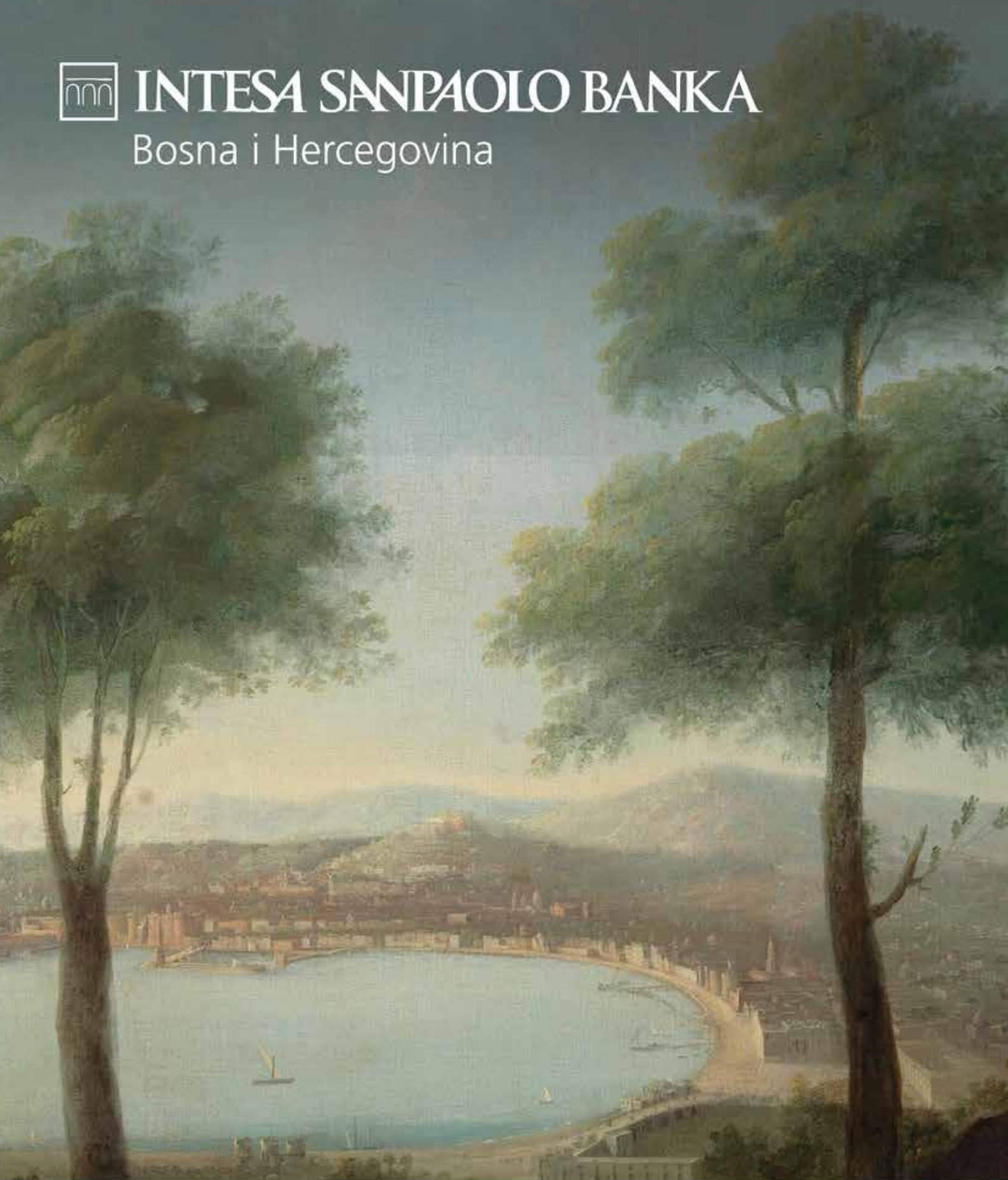




INTESA SANPAOLO BANKA

Bosna i Hercegovina



2024 Annual Report

Antonio Joli, View of the Gulf of Naples from the slopes of Vesuvius

This large painting by eighteenth-century painter and scenographer Antonio Joli forms part of the Intesa Sanpaolo art collections, and is permanently exhibited in the Gallerie d'Italia in Naples as part of the exhibition "From Caravaggio to Gemito", which also includes two other views of Naples by his predecessor Gaspar van Wittel.

Cover:



Antonio Joli
(Modena, 1700 around - Naples 1777)
*View of the Gulf of Naples from the slopes of
Vesuvius, 1765-1770 ca*
oil on canvas, 157 x 235.5 cm
Intesa Sanpaolo Collection
Gallerie d'Italia - Naples

The evocative depiction of the Gulf of Naples seen from the slopes of Vesuvius (one of the most significant examples of Joli's celebratory Vedutism) belongs to the artist's mature period post-1762. At that time, after frequent stays in Rome and Venice, he settled and worked in Naples, as a brilliant scenographer and view painter in the manner of Canaletto and Bellotto. From this later period of production, the painting in question reveals his most typical characteristics, including the choice to represent particular moments of court life, within wide and scenic views of the city of Naples. In this case, to animate the landscape, the result of Joli's careful and lucid observation of reality, there is a procession of dignitaries strolling in the garden of the Royal Villa of Portici, together with Viceroy Ferdinand IV of Bourbon as a Capuchin friar kneels in homage. In other paintings, Ferdinando's horseback ride in the Capodimonte park, the ball game at the Aragonese fortifications, or the return by carriage of Ferdinando and Maria Carolina along the Via di Foria in Naples, all offer the painter suitable subjects to orchestrate evocative views of Naples. This view of the city, also including the Campi Flegrei and Ischia, follows the drawing made by Joli himself for the decorative apparatus of the "Topographic Map" of Naples, proposed by Duke Giovanni Carafa from Noja in 1750 but not actually published until 1775. As frequently occurs with the artist, the perspectives of this view multiply, skillfully combining into a global, authentic, and complex image. The author's eye captures Naples in its entirety, encircling the city, with a visual layout that constitutes the true modernity of Joli's vedutism, as an artist supported by remarkable technical expertise and a highly suggestive pictorialism. The sequence of trees that punctuates the sky, in fact, opens up to an image not only described in detail, but also vibrant with light and colours, measured out in light tones and on the delicate chiaroscuro differences, created between the shaded foregrounds and illuminated background.



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LETTER FROM THE PRESIDENT OF THE SUPERVISORY BOARD

On behalf of the Supervisory Board of Intesa Sanpaolo Banka d.d. Bosnia and Herzegovina, I am honoured to present the business results of the Bank for the year 2024.

In Bosnia and Herzegovina, following 2,6% yoy growth in the third quarter of 2024 year, high frequency data indicates mixed trends in the closing quarter of the year. Specifically, after 3Q's 2,7% yoy growth, 4Q's real retail trade slowed to 1,3% yoy, while industrial production remained flat on an annual basis following over two years of continuous decline. Goods exports registered positive 3,6% yoy growth, and construction activity showed strengthening suggesting a positive investment contribution once 4Q GDP data is published. FY24 growth is estimated at 2,3% yoy, as severe floods that hit the central part of the country impacted the main railway connected to Port Ploče in Croatia, a crucial export route for metal and chemical exporters, forcing key exporters to seek alternative solutions thus negatively impacting exports. Outlook envisage return to average growth trajectory of around 2,7% in 2025 year. Hike in minimum wages accompanied by remittances and vivid lending activity will continue to support private consumption, while following two years of decline, exports and industrial production are expected to become more growth supportive. Risks are mostly balanced, related mainly to major trading partners' recovery.

In 2024 year, the value of export amount to BAM 16.08 billion, representing a decrease of 3,7%, while, in the same period, import amount to BAM 28.6 billion increasing by 3,2%. deepening the trade deficit to BAM 12.6 billion. Coverage of import by export value is at 56,1%

The year-to-date average inflation rate decreased significantly from 7,1% in the same period of 2023 year to 1,7% in 2024 year, which is also broadly estimated as the average for the full year 2024. Looking ahead, average inflation in 2025 year is anticipated to rise slightly to 1,8%, as clearer impacts from the so far muted effect of the electricity price hike in August begin to materialize. In addition to the expected effect of the electricity price increase, the effects that will be caused by the latest decisions related to the significant increase in the minimum wage in FBiH and RS are still unclear, but it is almost certain that there will be an increase in prices and a new wave of inflation in the country.

