-**	**54**	-	**54**
Financial assets at fair value through profit and loss	*23*				
Equity shares		-	295	-	**295**
Derivatives held for trading – OTC product	*26*	-	10	-	**10**
Total		**58.590**	**20.438**	-	**79.028**

Financial liabilities available at fair value through profit and loss	*32*				
Derivatives held for trading – OTC product		-	7	-	**7**
Total		-	**7**	-	**7**

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

6.3 Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

31 December 2022	Level 1	Level 2	Level 3	Total fair value	Carrying value
Assets					
Cash and cash equivalents	-	84.431	539.636	624.067	624.067
Reserves with the Central Bank	-	-	203.062	203.062	203.062
Loans and receivables from customers	-	290.378	1.266.635	1.557.013	1.583.216
Other assets at amortized cost	-	-	9.705	9.705	9.705
Total		**374.809**	**2.019.038**	**2.393.847**	**2.420.050**
Liabilities					
Due to banks and other financial institutions	-	163.293	41.087	204.380	207.757
Due to customers	-	1.397.747	370.826	1.768.573	1.771.726
Borrowings	-	-	169.557	169.557	196.637
Lease Liabilities	-	-	11.533	11.533	11.533
Total	-	**1.561.040**	**593.003**	**2.154.043**	**2.187.653**

31 December 2021	Level 1	Level 2	Level 3	Total fair value	Carrying value
Assets					
Cash and cash equivalents	-	32.208	540.662	572.870	572.870
Reserves with the Central Bank	-	-	196.884	196.884	196.884
Financial assets at amortized cost	-	6.105	-	6.105	6.105
Loans and receivables from customers	-	296.422	1.284.149	1.580.571	1.593.375
Other assets at amortized cost	-	-	4.825	4.825	4.825
Total	-	**334.735**	**2.026.520**	**2.361.255**	**2.374.059**

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

6.3 Financial instruments not measured at fair value (continued)

Liabilities					
Due to banks and other financial institutions	-	160.762	47.427	208.189	209.835
Due to customers	-	1.236.055	407.651	1.643.706	1.639.628
Borrowings	-	-	243.112	243.112	250.338
Lease Liabilities	-	-	10.717	10.717	10.717
Total	-	**1.396.817**	**708.907**	**2.105.724**	**2.110.518**

In estimating the fair value of the Bank's financial instruments and in assigning the instruments to the relevant level of fair value hierarchy, the methods, assumptions and limitations described below apply in accordance with the approach revised at Intesa Sanpaolo Group.

Cash and cash equivalents

The carrying values of cash and balances with banks are generally deemed to approximate their fair value. Obligatory reserve with the Central Bank is classified as Level 3, as well as, on demand balances versus financial institutions in consideration of the fact that the setting of their exit price could include subjective valuations of the counterparty's credit risk difficult to quantify.

Placements with other banks

Placements with banks mostly represent overnight and short-term deposits; hence there is no significant difference between the fair value of these deposits and their carrying value. Their classification to Level 2 of the fair value hierarchy depends on the absence, or low relevance, of non-observable parameters in setting their exit price.

Loans and receivables from customers, amounts due to customers, banks and other financial institutions

Fair value is estimated through discounted cash flow method in case of positions with residual medium-long term maturities, while it is approximated with the book value, net of collective impairment/individual adjustment in case of short-term loans, loans payable on demand or with an indefinite maturity for impaired loans.

For the purpose of division by fair value level, non-performing/impaired assets are classified in Level 3, since the exit price is significantly influenced by the forecasts for losses determined by the credit officer based on future cash flow expectations and the related collection schedules. This entity specific assessment component outweighs other components (as, for example market interest rates), leading to attribution of Level 3 in the hierarchy.

Performing loans with original maturity equal or lower than 12 months, as well as short-term liabilities to customers and banks are classified into Level 2 of the fair value hierarchy, due to the absence or low relevance of non-observable parameters in setting their exit prices.

Medium-long term loans and liabilities with customers, banks and other financial institutions are classified into Level 3 of the fair value hierarchy, considering the relevance of entity specific assessment components in estimating the exit price.

7. OPERATING SEGMENTS

On a regular basis, the Bank's management analyses the overall results of the Bank with reference to the contributions by individually significant operating segments. Corporate, Retail and Treasury business lines have been identified as relevant operating segments, insofar as financial products managed by each of them and the respective counterparties with whom each segment enters into negotiation are specific for each segment and are not managed by / related to any of the others.

Even though lending and fund collection are actually performed by all operating segments, the financial characteristics of the loans, deposits and credit lines managed are specifically designed for each of them and are applicable only to counterparties related to each specific segment.

The financial results of each operating segment are recorded through a combined methodology of "direct" and "indirect" allocation of income and cost. Income is mainly directly allocated to the respective segment where it was generated, while costs are directly allocated whenever they are identified as immediately generated within the operating segment and are indirectly charged to the operating segments whenever they are sustained by central organisational units. Indirect cost allocation is performed according to pre-determined allocation keys with the aim of comprehensive cost allocation to identified business segments (legal entities, citizens, funds and financial markets). The most important keys of distribution are: amount of assets, number of employees, area of space, number of cards, etc. Indirect distribution of costs refers, among other things, to the operating costs of the central organizational unit, information technology, maintenance, rent and communication.

An internal transfer rate methodology is also applied for allocation of the cost of funding to the operating segments.

Profit or loss statement items in the tables presented below on segment information are in the format used for management reporting purposes.

7. OPERATING SEGMENTS (continued)

Segmental information for the year ended 31st December 2022

	Retail	Corporate	Treasury	Total
PROFIT AND LOSS				
Income from interest and similar income at the effective interest rate	42.827	23.084	443	66.354
Interest expenses and similar expenses at the effective interest rate	(3.753)	(1.809)	(4.190)	(9.752)
Net income/(expenses) from interest and similar income at the effective interest rate	**39.074**	**21.275**	**(3.747)**	**56.602**
Income from fees and commissions	25.925	11.862	514	38.301
Expenses from fees and commissions	(7.856)	(1.029)	(304)	(9.189)
Net income/(expenses) from fees and commissions	**18.069**	**10.833**	**210**	**29.112**
Impairments and provisions	(4.842)	(5.276)	544	(9.574)
Other gains and (losses) from financial assets	-	-	8	8
Net gains/(losses) from derivative financial instruments	-	-	5.617	5.617
Gains and (losses) from long-term non-financial assets	-	-	(44)	(44)
Income from dividends	-	-	6	6
Other income	2.274	539	-	2.813
Personnel expenses	(18.546)	(5.832)	(618)	(24.996)
Depreciation costs	(4.510)	(720)	(69)	(5.299)
Other costs and expenses	(18.356)	(5.237)	(1.348)	(24.941)
PROFIT/(LOSS) FROM REGULAR BUSINESS BEFORE TAX	**13.163**	**15.582**	**559**	**29.304**
Current income tax				(3.386)
Deferred income tax				160
TOTAL TAX FOR THE YEAR				**(3.226)**
NET PROFIT FOR THE YEAR				**26.078**

7. OPERATING SEGMENTS (continued)

Segmental information for the year ended 31st December 2022

	Retail	Corporate	Treasury	Total
ASSETS				
Cash and cash equivalents	28.858	-	595.209	**624.067**
Financial assets at fair value through profit and loss	-	-	161	**161**
Financial assets at fair value through other comprehensive income	-	-	103.131	**103.131**
Financial assets at amortized cost	**684.712**	**905.096**	**206.175**	**1.795.983**
Reserves with Central Bank	-	-	*203.062*	*203.062*
Loans and receivables from customers	*678.958*	*904.258*	-	*1.583.216*
Other financial assets at amortized cost	*5.754*	*838*	*3.113*	*9.705*
Other unallocated amounts	-	-	-	**34.599**
TOTAL ASSETS	**713.570**	**905.096**	**904.676**	**2.557.941**
LIABILITIES				
Financial liabilities valued at amortized cost	**776.731**	**1.094.188**	**346.354**	**2.217.273**
Deposits from banks and other financial institutions	-	*58.578*	*149.179*	*207.757*
Deposits from customers	*760.799*	*1.010.927*	-	*1.771.726*
Liabilities for loans and other borrowings	-	-	*196.637*	*196.637*
Obligations based on leases	*3.968*	*7.565*	-	*11.533*
Other financial obligations valued at amortized cost	*11.964*	*17.118*	*538*	*29.620*
Other unallocated amounts	-	-	-	*6.539*
TOTAL LIABILITIES	**776.731**	**1.094.188**	**346.354**	**2.223.812**

7. OPERATING SEGMENTS (continued)

Segment information for the year ended 31st December 2021

	Retail	Corporate	Treasury	Total
PROFIT AND LOSS				
Income from interest and similar income at the effective interest rate	46.543	23.084	739	71.196
Interest expenses and similar expenses at the effective interest rate	(4.782)	(2.227)	(3.002)	(10.011)
Net income/(expenses) from interest and similar income at the effective interest rate	**41.761**	**21.687**	**(2.263)**	**61.185**
Income from fees and commissions	24.362	9.636	467	34.465
Expenses from fees and commissions	(6.571)	(881)	(500)	(7.952)
Net income/(expenses) from fees and commissions	**17.791**	**8.755**	**33**	**26.513**
Impairments and provisions	(4.878)	(2.242)	683	(6.437)
Other gains and (losses) from financial assets	-	-	(3)	(3)
Net gains/(losses) from derivative financial instruments	-	-	2.501	2.501
Gains and (losses) from long-term non-financial assets	212	-	-	212
Income from dividends	-	-	15	15
Other income	2.260	678	-	2.947
Personnel expenses	(16.695)	(5.637)	(563)	(22.895)
Depreciation costs	(4.869)	(737)	(93)	(5.699)
Other costs and expenses	(17.281)	(5.440)	(1.307)	(24.028)
PROFIT/(LOSS) FROM REGULAR BUSINESS BEFORE TAX	18.301	**17.073**	**(1.063)**	**34.311**
Current income tax				(3.756)
Deferred income tax				137
TOTAL TAX FOR THE YEAR				**(3.619)**
NET PROFIT FOR THE YEAR				**30.692**

7. OPERATING SEGMENTS (continued)

Segment information as of 31st December 2021

	Retail	Corporate	Treasury	Total
ASSETS				
Cash and cash equivalents	32.206	-	540.664	**572.870**
Financial assets at fair value through profit and loss	-	-	295	**295**
Financial assets at fair value through other comprehensive income	-	-	78.723	**78.723**
Financial assets at amortized cost	**672.288**	**925.047**	**203.854**	**1.801.189**
Reserves with Central Bank	-	-	*196.884*	*196.884*
Loans and receivables from customers	*669.070*	*924.305*	*6.105*	*1.599.480*
Other financial assets at amortized cost	*3.218*	*742*	*865*	*4.825*
Other unallocated amounts	-	-	-	**32.593**
TOTAL ASSETS	**704.494**	**925.047**	**823.536**	**2.485.670**
LIABILITIES				
Financial liabilities valued at amortized cost	**761.913**	**989.700**	**391.443**	**2.143.056**
Deposits from banks and other financial institutions	-	*69.245*	*140.591*	*209.836*
Deposits from customers	*745.931*	*893.699*	-	*1.639.630*
Liabilities for loans and other borrowings	-	-	*250.338*	*250.338*
Obligations based on leases	*3.597*	*7.120*	-	*10.717*
Other financial obligations valued at amortized cost	*12.385*	*19.636*	*514*	*32.535*
Other unallocated amounts	-	-	-	*7.159*
TOTAL LIABILITIES	**761.913**	**989.700**	**391.443**	**2.150.215**