Public Debt of BiH (as of September 2024 year) reached to 13,0bln BAM or 24,38% of GDP. Compared to the end of previous year, it increased by +0,7% or +85mln BAM where external debt remained almost at the same level (+9mln BAM), while internal debt increased by +77mln BAM.

In 2024 year, the CBBH confirmed its commitment to the harmonization of the reserve requirement policy with the policy of the European Central Bank (ECB), taking into account the differences in the primary objective of the monetary policies of the ECB and the CBBH, trends in the domestic banking sector and the macroeconomic environment. The international rating agency Standard and Poor's (S&P) confirmed sovereign credit rating on Bosnia and Herzegovina „B+ outlook stable „and „B3 outlook stable “.

The main indicators of the banking system improved in 2024 year, showing solid growth of loans and deposits volumes.

The banking system achieved higher growth rates of loans and deposits than in 2023 year. Loans to private sector increased by +9,2% vs BoY, though mainly in short term loans indicating still low investment activity of BH Corporate sector. Loans to households increased by 9,3% vs BoY, with the leading role in credit growth on the consumer loans, which recorded growth of 7,3% or 660mln BAM. Also, 14,3% growth of housing loans in 2024 year has to be noted (7,7% in 2023 year).

Private sector deposits grew by 10,8% vs BoY, as a result of 9,9% increase of households' deposits, mainly a'vista funds, and strong growth of 12,4% vs BoY of deposits from companies, which confirmed conservative approach in investments policy.

On the wake of the improved economic environment in the country in 2024 year the Bank delivered positive results.

Loans to customers (gross) amounted to 1,928 mln BAM and increased versus previous year by +162mln BAM (+9,2%) as a result of growing in both Corporate and Retail. Corporate and SME segment loans growth in 2024 year reflects increase of demand in the market by growing in volumes by +9,9% and +8,3% respectively but the structure of portfolio in favour of short-term loans rather than long-term loans shows it is still affected by low appetite for new investments and postponement of capital expenditure. Small Business loans recorded strong growth of +30,1% and mainly by growing in long-term loans. Excellent performance was recorded in

loans to Individuals which grew by +8,6%, backed by strong growth of housing and personal loans. At the same time, the level of non-performing loans reduced by -4,9mln BAM or -9,4% which led to continuation of improving NPL ratio to 2,5%.

Bonds portfolio ended at 156 mln BAM (+35mln BAM vs 2023 year) and is mainly formed by EU Bonds. Beside active role in the foreign market, the Bank also participated in local market auctions in 2024 year and holds securities in amount of 26mln BAM of Minister of Finance of Federation of Bosnia and Herzegovina.

Customers deposits increased by +225 mln BAM or +11,6% in 2024 year and amounted to 2.174 mln BAM as a result of similar growth in Corporate and Retail deposits. The Bank significantly improved its maturity structure by growing in term deposits by +14,5% yoy, mainly coming from individuals long term deposits.

In 2024 year, the Bank recorded Net Profit of 26,7 mln BAM and is lower by -0,7 mln BAM or -2,6% compared to previous year. Lower profit in 2024 year was affected by strong growth of personal and administrative costs by +15,2% and +12,1% respectively (strongly impacted by the inflation which exploded in 2022 year and continued in 2023 year) which was not fully covered by growth of revenues in all segments and lower provisions through effective NPL management.

Improvement in all main categories impacted solid increase of Operating Income compared to the previous year. Higher Interest Expenses, as a result of strong growth of term deposits, is more than offset by higher Interest Income coming from increase of loans and securities portfolio. The solid increase of Net Commission is coming mainly from strong growth in POS business that offset slightly lower fees from payments. Growing in operations with corporate and retail and boosted by positive effects from growing tourism resulted with significant improvement of Net Income from Trading.

Operating Costs recorded increase compared to the previous year, mainly as a result of higher Personnel Expenses, where the Bank continuously align with labour market conditions and salary increases, as well with inflation support measures for employees. Also, the number of employees increased by 46 in HC versus December 2023 year. General and Administrative Expenses recorded growth in almost all categories as result of inflation trends in the Country.

Total Impairments and provisions decreased compared to previous year, as a result of lower net adjustments to loans which is driven by improvement of portfolio quality and decrease of NPL portfolio and lower provisions for risk and charges.

The Bank`'s enjoys a sound and stable liquidity position, with all indicators far above prescribed regulatory limits. Capital adequacy ratio according to local methodology is at 18,7% (excluding net profit of the year), far above total minimum requirements of 15,5%.

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

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

REPORT ON SUPERVISORY BOARD ACTIVITIES OF INTESA SANPAOLO BANKA D.D. BOSNA I HERCEGOVINA FOR 2024

During the year 2024, the Supervisory Board of Intesa Sanpaolo Banka d.d. Bosna i Hercegovina (hereinafter: "the Bank") held 19 meetings on the following dates: 25.01.; 20.02.; 07.03.; 27.03.; 24.04.; 06.05.; 27.05.; 14.06.; 25.06.; 22.07.; 29.07.; 03.09.; 12.09.; 23.09.; 27.09.; 18.10.; 28.10.; 20.11.; 11.12.; and which were recorded under sequential numbers from 1 to 19. During 2024, three meetings of Supervisory Board were held in physical presence.

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

During 2024 year, special attention was paid by the Board to the assessment of the adequacy of the internal control system of the Bank, in general and in specific operational areas, receiving information from the Management Board and all control functions (Internal Audit Department Risk Management department, Compliance Department and AML Department) on potential and identified weaknesses and the progress in implementation of the necessary remedial actions.

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

The Supervisory Board of the Bank, through adoption of Operational Reports and Report of independent External Auditors acknowledged work of the Management Board, assessing it as compliant with laws, internal acts, decisions, policies, procedures and programs. During 2024 year, the Supervisory Board members analysed the findings of the Agency on the performed supervisions, the plans of remedial actions defined by the Bank and provided recommendations in their respect.

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

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

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The composition of the Supervisory Board of Intesa Sanpaolo Banka d.d. Bosna i Hercegovina throughout the 2024 year was: Mr. Dario Massimo Grassani (Chairman), Mr. Petak Sopek (Deputy Chairman), Mr. Jadranko Grbelja, Ms. Ivana Jović, Ms. Michela Boiocchi, Mr. Alden Bajgorić (independent member) and Mr. Massimo Malagoli (independent member). The composition of Supervisory Board of the Bank facilitated effective resolution of various topics brought up, as members with expertise in different areas collaborated to provide comprehensive insights and solutions.

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

Following the assessment of the Nomination Committee and the proposal of the Supervisory Board, the prior approval of the Banking Agency of the FBiH for the appointment of the new composition of the Management Board has been obtained. On October 19th, 2024 year, a new composition of the Bank's Management Board was appointed by the Supervisory Board.

The rules of procedure for the Supervisory Board and its committees were assessed in light of good practices and importance of regulatory requirements, and it was confirmed that the current procedures in force remain appropriate and do not require any amendments at this time.

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

- Decision on adoption of the Rules of Procedure of General Shareholders Meeting of Intesa Sanpaolo Banka d.d. Bosna i Hercegovina
- Decision on adoption of Financial Statements of Intesa Sanpaolo Banka d.d. Bosna i Hercegovina for the period 01.01. – 31.12.2024 prepared in accordance with the Banking Agency of the FBiH 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. - 31.12.2024 and Distribution of Profit for 2024
- Decision on adoption of Budget 2025
- Decision on adoption of Financial Plan 2025-2028
- Decision on adoption of Capital Plan 2025-2028
- Decision on adoption of Liquidity and Funding Plan 2025-2028
- Decision on adoption of the Reports on agreements concluded between the Bank and persons in a special relationship with the Bank as of 30.09.2024 and 31.12.2024
- 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 2024
- Decision on adoption of the Supervisory Board Self-assessment results for 2024 year
- Decision on adoption of the Charter of Intesa Sanpaolo Banka d.d. Bosnia and Herzegovina

President of the Supervisory Board
Dario Massimo Grassani

MANAGEMENT BOARD'S REPORT ON BANK'S OPERATION FOR 2024

The Management Board is honoured to present you the Annual Report and Financial Statements of Intesa Sanpaolo d.d. Bosna i Hercegovina (hereinafter `the Bank` or `Intesa Sanpaolo BiH`) for the year ended on December 31st 2024 year.