8. INTEREST AND SIMILAR INCOME AT THE EFFECTIVE INTEREST RATE

	2022	2021
Interest income from financial assets at amortized costs		
Retail clients	40.231	43.834
Corporate clients	25.703	26.536
Banks and other financial institutions	266	35
Interest on amortized cost assets	26	141
Interest income from financial assets at FVOCI		
Interest from securities	128	650
	66.354	**71.196**

9. INTEREST AND SIMILAR EXPENSE AT THE EFFECTIVE INTEREST RATE

	2022	2021
Interest expense from financial assets at amortized costs		
Retail clients	3.176	4.168
Corporate clients	1.042	1.747
Banks and other financial institutions	2.222	1.611
Negativna kamata na kamatonosnu imovinu	3.142	2.373
Negative interest on interest bearing assets	145	112
Other	25	-
	9.752	**10.011**

10. FEE AND COMMISSION INCOME

	2022	2021
Credit card business	11.014	9.811
Domestic payment transactions	7.175	7.029
Account service fee	6.097	4.927
Foreign payment transactions	4.817	3.997
Guarantees	2.331	2.216
Loans to clients	2.414	2.272
FX transactions	1.972	1.610
Agency services	65	68

10. FEE AND COMMISSION INCOME (continued)

Other	2.416	2.535
	———	———
	38.301	**34.465**
	═══	═══

Other fee and commission income include ATM and mobile banking fees from retail customers.

11. FEE AND COMMISSION EXPENSE

	2022	2021
Credit card operations	7.112	5.837
Banks services	1.052	891
Domestic payment transactions	394	338
Other	631	886
	———	———
	9.189	**7.952**
	═══	═══

12. IMPAIRMENT AND PROVISIONS

	2022	2021
Net credit losses/(releases) from financial assets at amortized cost (Note 22, 25.1, 25.2, 25.3, 25.4)	(9.613)	(6.437)
Net provisions from financial assets at fair value through other comprehensive income (Note 24)	615	751
Net provisions for off-balance-sheet credit risk (Note 34)	(377)	(40)
Neto rezerve za pravne sporove (bilješka 34)	(199)	(711)
	———	———
	(9.574)	**(6.437)**
	═══	═══
Net credit losses/ (net write-offs from financial assets at amortized cost		
for cash and cash equivalents (Note 22)	(2)	(81)
for reserves with the Central bank (Note 25.1)	(6)	(6)
for reserves with placements with banks (Note 22)	(56)	-
for debt instruments at amortized costs (Note 25.3)	98	273
for Loans to customers (Note 25.2)	(9.482)	(6.645)
for Loans to customers (Note 25.2)	(165)	22
	———	———
	(9.613)	**(6.437)**
	═══	═══

13. OTHER GAIN/ (LOSSES) FROM FINANCIAL ASSETS

	2022	2021
Net gains/(losses) on financial instruments at fair value through profit or loss – Equity shares	15	(3)
Net gains/losses on financial instruments at FVOCI - bonds	(7)	-
	8	**(3)**

14. NET POSITIVE/(NEGATIVE) EXCHANGE RATE DIFFERENCE

	2022	2021
Net gains from foreign exchange spot trading	(1.671)	(1.931)
Operations with exchange and currency conversion	7.288	4.432
	5.617	**2.501**

15. GAIN /(LOSSES) FROM LONG-TERM NON-FINANCIAL ASSETS

	2022	2021
Net gain/(losses) from tangible assets	(47)	(9)
Net gain/(losses) from repossessed Assets held for sale	3	221
	(44)	**212**

16. INCOME FROM DIVIDENDS

	2022	2021
Income from dividends	6	15
	6	**15**

17. OTHER INCOME

	2022	2021
Collections of off balance accrued interest	2.003	2.118
Other income from collections related to loans previously written off	333	279
Other income from previous periods	190	302
Other income	287	248
	2.813	**2.947**

18. PERSONNEL EXPENSES

	2022	2021
Net salaries	15.788	14.510
Tax and contributions	8.607	7.758
Other expenses	503	430
Provisions for liabilities and charges (Note 34)	98	197
	24.996	**22.895**

19. OTHER COST AND EXPENSES

	2022	2021
Maintenance expenses	4.626	4.927
Savings deposit insurance	3.443	3.304
Telecommunication and post expense	3.173	3.043
Card intermediation expenses	2.783	2.679
Security and transport costs	2.549	2.298
Rent and other rent-related expense	1.638	1.611
Consultancy and the Federal Banking Agency expenses	1.609	1.564
Consultancy expenses	933	1.013
Energy	777	714
Representation and marketing expense	773	693
Material expenses	663	467
Other insurance charges	503	483
Other expenses	1.471	1.232
	24.941	**24.028**

20. INCOME TAXES

	2022	2021
Current tax	3.386	3.756
Deferred tax (Note 33)	(160)	(137)
Total income tax	**3.226**	**3.619**

Income tax recognised in the profit or loss statement comprises current tax. Official corporate income tax rate is 10% (2021: 10%).

	2022	2021
Profit before income tax	29.304	34.311
Tax calculated at rate of 10%	2.930	3.431
Non-deductible expenses	456	325
Deferred tax (Note 33)	(160)	(137)
Income tax expense	**3.226**	**3.619**
Average income tax rate	**11,01%**	**10,55%**

21. BASIC AND DILUTED EARNINGS PER SHARE

	2022	2021
Net profit (BAM '000)	26.078	30.692
Weighted average number of ordinary shares outstanding	447.760	447.760
Basic and diluted earnings per share (BAM)	**58,24**	**68,55**

22. CASH AND CASH EQUIVALENTS

	31 December 2022	31 December 2021
Current account with the Central Bank	452.272	485.599
Current accounts with other banks	87.912	55.609
Placements with other banks	55.629	2
Cash in hand in domestic currency	22.963	27.142
Cash in hand in foreign currency	5.895	5.064
	624.671	**573.416**
Less: impairment allowance	(604)	(546)
	624.067	**572.870**
Balance as at 1 January	**546**	**465**
Net charge to profit or loss statement (Note 12)	58	81
Balance at the end of period	**604**	**546**

Placement with bank:	Original currency	Original currency	BAM
INTESA SANPAOLO SPA	EUR	20.002	39.121
ERSTE GROUP BANK AG	USD	9.002	16.508
TOTAL			**55.629**

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	31 December 2022	31 December 2021
Equity shares designated at fair value through profit or loss	161	295
	161	**295**

Equity shares designated at fair value through profit or loss as of December 31st, 2022, relate to shares in Intesa Sanpaolo S.p.A, amounting to BAM 161 thousand. On the other hand, equity shares designated at fair value through profit or loss as of December 31st, 2021, relate to shares in Privredna banka d.d. Zagreb, amounting to 295 thousand BAM.

24. FINANCIAL ASSETS AT FER VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2022	31 December 2021
Debt instruments		
Treasury bills issued by Croatia	14.543	15.214
Treasury bills issued by Belgium	19.534	-
Treasury bills issued by Spain	19.408	-
Treasury bills issued by France	9.659	-
Treasury bills issued by Federation of Bosnia and Herzegovina	-	19.996
Bonds issued by the Croatia	39.834	43.376
	102.978	78.586
Equity instruments		
Equity securities at fair value	153	137
	153	137
	103.131	**78.723**

Changes in Fair Value and corresponding allowance for ECL for Financial Assets at fair value through other comprehensive income (Stage 1) is as follows:

	31 December 2022	31 December 2021
Beginning balance 1 January	**(106)**	**1.551**
Fair valuation effects (Note Changes in Equity)	(2.127)	(906)
Allowance for expected credit losses (Note 12)	(615)	(751)
Total changes for the year	(2.742)	(1.657)
Balance as of 31 December	**(2.848)**	**(106)**

25. FINANCIAL ASSETS AT AMORTIZED COST

	31 December 2022	31 December 2021
Reserves with Central bank	**203.062**	**196.884**
Loans and receivables from customer	1.583.216	1.593.375
Debt instruments at amortized cost	-	6.105
Other financial assets at amortized cost	9.705	4.825
	1.795.983	**1.801.189**

25.1 RESERVES WITH CENTRAL BANK

	31 December 2022	31 December 2021
Obligatory reserve	203.265	197.081
	203.265	**197.081**
Less: impairment allowance	(203)	(197)
	203.062	**196.884**
Balance as at 1 January	**197**	**191**
Net charge to profit or loss statement (Note 12)	6	6
Balance at the end of period	**203**	**197**

The minimum obligatory reserve is calculated as a percentage of the average balance of total deposits and borrowed funds for each business day during the 10 calendar days, in arrears. The obligatory reserve rate is 10% at deposits and borrowed funds regardless of the currency in which the funds are denominated.

The interest rate (negative) on minimum reserve requirements is 0.5% in 2022. for funds held in local currency, and 0.6% for funds held in foreign currencies (0.5% for all currencies in 2021). Cash held as an obligatory reserve in the account with the CBBH is not available for use without the special approval of the CBBH and the Banking Agency of the Federation of Bosnia and Herzegovina (FBA).

25. FINANCIAL ASSETS AT AMORTIZED COST(continued)

25.2 LOANS AND RECEIVABLES FROM CUSTOMER

	31 December 2022	31 December 2021
Short-term loans		
Corporate		
- in BAM and BAM linked to foreign currency	**318.459**	**313.164**
- in foreign currency	236	14.920
Retail		
- in BAM and BAM linked to foreign currency	61.898	68.244
	380.593	**396.328**
Long-term loans		
Corporate		
- in BAM and BAM linked to foreign currency	610.564	617.282
Retail		
-in BAM and BAM linked to foreign currency	672.119	655.373
	1.282.683	**1.272.655**
Total loans	**1.663.276**	**1.668.983**
Less: impairment allowance	(80.060)	(75.608)
	1.583.216	**1.593.375**

Loans and receivables from customers are presented including accrued interest in the amount of BAM 5,447 thousand (2021: BAM 5,964 thousand), and net of up-front fees in the amount of BAM 8,752 thousand (2021: BAM 11,146 thousand).

As of 31 December 2022, the net amount of short-term and long-term loans in domestic currency includes loans disbursed and repayable in domestic currency index-linked to the BAM: EUR exchange rate in the amount of BAM 24,776 thousand and BAM 681,950 thousand, respectively (31 December 2021: BAM 38,010 thousand and BAM 779,893 thousand, respectively).