BiH's economic growth in 2024 year is estimated at 2,3%, driven by rising private consumption, wages and modest investment increases, that were slowed down by the severe floods at the end of year, that hit the central part of the country damaging the main railway connection to Port Ploče, thus negatively impacting exports. Inflation has dropped from 14,0% in 2022 year and 6,1% in 2023 year to an average of 1,7% in 2024. Banking Sector recorded higher growth rates in 2024 year, both in loans (+9,2%) and deposits (10,8%), than in 2023 year, followed by strong growth of Net Profit.

In 2024 year, the Bank achieved all key goals outlined in its business plan.

Net Profit amount to 26.7 mln BAM and is lower by 0.7 mln BAM (-2,6%) compared to previous year, coming from strong growth of Personnel and Administrative Costs (strongly impacted by the inflation) which was not fully covered by growth of revenues and lower provisions through effective NPL management.

Net Interest Income ended at 66.2mln BAM and increased by 0.8mln BAM (1.3%) versus 2023 year due to higher interest income by 9.2mln BAM which offset growing interest expenses by 8.4mln BAM. Growth of interest income is mainly driven by strong growth of loans volumes and income from placement to foreign banks and securities due to favourable movement in interest rates in EU. Interest expenses increase is driven by strong growth of term deposits and fulfilment of MREL requirements prescribed by local regulator.

Net Commission amounted to 31.0mln BAM and recorded 1.3mln BAM growth (+4.3%) compared to 2023 year. The contribution of Net Commission on Total Operating Income improved to level of 30% (2023: 29%). Increase of Net Commissions was achieved mainly through higher net income from POS business (growth of number of transactions by +21%).

Net income from Trading increased by 1.1mln BAM yoy and reached 5.4 mln BAM by growing in operations with corporate and retail and boosted by positive effects from growing tourism.

Operating Costs reached 69.7 mln BAM being 8.3mln BAM or 13.5% higher YoY. The increase of Personnel costs is driven by higher number of employees by 46 and salary increases, where the Bank aligned with labour market conditions. Other administrative costs and depreciation increase is mainly driven by drag in effect from strong inflation pressure in 2022 year and continued inflation of 2023 year.

Total **Impairments and Provisions** amounted to 4.7 mln BAM and decreased by -4.4 mln BAM compared to previous year, as a result of lower net adjustments to loans which is driven by improvement of portfolio quality and decrease of NPL portfolio (NPL ratio improved by -50bps) and lower provisions for risk and charges.

The overall Bank's Balance Sheet increased by 12,9%, reaching the level of 2.952mln BAM, mainly due to strong increase of Loans to Customers and continued inflows of new Customer Deposits, in both Segments: Retail and Corporate. The bank also increased its portfolio of securities and Funds on other banks in order to boost the growth of revenues due to favourable interest rates on placement in EUR and bonds offered in the market.

Loans to Customers (gross) reach the level of 1,928 mln BAM at the end of 2024 year and increased by 162mln BAM or 9,2% compared to previous year, similarly contributed by both segments. Excellent performance was recorded in loans to Individuals which grew by +8,6% backed by strong growth of housing and personal loans. Corporate and SME recorded growth in 2024 year reflects increase of demand in the market, but mainly in short term loans, while long term loans are still affected by low appetite for new investments. The cautious risk policy aimed at preventing new low-quality loans and portfolio quality deterioration resulted with further decrease of NPL, bringing NPL ratio to 2,5%. When it comes to the market share in the total loans of the FBiH banking sector, at the end of 2024 year the Bank remained at slightly above 10%, keeping strong 4th market position.

Customers Deposits amount to 2.174mln BAM and increased by 11,6% compared to 2023 year, 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 13.1%, mainly in term deposits as a result of the overall Bank strategy for widening of deposits customer base and improvement of deposits maturity structure. Legal Entities deposits also recorded strong growth with excellent performance in improving maturity structure by shifting from current accounts to term deposits.

The Bank enjoys a sound and stable liquidity position, with all liquidity indicators far above prescribed regulatory limits and is sufficient to sustain a further expansion of credit portfolio.

The Bank has significant amounts of contracted undrawn new credit lines, with the focus on ESG eligible financing, which clearly indicates the stability of the liquidity position as well as a sufficient basis for the growth of the credit portfolio in the coming period.

The Bank's capital (excluding net profit of the year) amounts to 346mln BAM, increased by 30mln BAM compared to previous year. Capital adequacy according to local methodology at 18,7% is far above minimum requirements of 15,5%

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

Business description of Intesa Sanpaolo Bank BiH

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

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

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

As of December 2024 year, the Bank is ranked 6th in Bosnia and Herzegovina by Total Assets with a market share of 6,8%. Business operations are mainly concentrated in the Federation of Bosnia and Herzegovina (95 percent of Total Assets), where the Bank ranks 4th in total assets, total loans and total deposits, with respective market shares of 9.2 percent in Total Assets, 10.1 percent in loans and 8.8 percent in Deposits.

Intesa Sanpaolo BiH services approximately 150.000 customers in the country, using a well-dispersed network of 43 branches and modern digital banking channels. Total number of employees at the end of 2024 year was 612..

Retail Division

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

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

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 ATMs.

During 2024 year, 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.

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

Overall Bank strategy for diversification of deposits customer base and strengthening of liquidity position resulted with strong collection activities and growth of individuals term deposits during 2024 year.

Implementation of new distribution model continued in 2024, with the increase in the sales force and the introduction of new commercial roles in the network. The optimization of the business network was reflected in closure of two agencies.

During the whole 2024 year, the Bank continued developments in the area of digital channels, such as: introduction of new functionalities in mobile banking application, digitization of travel health insurance card with Visa Platinum Debit Card, integration of Google Pay functionality in mobile banking application etc.

In the card business, 2024 year was marked working on different new services and products: enabled Google Pay service, implemented new business Mastercard for Legal Entities, Visa platinum card enriched with new functionality of Visa concierge, implemented cash withdrawals at ATMs with repayment in instalments. In order to optimize processes and costs digital PIN has been implemented and prolonged card validation of debit cards.

During 2024 year, Retail Division expand its range of insurance products and introduced a new insurance product La Vita risk life insurance.

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 full range of services it offers to legal entities and its presence in both entities and the Brčko District, Intesa Sanpaolo BiH is one of the leading banks on the BiH market and is known for its ability to provide integrated financial solutions, designed to meet the individual requirements of our clients.

In 2024 year, we would especially emphasize further promotion of ESG products, which has positioned the Bank as one of the market leaders in this segment. The Bank supported its customers also through utilization of state guarantee program covering 50% of disbursed amounts and exploiting supranational institutions ESG eligible credit lines financing.

Corporate Governance

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

Supervisory Board

During 2024 year 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 2024 year the Audit Committee had the following composition: Andrea Nani chairman till June 25th 2024 year; Tefiku Florian chairman from June 26th 2024 year; Ana Jadrešić member, Massimiliano Masturzo member till September 3rd 2024 year; Valentina Nuccio member from September 4th 2024 year; James Vason permanently invited person and Davor Vodanović permanently invited person.



Management Board

The Management Board consists of the president and two members who performed their duties during the year, as follows:

Marco Trevisan, President of the Management Board till October 18th 2024 year, Michele Castoro, Board Member Deputy president and responsible for Finance Division and ICT and Operation Division till October 18th 2024 year and President of the Management Board and responsible person for Retail Division, Corporate and SME Division, HR and Organization, PR and Marketing Communication from October 19th 2024 year, Minja Filipović Management Board Member responsible for Finance Division and ICT and Operation Division from October 19th 2024 year, Edin Izmirlija, Management Board Member and Head of Risk Division till March 31st 2024 year and Indira Karamustafić, Management Board Member and Head of Risk Division from April 1st 2024 year.

REPORT ON OPERATIONS

as of December 31, 2024

Prepared by CFO Division



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MACROECONOMIC ENVIRONMENT AND BANKING SECTOR

MACROECONOMIC ENVIRONMENT

GDP and Inflation

The Intesa Sanpaolo International Research Network expects in its projections a continuation of the positive GDP trend in the CEE and SEE regions in the coming months, but also a slowdown due to still weak external conditions in the international environment.

The last GDP data were worse than expected in several countries and so new baseline projects GDP growth in the CEE area at 2.0% yoy in 2024 and the forecasts for 2025 and 2026 have been lowered too at 2.6%. Also, the GDP dynamic in the SEE area has been lowered for this year (1.9% from 2.3%), due to the economic performance of Romania being weaker than previously expected, and continuing to decelerate next year (to 3.0% from 3.3%), while the GDP growth for 2026 has been confirmed as increasing to 3.2%.

The prevailing risks to the outlook remain broadly on the negative side because of weakness of the international landscape. Inflation could be more persistent than expected in several countries, and tighter global financing conditions could hamper economic growth. Inflation is projected to decline, but at a slower pace than previously projected, in particular in those countries where wage dynamics have strengthened significantly.

Monetary policy and financial markets

In the CEE and SEE area, monetary policy is on a temporary pause, except for the Czech Republic and Albania where policy rates were cut in the last meetings. In line with September scenario, the policy rate reduction cycle could resume during the next year for almost all countries.

The profiles for long-term yields have been revised slightly upwards overall across the forecast horizon with respect to September scenario in the CEE/SEE region, due to the forecast higher path for Bund yields. In FX markets, exchange rates are expected to move around the current values in the CEE/SEE area overall in 2025 and 2026, but in Hungary a greater weakness of the local currency is now expected.

Banking aggregates and interest rates

Loan growth in the CEE is forecast to increase in 2024 by 4.2% and by 4.7% in 2025. However, lending will be still negatively affected by higher interest rates in real terms, due to decreasing inflation. Furthermore, demand for credit could be supported by improving real disposable incomes supporting consumer lending, as has been happening in the past few months in many countries. Germany's economic weakness could negatively influence CEE corporates as well in 2025. Taxes will weigh on bank activity, particularly in Slovakia, where the tightening of the countercyclical capital buffer to 1.5% is also expected to weigh on lending.

Forecasts for banking aggregates have been revised slightly for many SEE countries for 2024, mainly because of better-than-expected recent monthly performances. The new economic landscape will affect loan growth, which is forecast to increase in 2024 by 6.9% in the area and is then expected to slow slightly (+5.6% and 5.5%) in the following two years. On the asset side, banks are benefitting from low non-performing loan ratios and high profitability and capital. At the same time, lending will be negatively affected by higher interest rates in real terms, due to easing inflation. Furthermore, demand for credit could be supported by improving real disposable

incomes supporting consumer lending, as has been the case in the past few months in many countries. In contrast, NPLs are expected to rise, specifically where the increase in real interest rates and the associated rise in private-sector debt servicing costs has been particularly sharp

Deposit forecasts have been confirmed in 2024 (to 5.3%) as a result of an upward revision in the Czech Republic and some reductions in other countries, and to 5.8% from 6.0% in the SEE area (mainly in Romania, +4.8%) and also confirmed for the following years. In 2025, deposits are expected to decelerate in many countries because of lower interest rates and growing popularity of mutual and pension funds, but uncertainties about the economy and the evolution of the war could support deposit growth.

Source: Economic and Banking Outlook; December 2024; Intesa SanPaolo International Research Network

MACROECONOMIC ENVIRONMENT AND BANKING SECTOR (CONTINUED)

Macroeconomic environment (continued)

Economic activity

Overview and projections for Bosnia and Herzegovina

Following 0.7% yoy growth in the final quarter of 2023, GDP growth accelerated to 2.4% yoy in the first two quarters of 2024, driven by private consumption and investments, though net foreign demand contributed negatively. Data for the Q3 indicates a significant slowdown in private consumption, with retail trade volume growth slowing for 2.7% yoy, compared to the double-digit growth observed in the initial quarters. October data further revealed a decline, as real retail trade growth fell to just 0.7% yoy, the lowest since February 2021. Concurrently, Q3 merchandise exports decreased by 1.4% yoy, despite mild positive growth in July and August, followed by a renewed 4.7% drop in September. Encouragingly, October saw a 7% yoy increase in merchandise exports, though this was matched by similar import growth. Considering the severe floods and landslides in early October, which caused significant fatalities and damage to residential property, business facilities, and infrastructure, disrupting critical railway and road connections, Intesa Sanpaolo International Research Network anticipate less favourable trends in industrial production and exports to persist until year-end. Consequently, GDP growth for the current year is estimated to downward from 2.7% to 2.3% yoy. For 2025, projected growth is at approximately 2.7%, slightly lower than previous estimates, primarily due to slower-than-expected recovery in the export sector. Nonetheless, private consumption is expected to continue supporting overall growth, albeit at a slower pace than this year, while investments in rebuilding infrastructure and facilities damaged in October will contribute to economic activity. Overall, the risks are broadly balanced, with political factors playing a key role..

Source: Forecasted data provided by Intesa Sanpaolo International Research Network (December 2024)

Inflation

After maintaining a stable 2.0% inflation rate over the first five months, inflation further declined over the summer, closing Q3 at 0.8%, before inching up to 1.0% in October. Thus, the year-to-date (YTD) average inflation rate decreased significantly from 7.1% in the same period last year to 1.7% this year, which is also broadly estimated as the average for the full year 2024. Looking ahead, average inflation next year is anticipated to rise slightly to 1.8%, as clearer impacts from the so far muted effect of the electricity price hike in August begin to materialize. In addition to the expected effect of the electricity price increase, the effects that will be caused by the latest decisions related to the significant increase in the minimum wage in FBiH and RS are still unclear, but it is almost certain that there will be an increase in prices and a new wave of inflation in the country.

Source: Forecasted data provided by Intesa Sanpaolo Research Department (December 2024)

Wages and employment

Labour market indicators indicate the decrease in unemployment rate of 6.6% was recorded as of November 2024 compared to same month of previous year.

There are visible signs of a spiral between nominal wages and inflation, due to the increasing trade unions pressure and a fall in the citizens' already low standard of living. Average net wage as of November 2024 recorded an increase versus same month of previous year by almost 7.8% which is mainly reflection of strong inflation pressure started in 2022 (+14%) and continued in 2023 (+6.1%).

Source: BHSA

Public debt

Public Debt of BiH (as of June 2024) reached to 13,0bln BAM or 25.24% of GDP, out of which external debt in amount of 8,8 billion BAM (68%) and internal debt in amount of 4.2 billion BAM (32%). Compared to the end of previous year, Public debt increased by +0.1% or +10mln BAM where external debt decreased by -149mln BAM while internal debt increased by +159 mln BAM. Share in GDP increased by 24bps.

Source: Ministry of Finance and Treasury of Bosnia and Herzegovina

MACROECONOMIC ENVIRONMENT AND BANKING SECTOR (CONTINUED)

Macroeconomic environment (continued)

Foreign Trade

However, in 2024 the value of export in period January - December amount to KM 16.08 billion, representing a decrease of 3.7%, while, in the same period, import amount to KM 28.6 billion increasing by 3.2%. deepening the trade deficit to KM 12. 6billion. Coverage of import by export value is at 56.1%.

Source: BHSA

Banking sector

As of December 2024, the banking system of Bosnia and Herzegovina is composed by 21 commercial banks, very close to regional average of SEE markets, out of which 13 operate in Federation of Bosnia and Herzegovina (F BiH) and 8 in Republika Srpska (RS). Three banks have head quarter in both entities: Addiko Bank, NLB Bank and UniCredit Bank. The banking sector displays high concentration, with the five largest lenders holding a market share around 63%, a considerable level which does not make easier further consolidation.

Last published data for September 2024 (country level) shows solid growth of volumes in banking sector.