25. FINANCIAL ASSETS AT AMORTIZED COST(continued)

25.2 LOANS AND RECEIVABLES FROM CUSTOMER (continued)

Movements in the provision for impairment of loans and receivables are summarised as follows:

	2022	2021
Balance as of 1 January	**75.608**	**71.624**
Net charge to profit or loss statement (Note 12)	9.482	6.645
Unwinding of discount	(404)	(405)
Write-offs	(4.621)	(2.253)
Sales and other transfers	(5)	(3)
Balance as of 31 December	**80.060**	**75.608**

Concentration of credit risk by industry:

Economic sector risk concentration in the gross amount of loans and receivables is as follows:

	31 December 2022	31 December 2021
Trade	315.085	304.563
Manufacturing, agriculture, forestry, mining and energy	279.681	294.852
Services, finance, sport, tourism	81.916	99.578
Construction industry	71.783	67.078
Administrative and other public institutions	92.244	59.773
Transport and telecommunications	62.809	59.253
Other	25.741	60.269
Citizens	734.017	723.617
	1.663.276	**1.668.983**

25. FINANCIAL ASSETS AT AMORTIZED COST (continued)

25.3 LOANS AND RECEIVABLE - DEBT INSTRUMENTS

	31 December 2022	31 December 2021
Debt instrument		
Bonds issued by the Canton Sarajevo	-	6.203
Less: impairment allowance	-	(98)
	-	6.105
Balance as at 1 January	**98**	**371**
Net charge to profit or loss statement (Note 12)	(98)	(273)
Balance at the end of period	-	98

25.4 OTHER FINANCIAL ASSETS AT AMORTIZED COST

	31 December 2022	31 December 2021
Receivables from card operations	5.095	2.583
Fees receivable	1.372	1.242
Other assets	4.156	1.789
Total other financial assets at amortized cost	**10.623**	**5.614**
Less: impairment allowance	(918)	(789)
	9.705	**4.825**

The movement in the impairment allowance for other assets are summarised as follows:

Balance as of 1 January	**789**	**811**
Net charge to profit or loss statement (Note 12)	165	(22)
Write-offs and sale of property	(36)	-
Balance as of 31 December	**918**	**789**

26. DERIVATIVISE FINANCIAL INSTRUMENTS

Financial assets	31 December 2022	31 December 2021
Derivatives held for trading	-	10
	-	**10**

Derivatives held for trading are represented by foreign currency swaps, details of which are presented in the table below:

	31 December 2022	31 December 2022	31 December 2021	31 December 2021
Financial assets	**Notional amount**	**Fair value**	**Notional amount**	**Fair value**
Derivatives classified as held for trading – OTC products	-	-		
Forward foreign exchange contracts	-	-	**1.410**	**10**

27. TANGIBLE ASSETS

	Land and buildings	Computers and other equipment	Assets under construction	Leasehold improvements	Buildings Right of Use	Equipment Right of Use	Total
Cost							
As of 1st January 2021	**12.576**	**20.035**	**920**	**8.309**	**15.610**	**339**	**57.789**
Additions	-	-	893	-	2.146	158	3.197
Disposals	-	(895)	-	-	(1.868)	(104)	(2.867)
Transfers	27	1.151	(1.692)	514	-	-	-
As of 31st December 2021	**12.603**	**20.291**	**121**	**8.823**	**15.888**	**393**	**58.119**
Additions	-	-	1.728	-	1.847	2.407	5.982
Disposals	-	(5.628)	-	(322)	(1.698)	(364)	(8.012)
Transfers	8	1.520	(1.748)	220	-	-	-
As of 31st December 2022	**12.611**	**16.183**	**101**	**8.721**	**16.037**	**2.436**	**56.089**
Accumulated depreciation							
As of 1st January 2021	**3.772**	**16.545**	-	**7.923**	**3.725**	**108**	**32.073**
Depreciation for the year	376	1.161	-	278	2.307	109	4.231
Disposals	-	(840)	-	-	(683)	(101)	(1.624)

27. TANGIBLE ASSETS (continued)

As of 31st December 2021	**4.148**	**16.866**	-	**8.201**	**5.349**	**116**	**34.680**
Depreciation for the year	377	1.031	-	191	2.325	332	4.256
Disposals	-	(5.571)	-	(322)	(1.054)	(155)	(7.102)
As of 31st December 2022	**4.525**	**12.326**	-	**8.070**	**6.620**	**293**	**31.834**
Net carrying value							
As of 31st December 2022	**8.086**	**3.857**	**101**	**651**	**9.417**	**2.143**	**24.255**
As of 31st December 2021	**8.455**	**3.425**	**121**	**622**	**10.539**	**277**	**23.439**

Gross value of Property and Equipment that is in use and 100% depreciated at the end of 2022 amounts to BAM 9,550 thousand (31.12.2021: BAM 13,910 thousand).

Lease Liabilities	**31 December 2022**	**31 December 2021**
Liabilities based on Asset with Right of Use – IFRS 16		
- Obligation for renting office space	9.444	10.467
- Obligation for renting other equipment	2.089	250
Total Liabilities - IFRS 16	**11.533**	**10.717**

Maturity analysis - Contractual undiscounted cash flows, of Lease Liabilities are presented as follows:

	Buildings	**Equipment**	**Total**
Less than one year	2.137	100	2.237
Between one and five years	6.612	150	6.762
More than five years	1.718	-	1.718
As of 31st December 2021	**10.467**	**250**	**10.717**
Less than one year	2.190	384	2.574
Between one and five years	6.340	1.282	7.622
More than five years	914	423	1.337
As of 31st December 2022	**9.444**	**2.089**	**11.533**

28. INTANGIBLE ASSETS

	Software and licence	Assets under development	Total
Cost			
As of 1st January 2021	**16.402**	**570**	**16.972**
Additions	-	290	290
Transfers	860	(860)	-
As of 31st December 2021	**17.262**	-	**17.262**
Additions	16	2.199	2.215
Transfers	1.773	(1.773)	-
Disposals	(9)	-	(9)
As of 31st December 2022	**19.042**	**426**	**19.468**
Amortization			
As of 1st January 2021	**13.305**	-	**13.305**
Amortization for the year	1.468	-	1.468
As of 31st December 2021	**14.773**	-	**14.773**
Amortization for the year	1.043	-	**1.043**
Disposals	(9)		(9)
As of 31st December 2022	**15.807**	-	**15.807**
Net carrying value			
As of 31st December 2022	**3.235**	**426**	**3.661**
As of 31st December 2021	**2.489**	-	**2.489**

Value of Intangible Assets that is in use and 100% depreciated at the end of 2022 is in the amount of BAM 13,580 thousand (31.12.2021: BAM 10,305 thousand).

29. LONG TERM ASSETS FOR SALE

	31 December 2022	31 December 2021
Assets held for sale - property	1.030	1.030
Assets acquired upon foreclosure of loans	28	29
Total assets	**1.058**	**1.059**
Less: impairment allowance	(1.053)	(1.059)
Net carrying value	5	-

30. OTHER ASSETS AND RECEIVABLES

	31 December 2022	31 December 2021
Prepaid expenses	1.785	2.512
Other non-financial assets	11	-
	1.796	**2.512**

31. FINANCIAL LIABILITIES VALUED AT AMORTIZED COST

	31 December 2022	31 December 2022
Due to banks and other financial institutions	207.757	209.836
Due to customers	1.771.726	1.639.630
Borrowings	196.637	250.338
Lease liabilities	11.533	10.717
Other financial liabilities at amortized cost	29.620	32.535
	2.217.273	**2.143.056**

31. FINANCIAL LIABILITIES VALUED AT AMORTIZED COST(continued)

31.1 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2022	31 December 2021
Due to banks		
Current accounts and term deposits		
Demand deposits		
- in BAM	831	3.573
- in foreign currencies	8.562	17.629
Term deposits		
- in BAM	9.510	12.500
- in foreign currencies	130.292	109.526
	149.195	**143.228**

Due to other financial institutions		
Current accounts and term deposits		
Demand deposits		
- in BAM	7.784	20.073
- in foreign currencies	249	460
Term deposits		
- in BAM	48.962	44.510
- in foreign currencies	1.567	1.565
	58.562	**66.608**
Total Due to Banks and other financial institutions	**207.757**	**209.836**

Due to banks presented above include accrued interest in the amount of BAM 239 thousand (31.12.2021: BAM 0 thousand).

Due to other financial institutions are presented including accrued interest in the amount of BAM 114 thousand (31.12.2021: BAM 35 thousand).

31. FINANCIAL LIABILITIES VALUED AT AMORTIZED COST(continued)

31.2 DUE TO CUSTOMERS

	31 December 2022	31 December 2021
Demand deposits:		
Retail clients:		
- in BAM	347.530	291.540
- in foreign currencies	120.467	102.909
Corporate clients:		
- in BAM	753.698	686.453
- in foreign currencies	118.071	117.736
Total demand deposits	**1.339.766**	**1.198.638**
Term deposits:		
Retail clients:		
- in BAM	106.044	120.093
- in foreign currencies	186.758	231.389
Corporate clients:		
- in BAM	110.170	71.092
- in foreign currencies	28.988	18.418
Total term deposits	**431.960**	**440.992**
Total Due to customers	**1.771.726**	**1.639.630**

Amounts due to customers are presented including accrued interest in the amount of BAM 4,030 thousand (2021: BAM 4,673 thousand).

In Retail banking, interest rates on demand deposits are 0.01% (2021: 0.05%). The interest rates on time deposits are in the range of 0.01% to 0.30% (2021: 0.01% to 0.30%) and for other time deposits (kids saving CRISPY, Step saving, saving with premium) up to 1%.

For Small Corporate clients, interest rates on demand deposits range from 0.00% to 0.25% (2021: from 0.00% to 0.25%). The interest rates on time deposits are in the range of 0.00% to 1.70% (2021: 0.00% to 2.30%).

In Corporate banking, interest rates on demand deposits are from 0.00% to 0.10% (2021: from 0.00% to 0.35%). The interest rates on time deposits are in the range of 0.00% to 2.58% (2021: 0.00% to 2.58%).

31. FINANCIAL LIABILITIES VALUED AT AMORTIZED COST(continued)

31.3 BORROWINGS

	31 December 2022	31 December 2021
Long-term borrowings		
- Foreign banks	196.637	243.667
- Other financial institutions	-	6.671
Total Borrowings	**196.637**	**250.338**

	31 December 2022	Average interest rate	31 December 2021	Average interest rate
The Bank had borrowings from below institutions:				
Borrowings to banks				
European Investment bank_EIB	135.240	0,95%	151.178	0,73%
European bank for Reconstruction and Development_EBRD	61.198	0,97%	92.330	0,75%
	196.438		**243.508**	
Borrowings to Other financial institutions				
European Fund for SouthEast Europe_EFSE	-	-	6.628	2,45%

Borrowings from banks presented above include accrued interest in the amount of BAM 199 thousand (2021: BAM 159 thousand). Borrowings from other financial institutions are presented including accrued interest in the amount of BAM 0 thousand (31.12.2021: BAM 43 thousand).

As of December 31st, 2022, undrawn borrowings amount to a total of BAM 56,719 thousand, and relate to Social Impact Loan from EIB, amounting to BAM 39,117 thousand, that can be withdrawn until February 24th, 2024, Go Digital Loan from EBRD, amounting to BAM 15,646 thousand, that can be withdrawn until December 14th, 2024, and GEFF Loan from EBRD, amounting to BAM 1,956 thousand, that can be withdrawn until December 21st, 2023.

As of December 31st, 2021, undrawn borrowing amount to a total of 16,638 thousand BAM, and relate to GEFF Loan from EBRD, amounting to BAM 3,912 thousand, that can be withdrawn until December 21st, 2023, as well as Loan from EIB, amounting to BAM 12,726 thousand, that can be withdrawn until April 28th, 2023.