Based on data published by Banking Agency of FB&H and Agency for Banking of RS, total BiH market loans increased by +7% vs BoY (FBiH: +7.2%; RS: +6.4%), while deposits recorded +5.5% growth (FBiH: +5.8%; RS: +4.8%).

Loan growth was slightly higher in Retail sector (+7.6%) than corporate sector which grew by +6.4%.

On the deposit side, total deposits grew by +5.5% compared since BoY with equal contribution of Retail and Corporate.

The level of NPL is at 3.5% and improved from December 2023 by -34bps.

The banking sector is well capitalized, with a total capital ratio of 19.52% in September 2024 (19.71% in 2023).



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

In 2024, the CBBH kept the same amount of fees on the required reserve that it pays to commercial banks. Consequently, CBBH pays a fee of 50 basis points (0.50%) to commercial banks on required reserve funds based on the basis in the domestic currency KM, and on required reserve funds based on the basis in foreign currencies and in the domestic currency with a currency clause at a rate of 30 basis points (0.30%).

On the other hand, CBBH continued the process of implementing the new mandatory reserve framework defined by the Decision on Amendments to the Decision on Establishing and Maintaining Mandatory Reserves and Determining Compensation for the Amount of Reserves. The application of the new mandatory reserve framework was initially planned for October 1, 2023, and then it was postponed to 01.01.2024, and then on July 1, 2025. The key changes relate to the change in the currency structure of required reserve assets held by banks with the CBBH, meaning that banks will have to hold a portion of required reserves in EUR instead of the previous entire amount in BAM.

MACROECONOMIC ENVIRONMENT AND BANKING SECTOR (CONTINUED)

Macroeconomic environment (continued)

Banking sector (continued)

The international rating agency Standard and Poor's (S&P) maintained the credit rating of Bosnia and Herzegovina, 'B+' with a stable outlook. In the report for Bosnia and Herzegovina, S&P analysts state that, despite internal and external influences, Bosnia and Herzegovina economy showed resilience in the first half of 2024, and that they expect that increased consumption, supported by lower inflation and growth in real wages, will raise real growth in BiH to 2.8% this year. They also expect that from 2025, there will be somewhat stronger investment, especially in the field of energy and road construction, and an increase in external demand, due to the economic recovery of key trade partners in the eurozone, which will result in real growth of almost 3% in the period 2025-2027. The net debt of Bosnia and Herzegovina is below 20% of GDP, which is a moderate debt for developing countries. About 65% of the consolidated gross debt of the general government refers to bilateral and multilateral creditors with longer maturities and favorable interest rates. Analysts further expect that the current account deficit will remain low over the next four years, at slightly above 3%, and that Bosnia and Herzegovina will maintain the currency board arrangement. According to analysts, an increase in the credit rating can occur if consensus-based political decisions are reached, which could speed up structural reforms, including those related to the country's accession to the European Union, as well as economic growth.

Moody's Rating also confirmed the credit rating for Bosnia and Herzegovina, B3 with a stable outlook. The confirmation of the credit rating reflects the opinion of Moody's analysts that the very high political instability of BiH continues to hinder the implementation of reforms and reflects institutional weakness. Moody's expects real GDP growth to recover to 3% in 2025. The reform momentum could help unlock access to new pre-accession financing that can support larger investments. On the other hand, the economy faces significant negative risks from the upcoming implementation of the European Union Carbon Limit Adjustment Mechanism (EU CBAM), which will negatively affect a large part of BiH's exports in the absence of significant decarbonization reforms, according to Moody's report. The stable outlook reflects, among other things, the analyst's view that the general government debt will remain moderate even in the event of increased social spending. According to Moody's, the credit rating can be increased if reforms are implemented that would strengthen the governance of the country and resolve long-standing structural challenges, and lead to visible progress on the way to the European Union. Close cooperation with the International Monetary Fund and the European Union would contribute to this.

In 2024, the beginning of the year was marked by the stagnation of the reference interest rate of the ECB, after reaching a record level of 4% in September 2023, which ultimately resulted in a decrease in inflation growth. In June 2024, the ECB started a cycle of reducing the reference interest rate for 25 basis points. The easing of monetary policy continued until the end of the year, when the reference interest rate reached the level of 3%.

Despite this, the reference rate of the average weighted cost of financing of banks in Bosnia and Herzegovina recorded an increase of up to 6 basis points, looking at maturities of 3, 6 and 12 months for deposits in BAM, while for deposits in EUR an increase of up to 32 basis points was recorded.

On the credit side, the interest rate on consumer loans for periods from 1 to 5 years recorded an increase of 14 basis points. Interest rates on housing loans over 10 years have remained stable.

Interest rates on loans to non-financial companies continued to rise in 2024 as well, and depending on the amount and maturity, growth up to 86 basis points is recorded

Expectations for 2025

The projected growth rate of real GDP for 2025 is low at +2.7%. Private consumption driven by strong wage growth, decelerating inflation and supportive labour market will be the key growth driver, while, in turn, investments will remain subdued, reflecting an unfavourable business environment marked by political tensions and a track record of slow structural reforms. Inflation (average) is forecasted at 1.8% in 2025.

MACROECONOMIC ENVIRONMENT AND BANKING SECTOR (CONTINUED)

Macroeconomic environment (continued)

Expectations for 2025 (continued)

	Unit	2024. Forecasts	2025. Forecasts
Real GDP y/y	%	2,3	2,7
Nominal GDP	loc curr bn	52,9	55,4
Nominal GDP	EUR curr bn	27,1	28,3
GDP per head	Euro	7.917	8.245
Unemployment rate (avg)	%	27,8	25,4
Wages y/y (avg)	%	9,2	5,0
CPI y/y (avg)*	%	1,6	1,8
CPI y/y (eop)	%	1,7	2,0

Source: Projected data provided by Intesa Sanpaolo International Research Network (December 2024)

Banking sector projection forecasts growth in lending activities and deposit collection in framework of positive macroeconomic scenario, with stable growth of GDP around 2.7%, decreasing unemployment rate and reducing inflation, after inflation blaze in 2022 (14%) which continued in 2023 (6.1%).

Lending activities towards households and non-financial corporations are projected to grow in 2025 by +5.1%, with higher growth rates for households versus non-financial corporations.

Deposit will grow by +6.1% in 2025, similarly contributed by households and non-financial corporations.

BANK'S STRATEGY AND PLANNED DEVELOPMENT

In line with its strategic orientation, Intesa Sanpaolo Banka d.d. Bosnia and Herzegovina continues to strengthen 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 2025-2028 are directed towards improving market position, and revenues growth capturing new business opportunities, while maintaining credit portfolio quality and cost discipline by simplifying business process and increasing efficiency. The bank affirms its ESG commitment with strong focus on social impact and climate and environmental initiatives, supporting the clients through the digital and climate transition. The main strategic initiatives are presented hereinafter:

Growth of lending business

The retail will focus on housing loans and general purpose loans as primary products in the local market. The growth plan will also be accompanied by improvement of the existing and the launch of new products (including new ESG products) with distinctive futures and the extensive use of CRM to support promotional campaigns on target client's segments. Small Business (SB) plans to increase loan portfolio by targeted selling campaigns, pre-approved loans for new and existing clients, use of favourable credit lines and onboarding loan program for new clients.

Corporate and SME will focus on MID and Large Corporate clients and bigger tickets while simultaneously increasing the number of clients in both segments. 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 ISP Group Banks members and promoting joint initiatives and common business development. Loan volumes growth will be supported by utilization of Supranational Institutions credit lines, such as EIB credit facilities for socially responsible projects and development of ESG products and EBRD and KfW credit facilities targeting green component of ESG, as part of the implementation of the Group's (ESG Sustainable Financing strategy). In addition to above, the Bank will continue to exploit a HUB synergic approach to project finance, especially in renewable energy projects, where the Banks' front-end and sales skills would be coupled with business and underwriting specific expertise of the Parent company. In order to expand its services, and taking into account the inability to use domestic factoring operations to their full potential, the bank plans to offer cross-border factoring services without recourse to legal entities through Confirming, with full cooperation from banks within the Intesa Sanpaolo group.