31. FINANCIAL LIABILITIES VALUED AT AMORTIZED COST(continued)

31.4 LEASE LIABILITIES

	31 December 2022	31 December 2021
Lease liabilities – Buildings	9.444	10.467
Lease liabilities - Equipment	2.089	250
	11.533	**10.717**

31.5 OTHER FINANCIAL LIABILITIES AT AMORTIZED COST

	31 December 2022	31 December 2021
Loan repayments before due dates	9.953	10.533
Liabilities to shareholders	197	8.194
Credit card liabilities	5.445	3.072
Liabilities for employees’ bonuses	3.600	2.718
Liabilities to vendors	2.734	1.943
Other liabilities	7.691	6.075
	29.620	**32.535**

32. DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2022	31 December 2021
Derivatives held for trading	-	7
	———	———
	-	**7**
	═══	═══

Derivatives held for trading are represented by foreign currency swaps, of which are presented in the table below:

	31 December 2022	31 December 2022	31 December 2021	31 December 2021
Financial liabilities	**Notional amount**	**Fair value**	**Notional amount**	**Fair value**
Derivatives classified as held for trading – OTC products				
Forward foreign exchange contracts	-	-	1.400	7
	═══	═══	═══	═══

33. DEFFERED TAX ASSETS / LIABILITIES

The movement of deferred tax balances is presented in the table below:

	Deferred tax liabilities	Deferred tax assets
As of 1st January 2021	68	327
Recognised in other comprehensive income	═══	═══
Recognised in profit or loss		
Decrease in deferred tax assets for provisions for litigations	-	46
Decrease in deferred tax assets for other provisions	-	78
Increase in deferred tax assets for other provisions	(14)	-
	———	———
Stanje 31. decembar 2021.	**54**	**451**
	═══	═══
As of 1st January 2022	**54**	**451**
Recognised in profit or loss	═══	═══
Decrease in deferred tax assets for provisions for litigations	-	(118)
Increase in deferred tax assets for other provisions	-	283
Increase in deferred tax liabilities for other provisions	6	-
	———	———
As of 31st December 2022	**60**	**616**
	═══	═══

34. PROVISIONS

	31 December 2022	31 December 2021
Provisions for off-balance-sheet credit risk (Note 38)	2.681	2.304
Provisions for legal proceedings (Note 12)	1.955	**3.185**
Provisions for retirement employee benefits (Note 18)	876	836
	5.512	**6.325**

Movement in provisions for liabilities and charges for the year ended 31 December 2022 and 31 December 2021 are summarized as follows:

	Provisions for legal proceedings (Note 12)	Provisions for retirement employee benefits (Note 18)	Provisions for off-balance-sheet credit risk (Note 38)	Total
Balance as of 1st January 2021	**2.655**	**670**	**2.264**	**5.589**
Net charge to profit or loss statement	711	197	40	948
Reductions arising from payments	(181)	(31)	-	(212)
Balance as of 31st December 2021	**3.185**	**836**	**2.304**	**6.325**
Balance as of 1st January 2022	**3.185**	**836**	**2.304**	**6.325**
Net charge to profit or loss statement	199	98	377	674
Reductions arising from payments	(1.429)	(58)	-	(1.487)
Balance as of 31st December 2022	**1.955**	**876**	**2.681**	**5.512**

The calculation of provisions for retirement benefits of BAM 647 thousand as of 31st December 2022 (31st December 2021: BAM 614 thousand) is performed by an independent actuary, applying a discount rate of 5% over the working life and average salary of each employee.

Provisions for unused days of vacation of BAM 229 thousand as of 31st December 2022 (31st December 2022: BAM 222 thousand) are calculated for every employee, taking as a basis his/her salary and unused days of vacation.

35. OTHER LIABILITIES

	31 December 2022	31 December 2021
Accrued income	659	637
Liabilities in respect of managed funds (Note 40)	23	23
Other liabilities	285	113
	967	**773**

36. SHARE CAPITAL

	31 December 2022 and 31 December 2021		
	Class ES Ordinary shares	**Class EP Preference shares**	**Total**
Number of shares	447.760	60	447.760
Pair value (BAM)	100	100	100
Total	**44.776**	**6**	**44.776**

Each registered ordinary share carries the right of one vote per share, while preference shares are non-voting.

Preference shareholders are entitled to receive dividends when declared, non-cumulatively, with priority rights over the ordinary shareholders in receipt of dividends.

The shareholding structure of the Bank as of 31st December 2022 is as follows:

Privredna banka Zagreb d.d.	99,99%
Other	0,01%

The shareholding structure of the Bank as of 31st December 2021 was as follows:

Privredna banka Zagreb d.d.	99,99%
Other	0,01%

37. SHARE-BASED PAYMENTS

In 2020, the Bank purchased 2,137 equity shares of Privredna banka d.d. Zagreb. During 2020, part of the shares has been transferred to the beneficiary (774). As of 31st December, the Bank had 1,363 equity shares of Privredna banka d.d. Zagreb in its portfolio of financial assets at Fair Value through Profit and Loss (with fair value measured based on equity shares quotation on the Zagreb Stock Exchange). During 2022, the remaining part of shares were sold to Privredna banka d.d. Zagreb.

In 2022, the Bank purchased 39,634 equity shares of Intesa Sanpaolo bank, which are held in portfolio of financial assets at Fair Value through Profit and Loss (with fair value measured based on equity shares quotation on the Borsa Italiana Stock Exchange).

In 2022, there were no transfer of shares. The residual shares will be assigned to beneficiaries when vesting conditions are met.

38. FINANCIAL COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, the Bank enters into credit related commitments which are recorded off-balance-sheet and primarily include guarantees, letters of credit and undrawn loan commitments.

	31 December 2022	31 December 2021
Contingent liabilities		
Performance guarantees	106.269	91.199
Payment guarantees	51.134	49.606
Letters of credit	5.399	4.928
Total contingent liabilities	**162.802**	**145.733**
Commitments		
Undrawn lending commitments	380.820	383.002
Total commitments	**380.820**	**383.002**
Total contingent liabilities and commitments	**543.622**	**528.735**

The following table shows reconciliation from the opening to the closing balance of the loss allowance by class of financial instruments for Contingent liabilities and Commitments.

	2022				2021			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance as of 1st January 2021	**1.339**	**394**	**571**	**2.304**	**1.482**	**437**	**345**	**2.264**
First time adoption of FBA Impairments	-	-	-	-	-	-	-	-
Transfers to Stage 1	275	(258)	(17)	-	209	(199)	(10)	-
Transfers to Stage 2	(39)	72	(33)	-	(38)	111	(73)	-

38. FINANCIAL COMMITMENTS AND CONTINGENCIES (continued)

	2022				2021			
Transfers to Stage 3	(17)	(33)	50	-	(10)	(73)	83	-
Net remeasurement of loss allowance	2.841	524	216	3.581	1.534	548	413	2.495
New financial assets originated or purchased	(437)	340	235	138	(538)	217	211	(110)
Financial assets that have been derecognized	(2.133)	(518)	(691)	(3.342)	(1.300)	(647)	(398)	(2.345)
Total effect through Profit and Loss (Note 12)	**271**	**346**	**(240)**	**377**	**(304)**	**118**	**226**	**40**
Other movements	-	-	-	-	-	-	-	-
Balance as of 31st December 2022	**1.829**	**521**	**331**	**2.681**	**1.339**	**394**	**571**	**2.304**

39. RELATED-PARTY TRANSACTIONS

The Bank is a member of the Intesa Sanpaolo S.p.A Group ("Intesa Sanpaolo Group"). The key shareholder of the Bank is Privredna banka Zagreb d.d. with 99.99% of the Bank's shares (2021: Privredna banka Zagreb d.d. with 99.99% of the Bank's shares) and the ultimate parent company is Intesa Sanpaolo S.p.A. The Bank considers that it has an immediate related-party relationship with its key shareholders and their subsidiaries; its associates; Supervisory Board members and Management Board members and other executive management ("key management personnel"); and close family members of key management personnel.

Related party transactions are part of the Bank's regular operations.

The overview of related party transactions as of 31st December 2022 and as of 31st December 2021 is presented below:

	31 December 2022	31 December 2021
Assets		
Receivables from key management personnel and their close family members	190	215
Bank accounts and loans – Intesa Sanpaolo Group	99.259	20.594
Loans and receivables from customers	-	14.684
Financial assets at fair value through profit or loss – Intesa Sanpaolo Group	161	2
Other receivables – Intesa Sanpaolo Group	3.101	832
	102.711	**36.327**

39. RELATED-PARTY TRANSACTIONS (continued)

Liabilities		
Deposits – key management personnel and their close family members	1.193	1.089
Borrowings and term deposits – Intesa Sanpaolo Group	127.545	108.088
Financial liabilities at fair value through profit or loss – Intesa Sanpaolo Group	-	7
Other liabilities – Intesa Sanpaolo Group	671	477
	129.409	**109.661**
Financial commitments and contingencies		
Financial Guarantees	1.573	1.700
Undrawn lending commitments – key management personnel and close family members	89	116
	1.662	**1.816**

	2022	2021
Income		
Interest income – key management personnel and close family members	8	10
Interest income – Intesa Sanpaolo Group	175	87
Other Income – Intesa Sanpaolo Group	212	220
	395	**317**

Expenses		
Interest expense – key management personnel and close family members	1	3
Interest expense – Intesa Sanpaolo Group	440	207
Other expenses – Intesa Sanpaolo Group	3.187	3.200
	3.628	**3.410**

39. RELATED-PARTY TRANSACTIONS(continued)

The remuneration of key management personnel was as follows:

	2022	2021
Net salaries for key management personnel	1.437	1.293
Taxes and contributions on net salaries	1.125	980
Payments based on shares	427	419
Bonuses to management and employees	710	710
Other management benefits	526	335
	4.226	**3.738**

40. MANAGED FUNDS

The Bank manages assets on behalf of third parties. These assets are recorded separately from the Bank's assets.

	31 December 2022	31 December 2021
Liabilities		
Banks and insurance companies	23.200	24.195
Government organisations	7.682	7.715
Associations and Agencies	255	797
Total	**31.137**	**32.707**
Assets		
Loans to companies	30.930	32.510
Loans to citizens	184	174
Total	**31.114**	**32.684**
Amounts due to original creditors – managed funds (Note 35)	**23**	**23**

41. EVENTS AFTER THE REPORTING DATE

As of 31st December 2022, until date of the financial statements, there were no events that could significantly influence the financial statement for 2022 or were of significant importance for the Bank's operations to require disclosure within the financial statements' notes for 2022.

REPORT ON OPERATIONS

as of December 31, 2022

Index

MACROECONOMIC ENVIRONMENT AND BANKING SECTOR

External environment

After a significant increase in real GDP was recorded in the first half of 2022 due to strong growth in consumption and exports of goods and services, real economic activity in the EU and the euro area slowed down in the third and fourth quarter. Inflationary pressures remained strong throughout the year, with headline inflation finally easing over the fourth quarter reflecting decreased energy prices, but core inflation remaining stubbornly high, negatively affecting households' consumption. Preliminary flash estimate indicates both the European Union and the euro area avoided recession in the last quarter of 2022 and accordingly FY22 GDP increased by 3.5% in the euro area and by 3.6% in the EU.