BANK'S STRATEGY AND PLANNED DEVELOPMENT (continued)

Development of fee-based business

Retail strategy will be focus on following drivers:

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

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

1. Strong CRM function in order to provide clear deep dive analysis and potential paths in cross selling activities, covering all existing clients and prospects;
2. Further Strengthening Network support section, in order to create new processes and release sales managers from operative task as much as it is possible.

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

In addition to utilizing the full potential of CRM through specialized campaigns, additional focus is placed on the following products as key pillars for generating fees.

- Trade Finance business with the aim of centralizing and reducing the burden on the sales network;
- Improving the international payment process;
- More adequate cash management with a direct impact on domestic and international payment transactions;
- Optimizing card acceptance operations at POS terminals and e-commerce points of sale through constant monitoring of merchants as well as through expanding the network of terminals of both the bank and the Single POS terminals of contractual partners.

Improvement of distribution strategy

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

The new distribution will encompass relevant turnaround for implementation:

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

BANK'S STRATEGY AND PLANNED DEVELOPMENT (continued)

Modernization and Innovation

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

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

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

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

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

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

Strengthen credit machine

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

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

ESG

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

The ESG strategy for 2025-2028 is focused on a holistic approach towards environmental, social, and governance factors, demonstrating our commitment to sustainability and responsible banking. Key aspects of our strategy include:

- Investing in ESG Culture;
- Continuing Smart Working Practices;
- Rationalizing Office Spaces;

ESG (CONTINUED)

- CO2 footprint calculation;
- Reducing Paper Usage;
- Gender equality;
- Collaboration with credible partners.

The Bank will continue with further improvement of existing and development of new ESG eligible products, exploiting a HUB synergic approach and business expertise of the ISP Group Banks members and Parent company (specifically for project financing in renewable energy projects through ESG clearing of specific debtors and financing deals). The Bank plans to introduce 2 new ESG products in 2025: General S loan and General dedicated S loan for long term investments with LMA aligned environment purposes.

Risk Management/Liquidity and Capital

The bank will continue keeping a careful approach in underwriting.

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

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

BUSINESS DESCRIPTION

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

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

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

As of September 2024, Intesa Sanpaolo Banka d.d. Bosnia and Herzegovina is the 6th bank in Bosnia and Herzegovina by Total Assets, present in the country with 37 agencies in the Federation of Bosnia and Herzegovina, 5 agencies in Republika Srpska and 1 in Brčko District. Its business operations are mainly concentrated in Federation of Bosnia and Herzegovina, where the Bank ranks 4 th in total assets, loans and deposits, with respective market shares of 9.3 percent in Total Assets, 10 percent in loans and 8.9 percent in Deposits.

RETAIL DIVISION

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

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

BUSINESS DESCRIPTION (continued)

RETAIL DIVISION (continued)

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 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, Digital Branch manages all the requests of contact by the customers through different channels (calls, emails, mobile apps, social networks, etc

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

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

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

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

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

Business in 2024

During 2024, Retail Division mission was to continuously use available resources, through expanding and improving the offer, price and quality of services for clients, while maintaining the highest level of services, in order to improve overall business.

In the Individuals segment, loans portfolio started continuous growth by 7.88% YOY. Portfolio growth was mostly achieved with development and introduction of new ESG products, in accordance with the Group's strategy and with continuous implementation of commercial and CRM campaigns.

Deposit portfolio has increased by 12.46% compared to the beginning of the year. Mostly on current accounts and time deposits.

In the course of 2024, the optimization of the business network was reflected in relocation of one branch office. In 2025, adoption of new distribution model will continue, aimed at process simplification, salesforce efficiency and productivity enhancement, HR enablement and physical network review.

In the card business, 2024 was marked working on different new services and products: it is enabled Google Pay service, it is implemented new business Mastercard for SB segment and for SME/Corporate segment, Visa platinum card enriched with new functionality of Visa concierge, cash withdrawals at ATMs with repayment in installments have been implemented. In order to optimize processes and costs digital PIN has been implemented and prolonged card validation of debit cards.

BUSINESS DESCRIPTION (continued)

RETAIL DIVISION (continued)

Business in 2024 (continued)

During 2024, Retail to expand its range of insurance products and introduced a new insurance product La Vita risk life insurance.

Last year, the Retail negotiated new terms for CPI insurance for 2025 through a tender process, which increased the scope of coverage for the same price conditions for clients, and increased the profitability of this product for the Bank. During the whole 2023, the Bank continued developments in the area of digital channels, such as: introduction of new functionalities Round up and Save and Donate in mobile banking application, digitization of travel health insurance card with Visa Platinum Debit Card, integration of Google Pay functionality in mobile banking application etc. Further improvement will continue in 2025.

ATM network, as of 31st December 2024, has total of 114 ATMs, out of which number of Cash In/Out ATMs was 30 and total number of Cash Out ATMs was 84. Average age of ATMs is 2,5 years. During 2024, project of introduction ATM installment transaction was successfully finished and contactless functionality has been enabled in the same year. Optimization model of ATM network will continue in 2025 with special focus on ATM profitability and introduction of new MTAs, in order to enable the transformation of cash transactions - deposits to alternative channels.

In the Small Business segment, after expected drop of loan portfolio at the beginning of the year, loan portfolio stabilized and thanks to good performance and large volume throughout the year, credit portfolio of legal persons belonging to the segment of small legal entities increased by 30.3% compared to 31st December 2023.

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.

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 full range of services it offers to legal entities and its presence in both entities and the Brčko District, Intesa Sanpaolo BiH is one of the leading banks on the BiH market and is known for its ability to provide integrated financial solutions, designed to meet the individual requirements of our 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.

BUSINESS DESCRIPTION (continued)

CORPORATE & SME DIVISION (continued)

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

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

Business in 2024

Loan portfolio at the end of 2024 increased by 9.96% compared to the end of 2023.

In the credit area, during 2024, 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 KM 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);
- Placement of loans from credit lines with supranational institutions.

For the year 2025, the Bank expects further development in ESG products and utilization of EBRD (Go-Digital. Go Green. Youth in Business and Women in Business), EIB Social Impact credit lines and KfW Low Carbon Facility Credit line.

The bank recorded a significant growth in deposit operations with a deposit growth of 10.77% compared to 2023. During 2025, the Bank will intensively work on expanding the range of deposit products in order to adequately meet the demands of clients and increase its competitiveness on the market.

Even though neutral business in the Corporate & SME Segment for the year 2024 did not follow growth of loans and deposits volumes in the manner of fulfillment of the plan from commissions, the same had a significant impact to all parameters of profitability. Increase in fee income is expected in 2025, considering the following activities:

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

ALM & TREASURY DEPARTMENT

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

BUSINESS DESCRIPTION (continued)

ALM & TREASURY DEPARTMENT (continued)

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

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

Business in 2024

Treasury & ALM Department recorded a significant increase in revenue in 2024 compared to the previous year. Department generates income/expense from foreign exchange trading, deposit placements on the money market and investing in securities.

By trading foreign exchange in 2024, an income in the amount of 5.4 million KM was realized, by placing deposits, an income of 9.44 million KM was realized, while an income of 3.15 million KM was realized by investing in securities.

It is important to note that in 2024, the Bank invested in securities of EU countries, but also in securities of the Federation of Bosnia and Herzegovina. As of 31.12.2024, the total portfolio of securities amounted to 153.22 million KM.

The Department continued its activities with supranational entities to secure credit lines within ESG: Go Digital and Go Digital - loans from the European Bank for Reconstruction and Development (EBRD) intended for small and medium-sized enterprises (SME). In addition, Department finalized the EBRD Risk Sharing Framework and the EIF guarantees facility to small and medium-sized enterprises.

RESEARCH AND DEVELOPMENT ACTIVITIES

During 2024, the Bank's development activities in the Retail Division were directed to expand the offer and improve customer satisfaction for Individuals and Small Business segments, with the aim of better positioning of the Bank in the market, through the introduction of new products for sustainable financing and insurance, the enhancement of the offer of debit card functionalities and new services in payments area.

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

- Introduction of new ESG credit products in accordance with the Group's strategy;
- Modification of package of products and services for young people: pupils and students in order to adapt to market trends;
- Continuous focus on insurance products, in cooperation with leading insurance companies on B&H market;
- New services in the field of transaction banking, which enable installment transactions on ATM devices;
- Introduction of innovative services/products, such as the Google Pay service;
- Implementation of new features in mobile banking application;
- 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;

RESEARCH AND DEVELOPMENT ACTIVITIES (continued)

- 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 2024, 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 Factoring as well as acquiring business.

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

- The Group's project - trade finance and vessel tracking (Trade Finance and Vassal Tracking) starting with the beginning of 2024, which introduced the first level of control for cross-border Trade Finance Products.
- Activities have been initiated to implement Smart Safe, with production expected in 2025
- The introduction of import/export factoring/international confirmation-Confirming as the first international product of the Group started in 2023 and it's implemented in 2024. Full effects on profitability are expected in the year 2025
- Focus on multinational companies and companies operating within HUB PBZ, with the support of the Group;
- Further improvements of ESG credit products in accordance with Group's strategy;
- Further penetration of e-commerce following market trends;
- Optimization of Acquiring operations through the creation of reports that enable monitoring of merchant operations in the card acceptance segment;
- Soft POS project planned to start in the year 2023, but in accordance with the Decision at Group level is postpone for the year 2025;
- New MasterCard charge business card is implemented in the year 2024;
- Optimizing deposits through the introduction of the new Flexi deposit product whose implementation is expected in the first quarter of 2025.

FINANCIAL OVERVIEW AND BUSINESS PERFORMANCE

In 2024 the Bank recorded Net Profit of 26.7 mln BAM and is lower by -0.7 mln BAM or -2.6% compared to previous year. Lower profit in 2024 was affected by strong growth of personal and administrative costs by +15.2% and +12.1% respectively (strongly impacted by the inflation which exploded in 2022 and continued in 2023) which was not fully covered by growth of revenues in all segments and lower provisions through effective NPL management.

Net interest income ended at 66.2 mln BAM and increased by +0.8mln BAM (+1.3%) versus PY due to higher interest income by +9.2mln BAM which offset growing interest expenses by +8.4mln BAM. Growth of interest income by +12.1% is mainly driven by increase of income from loans (+3.7 mln BAM due to strong volume growth), income from placement to foreign banks (+3mln BAM) and securities (+2mln BAM) which is mainly driven by favourable movement in interest rates in EU. Interest expenses increased by +8.4 mln BAM compared to previous year mainly due to higher interest expenses on customer deposits (+7.1 mln BAM) driven by higher interest rate by 31bps and strong growth of term deposits (+10.9% YoY). Also in 2024, the Bank recorded 1.2 mln BAM interest expenses on MREL credit line.

FINANCIAL OVERVIEW AND BUSINESS PERFORMANCE (continued)

Net Commission amounted to 31 mln BAM and recorded 1.3 mln BAM growth or +4.3% compared to 2023. The contribution of Net Commission on Total Operating Income improved to level of 30% (2023: 29%). Increase of Net Commissions was achieved mainly through higher net income from card business by +1.4 mln BAM). Cards business recorded significant growth of revenues, which is mainly driven by higher revenues from POS (growth of number of transactions by +21%).

Net income from Trading increased by +1.1mln BAM YoY and reached 5.4 mln BAM by growing in operations with corporate and retail and boosted by positive effects from growing tourism.

Operating costs reached 69.7 mln BAM and +8.3mln BAM or +13.5% higher YoY. The increase of Personnel costs by +4.3mln BAM (+15.2%) is driven by increase of fixed salaries as the bank implemented salary increases to align with labour market conditions and inflation support measures for employees. Also, the number of employees increased by 46 in HC versus December 2023.

Other administrative costs and depreciation increased by +4mln BAM (+12.1%) which is mainly driven by drag in effect from strong inflation pressure in 2022 (+14%) and continued inflation of 2023 at high +6.1%.

Total Impairments and provisions amounted to 4.7 mln BAM and decreased by -4.4 mln BAM compared to previous year, as a result of lower net adjustments to loans which is driven by improvement of portfolio quality and decrease of NPL portfolio (NPL ratio improved by -50bps) and lower provisions for risk and charges by -3.4 mln BAM (provisions for VAT case with Indirect Taxation Authority booked in 2023 which was related to the previous years).

The Bank's assets increased by 12.9%, compared to the end of 2023 reaching the level of 2.952 mln BAM, mainly due to increase of loans to customers (gross loans grew by +162 mln BAM) and as result of continued inflows of deposits from Corporate and Retail customers (Customers deposits increased by +225mln BAM). The bank also increased its portfolio of securities (+35mln BAM) and Funds on other banks (+149 mln BAM) in order to boost the growth of revenues due to favourable interest rates on placement in EUR and bonds offered in the market.

Loans to customers (gross) amounted to 1,928 mln BAM and increased versus previous year by +162mln BAM (+9.2%) as a result of growing in both Corporate and Retail. At the same time, the level of non-performing loans reduced by -4.9mln BAM or -9.4% which led to continuation of improving NPL ratio to 2.5%.

Corporate and SME segment loans growth in 2024 reflects increase of demand in the market by growing in volumes by +9.9% and +8.3% respectively but the structure of portfolio in favour of short-term loans rather than long-term loans shows it is still affected by low appetite for new investments and postponement of capital expenditure (long-term loans slightly increased vs 2023 by +0.6%). Small Business loans recorded strong growth of +30.1% and mainly by growing in long-term loans. Excellent performance was recorded in loans to Individuals which grew by +8.6% (+62mln BAM), backed by strong growth of housing (+17.6%) and personal loans (+6.1%), while credit cards and overdrafts recorded a decline.

Bonds portfolio ended at 156 mln BAM (+35mln BAM vs 2023) and is mainly formed by EU Bonds. Beside active role in the foreign market, the Bank also participated in local market auctions in 2024 and holds securities in amount of 26mln BAM of Minister of Finance of Federation of Bosnia and Herzegovina.

Customers deposits increased by +225 mln BAM or +11.6% YOY and amounted to 2.174 mln BAM as a result of similar growth in Corporate and Retail deposits. The Bank significantly improved its maturity structure by growing in term deposits for +14.5% YOY.

Large Corporate deposits increased by +13.1% mainly due to higher current accounts but also with excellent performance in improving maturity structure by shifting from short-term to long-term deposits (-55 mln BAM in STD; +52mln BAM in LTD). Deposits of SME and Small business clients also grew in term deposits by +15 mln BAM and +2 mln BAM.

Deposits of Individuals increased by +111 mln BAM YOY (+13.1%), out of which by ca +68mln BAM in long-term deposits.

FINANCIAL OVERVIEW AND BUSINESS PERFORMANCE (continued)

Deposit from Banks and FI increased by +28 mln BAM mainly due to growth of deposits from Financial institutions.

Borrowings increased by 44 mln BAM mainly due to using MREL credit line from the Group (60mln BAM as of 31.12.2024.) for meeting MREL requirements in 2024.

The Bank's liquidity position remained solid and stable, with all liquidity indicators far above prescribed regulatory limits.

The Bank's capital (excluding net profit of the current year) amounts to 345.8 mln BAM, increased by +29.6 mln BAM compared to previous year mainly due to retention of full net profit from 2023 (27.45 mln BAM). Capital adequacy according to local methodology is at 18.7%, far above total minimum requirements of 15.5%.

PURCHASE OF OWN SHARES, SHARES AND CHANGES IN EQUITY

In the period 2024, the Bank did not repurchase its own shares or stakes. Shares with voting rights as of January 31, 2024 are owned by Privredna Banka Zagreb d.d. with a percentage of 99.99% (2023. 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 Bank considered the share of segments in total assets and total revenues, and identified 3 core business lines: Retail Banking, Corporate Banking and Treasury Banking.

Core business lines	Assets (mln BAM)	% of total assets	Revenues (mln BAM)	% of total revenues
Corporate	1,067.4	36.8%	40.1	29.8%
Retail	839.0	28.9%	74.7	55.6%
Treasury	996.7	34.3%	19.6	14.6%

Retail contributes with 29% in total Banks assets and 56% in total revenues, while Corporate is at 37% in total assets and 30% in total banks revenues. Treasury contributes with 34% in assets and 15% in total revenues.