In the euro area, inflation fell more than expected in December (to 9.2% y/y from 10.1% in November and 10.6% October peak) wrapping up annual average inflation at 8.4% as the end-year decrease was attributable to the energy component, which was also affected by the entry into force of one-off refunds on gas bills for households and small and medium-sized enterprises in Germany. However, year ended with core inflation of 5.2% indicating prolonged inflationary pressures, which was confirmed later on by preliminary January 2023 estimate indicating further ease in headline (to 8.5%) but persistently high core inflation (unchanged at 5.2%).

Many central banks have been tightening their monetary policies in 2022 to contain inflationary pressures and expectations. With the aim of lowering inflation close to 2% level, the ECB increased the key interest rates in 2022 by 2.5 p. p. cumulatively. The increase in the ECB's key interest rates was reflected in yield growth on the secondary market of government bonds of EU countries. In February 2023, the ECB raised the rates by additional 50bps to 2.50% (DFR), 3.00% (MRO) and 3.25% (MLR). The FED cumulatively raised the fed funds rate by 4 p.p. in 2022to a range from 4.25% to 4.50%. In February 2023, FED raised the rate by additional 25bps (to 4.50-4.75%). FED and ECB are expected to continue in tightening monetary policies throughout 2023 but a slower pace. Expectations of the leading central banks are that global inflationary pressures will gradually decrease, also as result of the tightening of monetary policies.

The change in the ECB's reference interest rates affected the growth of the price of money on the interbank market and by the end of December 3M Euribor increased to 2.1%, which resulted with the rise in borrowing costs for households and companies in the euro area.

Macroeconomic environment

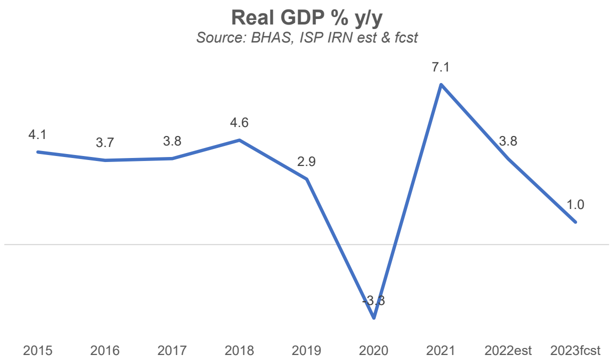
Economic activity

The continuation of the strong growth of economic activity in the EU over the first half of the year had a positive effect on the trend of domestic economic activity. After +4.7% growth of GDP in first quarter, according to the latest available official data, a significant growth of real economic activity of 5.5% was recorded in the second quarter, compared to the same quarter of the previous year. On annual basis, the sectors of activity which recorded the most pronounced growth over the first half of the year were retail & wholesale trade/hospitality/ transportation (+12%), followed by ICT (+11.5%) and manufacturing (+7.5%), while on the other hand, the biggest drop in economic activity was recorded in agriculture (-1.4%) and construction (-1.1%). According to the expenditure approach, the most significant contribution to the growth of real GDP came from Export of goods and services, Households consumption and Investments. A significant increase in the import of goods and services had a negative effect on the current account balance and overall economic activity. Latest available data for third quarter confirmed expected slowdown in economic activity to +2.6% reflecting tangible slowdown in Households consumption (to 2.9% y/y from 4.1% in 1H) and Investments (to 12.5% from 24% in 1H22).

Further slowdown in economic activity is expected also in the last quarter, as indicated by high frequency data mainly industrial production and exports. Nevertheless, FY22 growth will still be strong in the area of 3.8%, leaving economy at the level around 8.1% higher compared to pre-pandemic 2019.

MACROECONOMIC ENVIRONMENT AND BANKING SECTOR (continued)

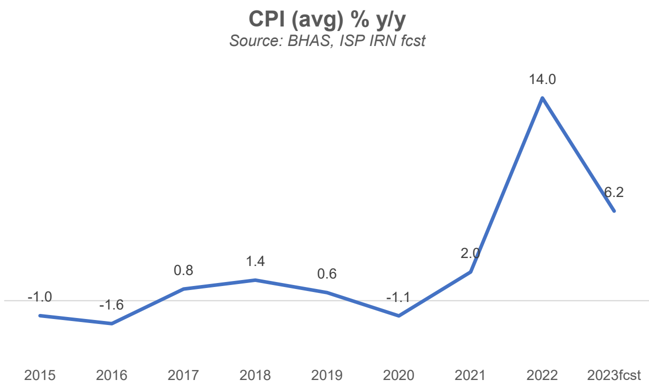
Macroeconomic environment (continued)



After a strong growth in industrial production was recorded in the previous year and at the beginning of the current year (March-May +7 to 8%), second half of the year brought slowdown in activity and overall annual growth in 2022 amounted to 1.7% y/y reflecting mainly negative trends in electricity supply (-5.6%) and mining/quarrying (-3.7%), as manufacturing grew by 4.4% y/y.

Inflation

Strong inflation pressure marked the 2022 in Bosnia and Herzegovina. The growth of inflation was largely contributed by the strong rise in the prices of energy, food and production materials on international markets caused by the war in Ukraine. Increase in prices in the country was much faster than in the euro zone, due to the strong pressures in certain economic sectors, primarily the food and non-alcoholic beverages, transportation, and utility costs. After +2% average increase in 2021, consumer prices continued to grow in 2022, reaching the average annual level of 14%.



Wages and employment

Labour market indicators indicated the continuation of the improving trend, where an increase in employment rate of 2.2% on annual base and a record low number of unemployed persons was recorded on average over the first eleven months (Source: BHSA).

There are already visible signs of a spiral between nominal wages and inflation, due to the increasing trade unions pressure and a fall in the citizens' already low standard of living. However, average nominal wage (+12.3% up to November) did not completely follow the inflation growth, so in the real terms average net wage declined by around 1.4% on annual basis.

MACROECONOMIC ENVIRONMENT AND BANKING SECTOR (continued)

Macroeconomic environment (continued)

Public debt

Public debt of Bosnia and Herzegovina (as of September 2022) reached 13bln BAM or 29.59% of GDP, increasing by 1.3% compared to beginning of the year, while share in GDP reduced by 262bps. Public debt is owned by 75% by external counterparties and 25 % by internal entities (Source: BHSA).

In 2022 Ministry of Finance of Federation of Bosnia and Herzegovina issued bonds of total nominal value of 130mln BAM with maturity 2 to 10 years and T-Bills of total value 50mln BAM with maturity of 9 months. It is worth mentioning that the only T-bill auction was held in June 2022, while all other auctions were cancelled.

Foreign Trade

In 2022, very high growth rates of foreign trade values compared to the same period of the previous year were recorded mainly resulting from the growth of commodity prices in the international market. The value of export in period January - December amount to BAM 17.9 billion, representing an increase of 25.9%, while, in the same period, import amount to BAM 28.6 billion growing by 32.6%. deepening the trade deficit, which increased by 45.5% to BAM 10.7 billion (Source: BHSA).

Banking sector

As of December 2022, the banking system of Bosnia and Herzegovina is composed by 22 commercial banks, very close to regional average of SEE markets, out of which 14 operate in Federation of Bosnia and Herzegovina (F BiH) and 8 in Republika Srpska (RS). Four banks have head quarter in both entities: Addiko Bank, NLB Bank, UniCredit Bank and Sberbank. In Q1 2022 Sberbank in resolution procedure was acquired by ASA Banka. The banking sector displays high concentration, with the five largest lenders holding a market share around 60%, a considerable level which does not make easier further consolidation.

Banking sector is over-liquid and banks` reserves held at Central Bank of Bosnia and Herzegovina (CBBH) reached historical peak in September 2022 (7.0bln BAM). As of December 2022, total average reserves held at CBBH was 6.7bln BAM of which 3.6bln BAM is related to funds above Mandatory Reserve.

Loans to private sector recorded an increase of 1.0 bln BAM (+5.3%) yoy.

Loans to households increased by 0.5 bln BAM or 5.2% yoy. The leading role in credit growth is still on the consumer loans, which contributed with 0.3 bln BAM (almost two thirds of the growth), in contrast to the period of the pandemic when these loans were in decline.

Loans to corporate sector were 0.5 bln BAM or 5.3% higher yoy. The modest growth of loans to companies, compared to other countries in the region, indicates low investment activity of BH corporate sector.

As of December 2022 private sector deposits recorded growth of 0.7 bln BAM (3.2%) yoy, solely as a result of growth of corporate deposits.

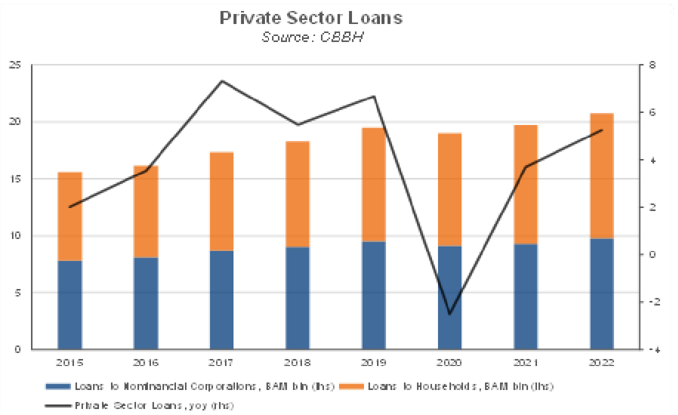
Households deposits decreased by 0.8% (0.1 bln BAM) yoy. The cause of the annual decline in households deposits is the intensive withdrawal of deposits in February and March caused by the uncertainties related the war in Ukraine and the resolution of Sberbank Group. These events affected the sharpest the time deposits, which sank 13.5% yoy amid high uncertainty.

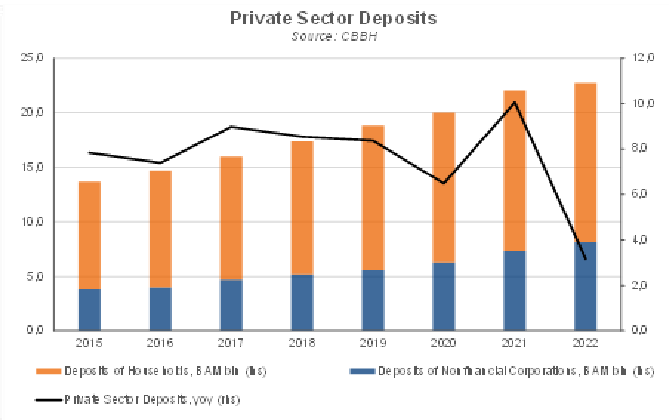
Deposits from companies increased by 0.8 bln BAM (11.2%) yoy. The high growth rates of deposits of non-financial companies is linked to the conservative approach in investment policy of the company and postponement of expenditure for investments.

MACROECONOMIC ENVIRONMENT AND BANKING SECTOR (continued)

Macroeconomic environment (continued)

Banking sector (continued)





Starting from July, the CBBH begun to align its reserve requirement policy to the trends of the reference rates of the European Central Bank (ECB), with the aim of mitigating the impact on the operations of banks in Bosnia and Herzegovina. On 29 July 2022, the CBBH made a decision regarding the fee on banks` placements: a fee of minus 10 bps is calculated on Mandatory Reserve with the base in foreign currencies / domestic currency with a currency clause and a fee of minus 25 bps is calculated on excess required reserves.

On 6 December 2022, the CBBH made another decision with effective date 1 January 2023, where a fee of 10 bps is calculated on Mandatory Reserve with the base in foreign currencies / domestic currency with a currency clause, a fee of 25 bps is calculated on Mandatory Reserve with the base in domestic currency, while CBBH calculates a zero fee on excess required reserves.

Considering the further increases in key interest rates of the ECB, when formulating the reserve requirement policy, the CBBH will continue to take into account all relevant factors, including trends in key macroeconomic and financial sector indicators.

The growth of inflation and interest rates in the euro area, stimulated by ECB hikes influenced the growth of interest rates in BH banking sector in the second half of the year. The interest rate on new household other loans (mostly consumer) rose in July-November by some 20bps vs. 1H22 average on BAM loans, but slid 10bps on other indexed loans, while the average interest rate on housing loans grew by 40-60bps. The average interest rate on newly granted loans to corporates increased across the board, from 20-60bps, depending on the currency and size of the loan. The interest rate on newly agreed household deposits is on the rise and the rates of newly agreed deposits of corporates as well, but to a lesser extent.

Expectations for 2023

The projected growth rate of real GDP for 2023 is very low +1%, but a recession in the medium term is not expected. Inflation (average) is forecasted at 6.2% in 2023.

	Unit	2022 Forecasts	2023 Forecasts	2024 Forecasts
Real GDP y/y	%	3,8	1,0	2,6
Nominal GDP	loc curr bn	47,1	50,6	52,9
GDP per head	Euro	6964,6	7456,8	7783,0
Unemployment rate (avg)	%	30,3	30,5	29,8
Wages y7y (avg)	%	11,9	5,2	3,8
CPI y/y (avg)	%	14,0	6,2	1,9
CPI y/y (eop)	%	14,8	3,2	1,4

*Intesa Sanpaolo International Research Network (December 2022). CPI 2022 actual data provided by BHAS

MACROECONOMIC ENVIRONMENT AND BANKING SECTOR (continued)

Macroeconomic environment (continued)

Banking sector (continued)

Banking sector projection forecasts growth in lending activities and deposit collection in framework of positive macroeconomic scenario, with stable growth of GDP around 1%, decreasing unemployment rate and reducing inflation, after inflation blaze in 2022.

Lending activities towards households and non-financial corporations are projected to grow in 2023, but with lower growth rates for both households and non-financial corporations.

Deposit growth will decelerate in 2023, as household recover, whereas deposits of non-financial corporations lose steam.

BANK`S STRATEGY AND PLANNED DEVELOPMENT

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

Strategic objectives for 2022-2025 are directed towards improving market position, and revenues growth capturing new business opportunities, while maintaining credit portfolio quality and cost discipline by simpifying business process and increasing efficiency.

The main strategic initiatives are presented hereinafter:

Growth of lending business

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

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

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

Development of fee-based business

Retail strategy will be focus on two main drivers: Bancassurance, with introduction of new products for Individuals (Stand-alone Travel, Health other type of insurance and Stand-alone Life insurance) in partnership with primary insurance companies active on the domestic market; enlargement of product catalogue with launch of new exclusive product packages for VIP and Affluent segment (Visa Platinum and new features of mobile banking) and Small Business (SMS banking and insurance).

In Corporate and SME sector, Global Transaction Banking will be the key pillar for boosting fee-based business, focusing on trade finance, international payments and international cross-border factoring with focus on Balkans. strengthening collaboration with Intesa Sanpaolo Group.

In all segment, commission growth will be supported by CRM more extensive use to increase cross-selling and for uncovered market niches and sub-segments or previously neglected client groups.

Improvement of distribution strategy

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

BANK`S STRATEGY AND PLANNED DEVELOPMENT (continued)

Improvement of distribution strategy (continued)

The new distribution will encompass relevant turnaround for implementation:

- Footprint optimization. Branches closure and renovations with 3 new formats (Full, Cashlight and Cashless). Number of branches will be gradually reduced by closing small and inefficient branches in low-potential areas, merging or moving branches in new location, and selective openings in area with high attractiveness (net reduction of ca 10% of network).
- Network roles. Setup of new commercial roles and resources re-skilling for conversion of tellers into RM's.
- ATM network. Investments and deployment of new MTAs to enable teller's conversion though migration of transactions to electronic channels.

Modernization and Innovation

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

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

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

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

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

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

Strengthen credit machine

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

- New Loan origination workflow and internal credit rating for Retail Individual customers
- E-collection enhancements
- Collateral management improvement

ESG

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

BUSINESS DESCRIPTION

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

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

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

Intesa Sanpaolo Banka BiH services approximately 150.000 customers in the country, using a well-dispersed network of 45 branches and modern digital banking channels. The Bank employs 549 employees as of 31st December 2022.

As of December 2022, the Bank has a market share of 7.1% by Total Assets. Business operations are mainly concentrated in the Federation of Bosnia and Herzegovina (95 percent of Total Assets), where the Bank ranks 3rd in total assets with market shares of 9.3 % in Total Assets based on FBA data as of September 2022.

RETAIL DIVISION

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

Retail Division covers the entire territory of Bosnia and Herzegovina, with a network of 5 regional centers and 45 branches, that represents 5,8% of the total number of branches in Bosnia and Herzegovina banking sector. Federation of Bosnia and Herzegovina is covered with 39 branches, Republika Srpska with 5 and Brčko District with 1 branch.

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

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

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

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

RETAIL DIVISION (continued)

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

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

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

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

Business in 2022

During 2022, Retail Division mission was to continuously use available resources, through expanding and improving the offer, price and quality of services for clients, while maintaining the highest level of services, in order to improve overall business.

In the Individuals segment, at the beginning of 2022, the impact of the pandemic of the viral disease COVID19 significantly influenced credit activity. Loans portfolio from March 2022 stabilized and started continuous growth until December 2022 increasing by 1.2% YOY. Portfolio growth was mostly achieved focusing on secured loans (housing and mortgage), with development and introduction of new ESG products, in accordance with the Group’s strategy and with continuous implementation of commercial and CRM campaigns.

In the course of 2022, the optimization of the business network was reflected in selective closing/opening of branches, in accordance with new formats (Full, Cash light and Cashless). Two branches were closed and one branch was relocated in accordance with the Group’s new standard (Cash light). There was an increase in the sales force, with the introduction of new commercial roles in the network. In 2023, adoption of new service model will continue. Number of branches will be gradually reduced by closing small and inefficient branches in low potential area, merging or moving branches in new locations and selective opening in areas with higher attractiveness.

In the card business, 2022 was marked working on different new services: introduction of installment transactions on every POS in the country and abroad and introduction of PIN preview for debit and credit cards in mobile application. There are several ongoing projects, such as: ATM installments (enabling customers to withdraw cash on installment), delivering PIN via SMS, Google pay etc. whose launch is planned in 2023. Strong focus on Visa Platinum debit card throughout the whole 2022 year, boosting sales via different marketing campaign. Ongoing project is to enrich premium Platinum card with new functionalities, such as Visa concierge service.

In 2022 strong focus was on insurance products, where Bank increased number of insurance policies by 3% and increased Bank’s revenues by 18% YoY. During 2022, Retail introduced new insurance product named “Health insurance” bundled in Package Prestige for premium customers and started working on several new products, most notably Duo Safe and Key Man protection for SB segment, whose launch is planned in 2023. Very important project and innovation for BH market is possibility of contracting insurance policies via mobile banking, where Intesa Sanpaolo Banka will be a pioneer in 2023.

During the whole 2022, the Bank continued developments in the area of digital channels, such as: introduction of Google Pay functionality in mobile banking, push notifications, contracting insurance policies via mobile banking, introduction of SMS banking for SB segment. Further improvement will continue in 2023.

RETAIL DIVISION (continued)

Business in 2022 (continued)

ATM network, as of 31st December 2022, has total of 103 ATMs, out of which number of Cash In ATMs was 14 and total number of Cash Out ATMs was 89. Average age of ATMs is 2 years. During 2022, there were two main ongoing projects: implementation of contactless functionalities and ATM installment transactions, both to be launched in first half of 2023. Optimization model of ATM network will continue in 2023, with significant investments and the introduction of new MTAs, in order to enable the transformation of cash transactions to alternative/electronic channels.

In the Small Business segment, credit activity was affected by the persistence of negative impact of the COVID-19 pandemic in the first quarter and the appearance of inflation and market movements caused by the war in Ukraine in the second part of the year. After expected drop of loan portfolio at the beginning of the year, loan portfolio stabilized and thanks to good performance and large volume of new production in last two months of the year, credit portfolio of legal persons belonging to the segment of small legal entities increased by 11% compared to 31st December 2021.

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

CORPORATE & SME DIVISION

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

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

Thanks to the whole array of services offered to legal entities and its presence in both entities and the Brčko District, Intesa Sanpaolo Banka BiH is one of the leading banks in the BiH market and is recognized for it's ability to provide integrated financial solutions designed to satisfy the individual requirements of the Bank's clients.

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

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

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

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

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

CORPORATE & SME DIVISION (continued)

Business in 2022

Loan portfolio at the end of 2022 is almost at the same level as at the end of 2021, noting an insignificant increase.

In the credit area, during 2022, the Bank conducted following activities:

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

For the year 2023, the Bank expects further development in ESG and D-Loan products and utilization of EBRD Go-Digital and EIB Social Impact credit lines.

In 2022, the Corporate segment overachieved the plan in fee-based business due to cross border payment transactions, current accounts and in the card acceptance segment. Increase in fee income is expected also in 2023, considering the following activities:

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

TREASURY AND ASSETS AND LIABILIBILIES MANAGEMENT

The Treasury and ALM Department is responsible for managing the liquidity of the bank, the interest rate risk and the FX risks and the Bank`s securities portfolio. It carries out all the necessary (cash and derivative) transactions in the monetary and financial markets and with the Central Bank. It provides execution services in the relevant financial markets for customers.

The Treasury and ALM Department is organized in the following organizational units: ALM Office and Treasury and Customer Execution Office. The ALM Office manages the balance sheet structure in order to secure necessary level of liquidity and minimize exposure to interest risk of the Bank`s portfolio and is responsible for the long-term funding of the Bank. It also manages the Fund Transfer Pricing system (FTP) and support Business Units in the pricing of related products. Treasury and Customer Execution Office manages the liquidity in all currencies and mandatory reserves requirements. It participates in the money market (cash and derivatives) and in the FX markets with spot, forward and derivative transactions for managing FX position and to execute transactions for products requested by customers.

Business in 2022

Treasury and Customer execution Department recorded 3.1 mln BAM increase YoY in foreign exchange trading income, which reached 5.6 mln BAM at the year end.

The performance was driven by marked growth of foreign exchange transactions with corporate clients, thanks also to the acquisition of new clients from ex-Sberbank and with Individuals, due to full revival of tourism in 2022.

TREASURY AND ASSETS AND LIABILIBILIES MANAGEMENT (continued)

Business in 2022 (continued)

The activities on securities was mostly on Eurobonds issued by EU governments, as most of the auctions in local markets were cancelled. Total Bonds portfolio ended at 103.3 mln BAM.

The Department continued its activities with Supranational Entities in order to secure credit lines in the ESG framework: EBRD D Loans for SME in amount of 8 mln EUR and EIB Social Impact Loans for SME and Midcap in amount of 20 mln EUR. Moreover, the Department worked on EBRD Risk Sharing Framework, which is in the finalization phase and on EIF Guarantee Facility for SME which is in negotiations.

RESEARCH AND DEVELOPMENT ACTIVITIES

During 2022, the Bank`s development activities in the Retail Division were directed to expand the offer and improve customer satisfaction for Individuals and Small Business segments, with the aim of better positioning of the Bank in the market, through the introduction of new products for sustainable financing and insurance, the enhancement of the offer of debit card functionalities and new services in payments area.

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

- New Retail loan origination and internal rating implemented during 2022;
- Introduction of new ESG credit products in accordance with the Group's strategy;
- Continuous focus on insurance products, in cooperation with leading insurance companies on B&H market;
- New services in the field of transaction banking, which enable installment transactions on POS/ATM devices;
- Introduction of innovative services/products, such as the Google Pay service;
- Increase in usage of direct distribution channels.

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

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

During 2022, the Bank`s development activities in the Corporate and SME Division were directed to expand the offer of transaction banking services, improvement of ESG products, development of new services in payments and acquiring business.

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

- New IT solution for payments of public revenues only from the main account implemented at the end of year 2022;
- Cash-in ATMs availability for legal entities project is on-going;
- Focus on multinational companies with the support of Group;

Further improvements of ESG credit products in accordance with Group's strategy:

RESEARCH AND DEVELOPMENT ACTIVITIES (continued)

- Development of Merchant Portal for Acquiring clients ended in 2022;
- Further penetration of e-commerce following market trends;
- Soft POS project planned to start in the year 2023;
- Introduce import/export factoring/international confirming - the first cross-country product of the Group planned for the year 2023;
- Implementation of DNT to improve cash management figures planned for the year 2023;
- Implementation of Group Trade Finance and Vassal Tracking project planned for the year 2023.

FINANCIAL OVERVIEW AND BUSINESS PERFORMANCE

In 2022 the Bank recorded a Net Profit of 26.1 mln BAM and is lower by 4.6 mln BAM or -15% compared to previous year. The reduction in profit is the result of significant increase of loans loss provision, higher operating costs (mostly on personnel expenses) and increased operating Income (especially in the component of net commission and trading income).

Net interest income ended at 56.6 mln BAM and reduced by 4.6mln BAM or -7.5% YOY. Net Interest income account for 60% total operating income. Reduction in Net interest income is mainly due to lower interest income on performing loans (-4.4 mln BAM) and increase of costs for reserves at Central Bank (+0.6 mln BAM), Average rate of loans portfolio reduced, due to the excessive liquidity in the market and aggressive pricing competition pushing downwards market rates. Cost of reserves at Central Bank increased due to higher volumes and the introduction in 2021 of negative fee on Mandatory Reserve in foreign currencies and on reserves above Mandatory Reserve.

Net Commission amounted to 29.1 mln BAM and recorded 2.6 mln BAM growth or +9.8%% compared to 2021. The contribution of Net Commission on Operating Income is 31%. Increase of Net Commissions was achieved through higher income from current accounts, foreign currency trading, payments and insurance business (higher CPI). Cards business recorded significant growth of revenues, which is mainly driven by higher revenues from POS, but the performance has been influenced by new Interchange Fee from card schemes due to harmonization with Regulation.

Trading significantly increased by 3.1mln BAM YoY and reached 5.6 mln BAM, driven by growth of Corporate business (the Bank acquired clients of ex-Sberbank) and revival of tourism on Retail.

Operating income amounted to 94.1 mln BAM and increased by 0.7mln BAM or +0.8% compared to previous year, as growth of commissions and trading income more than offset the drop of the Net Interest Income.

Operating costs reached 55.2 mln BAM and are 2.6mln BAM or +5% higher YoY. The overall increase is due to higher Personnel costs, in both fixed and variable components. The bank implemented salary increases to align with labour market conditions and inflation support measures for employees.

Despite a challenging economic environment, characterized by increasing inflationary pressures, administrative costs increased only by 3.8%, thanks to effective cost management and were compensated by lower depreciation costs.

Total Net provisions amounted to 9.6 mln BAM and increased significantly by 3.1 mln BAM compared to previous year, mainly due to higher net adjustments to loans to face the impact of worsening of macro-economic scenario in 2023 (high inflation and high interest rates) on customers` debt service capacity.

Cost of risk increased by 20bps YOY to 0.55% in December 2022.

The Bank`s balance sheet increased by 2.9% YOY, reaching the level of 2.558 mln BAM, mainly due to increase of cash and reserves at Central Bank (+57 mln BAM), as result of continued inflows of deposits from Corporate customers. Excess liquidity was placed at CBBH, as loans portfolio remained substantially unchanged.

Loans to customers (net) amounted to 1,583 mln BAM, slightly belowlevel of previous year (-1%). This result is due to the good performance of Retail segment growing by 9.9 mln BAM, which partly offset the

RESEARCH AND DEVELOPMENT ACTIVITIES (continued)

underperformance of Corporate segment, which ended 2022 with a decrease of -20 mln BAM.

On Corporate segment, the continuous growth of SME counterbalanced the decrease of Large Corporate, still affected by low appetite for new investments or postponement of capital expenditure.

The growth in Retail segment was contributed by Individuals, backed by housing and mortgages, while general purpose loan recorded a decline.

Cash and cash equivalents at 624.1 mln BAM increased by 51.2 mln BAM YOY, mainly due to higher reserves placed at Central Bank.

Bonds portfolio ended at 103.1mln BAM and is formed by Croatian bonds and EU Bonds, as in 2022 the Bank didn't purchase securities in the local market, due to the cancellation of most of auctions by Minister of Finance of Federation of Bosnia and Herzegovina.

Customers deposits increased by 132.1mln BAM or +8.1% YOY and amounted to 1.771.8 mln BAM, mainly driven by deposits from legal entities, which recorded a growth of 117mln BAM (demand deposit increase of 67 mln BAM, term deposits increase of 50 mln BAM)

Deposits of Retail increased by 15 mln BAM YOY, mainly in Current Account/sight Deposits and with marked reduction of 55.6 mln BAM of Term deposits, as clients have still very low appetite for long maturities, as consequence of very low rates offered in the market.

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

The Bank's capital (excluding net profit of the year) amounts to 308 mln BAM, increased by 3.3 mln BAM compared to previous year. Capital adequacy according to local methodology is at 19.72%, far above total minimum requirements of 15.5%.

PURCHASE OF OWN SHARES, SHARES AND CHANGES IN EQUITY

In the period 2022, the Bank did not repurchase its own shares or stakes. Shares with voting rights as of January 31, 2021 are owned by Privredna Banka Zagreb d.d. with a percentage of 99.99% (2020. 99.99%).

SEGMENT ANALYSIS

As part of its regular activity, the Bank's Management Board analyzes the results of operations and contribution of core segments. Business with Individuals, Legal entities and Financial Institutions are business lines that are identified as important business segments. The financial products managed by each of them and the relevant counterparties with which each segment enters into business relations are specific to each part and are not managed by or tied to another segment.

Key performance and profitability indicators by segments:

in mln BM	**2022**		
Balance sheet	**Retail**	**Corporate**	**Treasury**
Loans to customers	679,0	904,3	0,0
Bonds and T-Bills	0,0	0,0	103,1
Deposits from customers	760,8	1.011,0	0,0
Deposits from Banks and other FI	0,0	58,5	345,8

Corporate segment contributes with 57% in total loans (-67bps yoy) and 57% in customer deposits (+255bps yoy), while Retail contributes by 43% in loans and deposits.

RESEARCH AND DEVELOPMENT ACTIVITIES (continued)

SEGMENT ANALYSIS (continued)

in min BM	2022		
Profit and loss	**Retail**	**Corporate**	**Treasury**
Operating Income	59,4	32,6	2,1
Operating Expenses	41,4	11,8	2,0
Impairment losses and provisions	-4,8	-5,3	0,5
Profit before TAX	**13,2**	**15,6**	**0,6**

Retail segment produces 75% of operating expenses and contributes to operating income by 63%. Corporate segment produces 21% of operating expenses and contributes by 35% in operating income of the Bank.

All business segments recorded positive results in 2022. Corporate improved operating income by 5% (mainly driven by strong growth of net commissions) increasing its share in total operating income by 135bps and Treasury reached positive results of 0.6mln BAM (in 2021 loss was recorded), mainly due to strong growth of FX trading income (more than doubled in 2022). Retail recorded lower operating income by 2.6mln BAM, mainly due to decrease of interest income (lower interest rate), which is partly compensated by savings in interest expenses on deposits (1mln BAM).

RISK MANAGEMENT SYSTEM

RISK MANAGEMENT POLICIES

The Bank is, due to the activities it performs, exposed to various types of risk: credit risk, liquidity risk, market risk, operational risk and interest rate risk.

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

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

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

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

Credit risk management objectives and policies

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

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

RISK MANAGEMENT SYSTEM (continued)

RISK MANAGEMENT POLICIES (continued)

Credit risk management objectives and policies (continued)

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

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

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

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

- Risk Management Department;
- Credit Department;
- Credit Management Department;
- Credit Portfolio Analysis and Administration Department;
- Internal Audit Department;
- Legal Department;
- Function of contracting placements that is organized in several organizational units.

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

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

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

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

- review of general guidelines and limits for credit portfolio management arising from the analysis of the environment and Risk Management Strategies. The Policy supplements and further elaborates

RISK MANAGEMENT SYSTEM (continued)

RISK MANAGEMENT POLICIES (continued)

Credit risk management objectives and policies (continued)

and defines them;

- review of the rules and guidelines for respective business areas (retail and corporate business) and segments of clients that concretize credit risk taking and its management at the operational level.

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

Operational risk management objectives and policies

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

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

Operational risk management levels are:

- Corporate bodies (Management and Supervisory Boards of the Bank) in charge of establishing operational risk management systems and in charge of monitoring and surveillance of operational risk exposure and adequacy of operational risk management;
- Decentralized level of organizational parts' managers, processes and projects in charge of identification, recording, assessment and monitoring of identified operational risks;
- Risk control function in charge of coordination and controlling the collected data on operational risk data, analysis of historical and expected future operational risk events and quantification of their effects, as well as reporting to the Management and Supervisory Bodies of the Bank and the Group;
- All employees in their respective areas of competence actively participate in operational risk management and in integrating operational risk management into the day-to-day operations of the PBZ Group.

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

- collection and analysis of internal loss data includes collection of data on events that occurred at the Bank;
- collection and analysis of external loss data includes the collection of data on events occurred in credit or financial institutions outside the PBZ Group and these events are related to the exposure of those institutions to operational risk and
- self-diagnosis process that includes scenario analysis and assessment of the business environment. Assessment of the business environment (VCO) implies the identification of operational criticality, and assessment of operational risk. The self-diagnosis process also includes an assessment of the risk of information and communication technology (ICT risk) and an assessment of risk/loss that may result from partial methods of measuring operational risks (projects, products, outsourcing, changes in business processes, etc.).

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

RISK MANAGEMENT SYSTEM (continued)

RISK MANAGEMENT POLICIES (continued)

Operational risk management objectives and policies (continued)

The Operational risk management policy defines the appetite for operational risk, monitoring of operational risk exposure and limit utilization, escalation procedures in case of exceeding the limit and guidance and ways of operational risk overcoming.

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

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

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

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

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

Market risk management objectives and policies

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

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

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

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

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

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

RISK MANAGEMENT SYSTEM (continued)

RISK MANAGEMENT POLICIES (continued)

Liquidity risk management objectives and policies

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

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

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

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

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

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

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

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

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

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

Interest rate risk management objectives and policies

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

RISK MANAGEMENT SYSTEM (continued)

RISK MANAGEMENT POLICIES (continued)

Interest rate risk management objectives and policies (continued)

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

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

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

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

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

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

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

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

Use of risk reduction techniques

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

Use of credit risk reduction techniques

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

Internal acts prescribe the methodology for calculating credit risk-weighted exposures for purpose of

RISK MANAGEMENT SYSTEM (continued)

RISK MANAGEMENT POLICIES (continued)

Use of risk reduction techniques (continued)

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

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

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

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

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

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

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

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

- Tangible credit collaterals and
- Intangible credit collaterals.

Basic types of tangible credit collaterals

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

Other tangible collateral

- Life insurance policy (the value of the policy is its redemption value determined by the insurance company that issued the insurance policy).

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

Intangible credit protection

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

(a) central government and central banks;

(b) regional government units and local authorities,

[1] *Currently the Bank does not use of Life Insurance Policies as CRM. When the technical conditions for their use are acquired, the Bank will start using them.*

RISK MANAGEMENT SYSTEM (continued)

RISK MANAGEMENT POLICIES (continued)

Use of risk reduction techniques (continued)

(c) multilateral development banks,

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

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

(f) institutions and

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

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

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

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

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

RISK MANAGEMENT STRATEGY

The Risk Management strategy is a document where the Bank, in accordance with business strategy establishes its risk appetite on an annual basis, basic strategic guidelines of the capital planning, risk management objectives and basic principles of the risk control, including the risks stemming from the macroeconomic environment where the Bank operates, and bearing in mind the status of the business cycle of the Bank.

Finally, having reflected to the 2022 fiscal year, we may conclude the following:

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

Exposure of the bank to the credit risk

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

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

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

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

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

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

[2] *Unlike the previous IFRS9 standard, where the model of incurred loss was used.*

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

RISK MANAGEMENT STRATEGY(continued)

Exposure of the bank to the credit risk (continued)

For the instruments classified as Stage 2 and Stage 3, where the credit risk of a financial instrument has significantly increased from the first recognition, the lifetime expected loss has been recognized. The lifetime expected loss covers the expected loss for the entire residual financial instrument maturity. The 12-month expected loss is calculated for the instrument classified as Stage 1.

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

Exposure of the bank market risk

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

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

Currency risk

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

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

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

Assumptions of the main model are:

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

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

Model can calculate value at risk on different levels of aggregation – from individual position to any sub-level of portfolio. Accordingly, model enables detailed analysis of risk profile of portfolio hierarchy on several

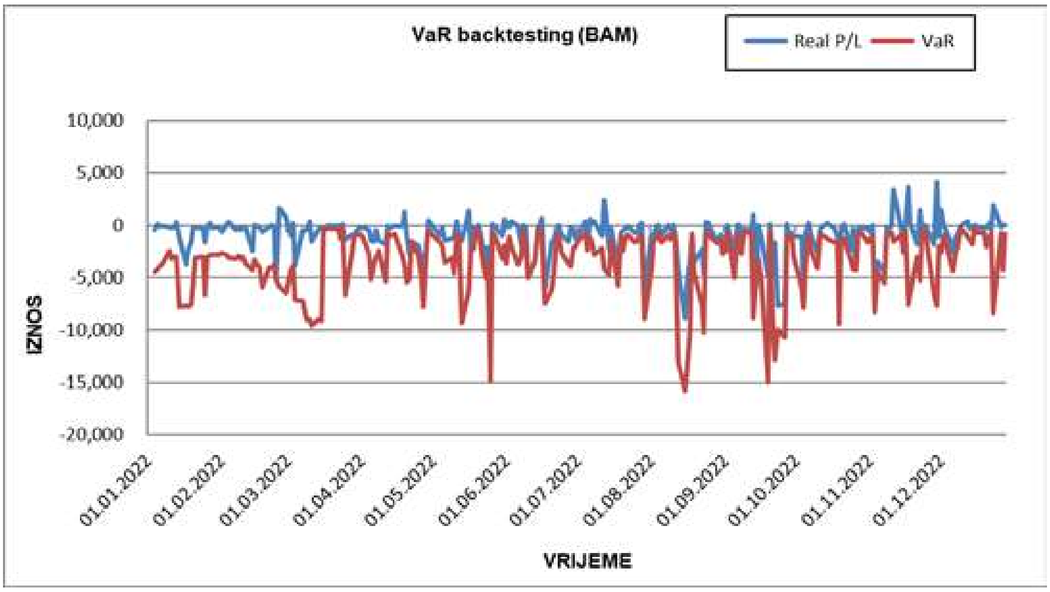
THE BANK'S EXPOSURE TO MARKET, CREDIT, LIQUIDITY RISK AND OTHER RISKS PRESENT IN THE LEGAL ENTITY'S OPERATIONS, RISK MANAGEMENT STRATEGY AND ASSESSMENT OF THEIR EFFICIENCY (continued)

RISK MANAGEMENT STRATEGY(continued)

Exposure of the bank market risk (continued)

levels and effects of diversity which come out. Furthermore, measuring of value at risk can be explained on the basis of risk sources (risk factors). These features of more detailed risk supervision enable determining of efficient structure of limits which can be compared over different organizational units.

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



During 2022, results of model testing have shown that the Bank recorded 6 exceptions in model testing (2021: there were 6 exceptions), when the loss was larger than daily VaR amount.

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

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

An overview of the balance sheet items and foreign exchange risk exposure can be found in Note 5.3.1 of the Bank's Financial Statements for 2022.

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

RISK MANAGEMENT STRATEGY(continued)

Exposure of the bank to liquidity risk

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

Liquidity risks are considered as:

- Risk of funding liquidity
- Risk of market liquidity

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

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

The Bank publishes the liquidity coverage ratio on the basis of the Instruction on manner of implementation of provisions of the Decision on liquidity risk management of the bank which refer to LCR components. As at 31.12.2022 the liquidity coverage ratio amounted to 204,04%.

C 76.00.a - Liquidity coverage - Calculations		Value/Percentage
		010
CALCULATIONS		
Numerator, denominator, ratio		
010	Liquidity buffer	584.107
020	Net liquidity outflow	286.273
030	Liquidity coverage ratio(%)	204.04%

Exposure to other risks

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

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

- **repricing risk**, which arises from incompliance of positions of assets and liabilities by the remaining time period until change of interest rate,

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

RISK MANAGEMENT STRATEGY(continued)

Exposure to other risks (continued)

- **yield curve risk** which arises from change of form and incline of yield curve;
- **base risk** which arises from instruments that have identical maturity, that are expressed in identical currency but that are based on different types of reference rates;
- **option risk** refers to options included in the property, liabilities and off-balance items.

For the purpose of measuring interest rate risk generated by the banking book on a monthly basis, volatility of economic value change is calculated (measures change of economic value of bank portfolio which arises from parallel shift of yield curve), volatility of change of net interest income (measures impact of interest rate shocks on net interest income), and Value at Risk- VaR which is used for the purpose of measuring FVOCI portfolio. Beside mentioned metrics, on the occasion of measuring interest rate risk in the banking book stress resilience tests are implemented on a monthly and quarterly basis (volatility of economic value change and net interest income in case of different scenarios of interest rate shift). In the framework of Risk appetite limits for volatility of net interest income are additionally defined on the level of bank in the scenario of parallel growth of interest rates by 50 bp and parallel decline of interest rates by -50 bp for all foreign currencies and volatility of economic value change in the scenario of parallel yield curve shift of 100 bp. Also, in accordance with regulations of the local regulator the Bank follows regulatory limit as well which refers to assessment of change of economic value of the banking book at interest rate shock of 200 bp.

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

Change of economic value – parallel shift of 200 bp as at 31 December 2022

(000 BAM;%)

FBA regulation	Change of banking book economic value	Regulatory capital	Limit	Utiliz.%
Change of banking book economic value toward liable capital +200bps	6,133	302,689	20%	2,03%

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

CORPORATE GOVERNANCE

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

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

The basic principles of corporate governance are:

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

Transparency of Business Operations

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

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

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

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

Bank's Bodies

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

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

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (continued)
CORPORATE GOVERNANCE (continued)
Bank's Bodies (continued)

General Shareholders Meeting

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

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

Supervisory Board

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

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

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

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

- ✓ Risk Committee;
- ✓ Nomination Committee and
- ✓ Remuneration Committee.

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

Management Board of the Bank

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

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

Key Functions

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (continued)

CORPORATE GOVERNANCE (continued)

Management Board of the Bank (continued)

Key Functions (continued)

The control functions that are established in the Bank are:

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

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

Conflict Interest Management

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

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

The mitigation of conflicts of interest is achieved through:

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

Internal Audit and Compliance

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

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

ENVIRONMENTAL

In 2022, Intesa Sanpaolo Banka Bosnia and Herzegovina dedicated special focus to Environmental, Social and Governance (ESG) topics. The integration of the ESG aspects in the business activities is becoming more and more important at Intesa Sanpaolo Group level. ESG strategy aims to achieveIntesa Sanpaolo's goals in being a responsible financial intermediary in the face of global challenges including mitigating climate change and reducing harmful environmental impact, empowering marginalized communities, informal sector inclusion, ensuring gender equity, and working towards more accountability through transparent reporting.

In its activities, the Bank adheres to the ESG principles, which has a positive impact on maintaining the ecological balance, contributes to the maintenance and development of conservation of natural resources and social climate in all its areas and manifestations. This requires improving the efficiency of the Bank's management system focused on the principles of sustainable development, taking into account all the requirements and rules of the management system in the Intesa Sanpaolo group, which in recent years is

ENVIRONMENTAL (continued)

actively working to implement ESG principles worldwide. An important decision was the introduction of an effective environmental management system in the Bank based on the principles of the green economy.

Benefits of adopting ESG standards in an organization include better decision making, increased awareness of environmental and social risks and increased compliance with regulations. Of particular importance, adopting ESG standards can result in a more sustainable organization and improved financial performance.

Recognizing the overall increasing importance of ESG risks as one of the key topics from several perspectives (regulatory, political, etc.), the Bank recognized the need to direct additional and special attention to the improvement of the inclusion of management of ESG risks in regular operations and especially in the process of strategic management and the appropriate transition expected in the medium/long-term time period.

Based on the identified needs, Intesa Sanpaolo Banka BIH accepted its role in environmental protection and social responsibility and accordingly adapted and expanded its product offering with green loans on Retail and Corporate sides and it is willing to expend this practice in the future following Parent Company guidelines.

EVENTS AFTER THE REPORTING PERIOD

There have been no significant events after the reporting period, which would require disclosures in the Notes to the Financial Statements of the Bank as of and for the year ended 31 December 2022.