In order to present each business line contribution in total consolidated data of the Bank for 2024, main items of balance sheet and income statement of 3 core business lines are shown in next tables.

Key performance and profitability indicators by segments:

in mln BAM		2024		
Balance sheet	Retail	Corporate	Treasury	
Cash and funds held at banks	50,1	0,0	837,8	
Bonds and T-Bills	0,0	0,0	154,8	
Loans to customers (net)	783,8	1.066,8	0,0	
Deposits from customers	963,3	1.210,8	0,0	
Deposits from Banks and other FI	0,0	104,4	17,7	
Liab. for loans and borrowings	0,0	0,0	219,9	
Income statement	Retail	Corporate	Treasury	
Cash and funds held at banks	42,5	0,0	720,4	
Bonds and T-Bills	0,0	0,0	120,8	
Loans to customers (net)	725,0	962,0	0,0	
Deposits from customers	851,9	1.097,2	0,0	
Deposits from Banks and other FI	0,0	87,4	6,0	
Liab. for loans and borrowings	0,0	0,0	175,6	

SEGMENT ANALYSIS (continued)

Corporate segment contributes with 58% in total loans (+62bps yoy) and 56% in customer deposits (-60bps yoy), while Retail contributes by 42% in loans and by 44% in deposits.

Treasury is managing on 34% of total Banks assets based on data as of 31.12.2024.

<i>in mln BAM</i>		2024		
<i>Profit and loss</i>	Retail	Corporate	Treasury	
Operating Income	61.0	28.4	15.4	
Operating Expenses	52.3	14.4	3.0	
Impairment losses and provisions	-3.3	-0.9	-0.5	
Profit before tax	5.4	13.1	11.9	

<i>in mln BAM</i>		2023		
<i>Profit and loss</i>	Retail	Corporate	Treasury	
Operating Income	61.2	30.3	10.2	
Operating Expenses	46.5	12.6	2.3	
Impairment losses and provisions	-4.3	-4.5	-0.4	
Profit before tax	10.5	13.2	7.5	

Retail segment produces 75% of operating expenses and contributes to operating income by 58%. Corporate segment produces 21% of operating expenses and contributes by 27% in operating income of the Bank.

Regarding the revenues of Treasury, main sources are:

- income from reserves held at Central Bank;
- income from placement of excess of liquidity to the other banking institutions;
- income from purchased T-bills and bonds in local and foreign market;
- income from FX trading.

All business segments recorded positive results in 2024.

Profit before tax of Corporate remained at similar level to 2023 (-1%) where lower net provisions (decrease of NPL) almost fully offset the decrease of Operating income (-1.9mln BAM mainly due to increase of interest expenses on deposits driven by increase of interest rates and volume growth) and increase of Operating expenses (+1.8mln BAM driven by growth of indirect costs).

The growth of profit was recorded in Treasury for 4.3mln BAM or +58% YoY, which is continuation of trend from 2023 when profit increased from 0.6mln BAM to 7.5 mln BAM. Main contributor to this result was increase of net interest income from placement to banks which grew by 3mln BAM yoy due to favourable interest rates for placement in banks in FC and increase of revenues from securities by 2mln BAM due to better rates offered at the market, mainly in EU but also in local bond market.

Net profit before tax of Retail lower in 2024 by -5.1mln BAM YoY primarily due to higher Operating costs (indirect costs allocation). The Bank significantly increased personal costs on bank level (increase of salaries) to normalize the salaries for the increase of cost of living and pressure of already present low living standard of the country. Administrative costs also grew significantly due to strong inflationary pressure which started in 2022 (+14% inflation) and continued in 2023 (+6.1%). Total operating expenses at Bank level increased by 13.5% yoy or more than 8 mln BAM which directly impacted the allocated costs for the segments and mainly influenced on the Retail results.

RISK MANAGEMENT SYSTEM

RISK MANAGEMENT POLICIES

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

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

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

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

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

Credit risk management objectives and policies

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

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

1. Risk management strategy and credit and related risk management policies that represent the concretization of the strategy with regard to the overall credit risk appetite, limits, and risk profile monitoring indicators.
2. Key processes of the credit risk management system are as follows:
 - credit approval process;
 - credit monitoring process (credit review process);
 - early warning process (process of early detection of increased credit risk) - PCEM;
 - process of asset classification as defined by the decisions of the FBiH Banking Agency (FBA) and the ISP Group Rules;
 - collection process;
 - collateral management process;
 - portfolio analysis and credit risk monitoring process;
3. Roles and responsibilities in key credit risk management system processes are assigned to the following organizational units:
 - Risk Management Department;
 - Credit Department;
 - Credit Management Department;

RISK MANAGEMENT SYSTEM (continued)

RISK MANAGEMENT POLICIES (continued)

Credit risk management objectives and policies (continued)

- 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 and defines them;
- review of the rules and guidelines for respective business areas (retail and corporate business) and segments of clients that concretize credit risk taking and its management at the operational level.

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

Operational risk management objectives and policies

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

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

Operational risk management levels are:

- Centralized management and supervisory level (Supervisory Board of the Bank; Subcommittees of Supervisory Board (Audit Committee, Risk Committee); Management Board of the Bank; Chief Risk Officer (CRO); Operational Risk Committee) in charge of establishing operational risk management systems and in charge of monitoring and surveillance of operational risk exposure and adequacy of operational risk management;
- Decentralized level of organizational parts' managers, processes and projects in charge of identification, recording, assessment and monitoring of identified operational risks;

RISK MANAGEMENT SYSTEM (continued)

RISK MANAGEMENT POLICIES (continued)

Operational risk management objectives and policies (continued)

- 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:

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

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

The Operational risk management policy defines the appetite for operational risk, monitoring of operational risk exposure and limit utilization, escalation procedures in case of exceeding the limit and guidance and ways of operational risk overcoming.

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

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

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

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

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

RISK MANAGEMENT SYSTEM (continued)

RISK MANAGEMENT POLICIES (continued)

Operational risk management objectives and policies (continued)

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 Market risk management policy as well as limited exposure, depending on the type of issuer (issuer limits).

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

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

Liquidity risk management objectives and policies

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

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

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

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

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

- Maturity structure of financial assets and liabilities;
- Mandatory reserve in the Central Bank of Bosnia and Herzegovina;
- Liquidity cover ratio (LCR);

RISK MANAGEMENT SYSTEM (continued)

RISK MANAGEMENT POLICIES (continued)

Liquidity risk management objectives and policies (continued)

- 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;
- survival period;
- concentration ratios;
- indicators of the liquidity crisis plan.

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

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

Interest rate risk management objectives and policies

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

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

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

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

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

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

- analysis of the gap for price re-formation;
- sensitivity to changes in fair value;

RISK MANAGEMENT SYSTEM (continued)

RISK MANAGEMENT POLICIES (continued)

Interest rate risk management objectives and policies (continued)

- net interest income sensitivity;
- stress-testing;
- basis risk assessment;
- Value at Risk (VaR).

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 ISP BiH Guidelines for managing interest rate risk in the banking book and are periodically revised.

Use of risk reduction techniques

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

Use of credit risk reduction techniques

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

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

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

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

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

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

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

- If the remaining maturity of credit protection is less than three months and if the maturity of the protection is shorter than the maturity of the underlying exposure;
- If the agreed (original) maturity of the credit protection is less than one year.

RISK MANAGEMENT SYSTEM (continued)

RISK MANAGEMENT POLICIES (continued)

Use of risk reduction techniques (continued)

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

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

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

Intangible credit protection

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

- (a) central government and central banks;
- (b) regional government units and local authorities,
- (c) multilateral development banks,
- (d) international organizations whose exposures are allocated with weighting of 0%,
- (e) public sector entities, receivables that have treatment of 'central government',
- (f) institutions and
- (g) other business companies, including parent and associated business companies, credit institutions provided that they have a credit rating in accordance with the rules for weighting exposures towards companies in accordance with the provisions of the Decision.

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

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

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

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

Risk Management Strategy

The Risk Management strategy is a document where the Bank, in accordance with business strategy establishes its risk appetite on an annual basis, basic strategic guidelines of the capital planning, risk 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 2024 fiscal year, we may conclude the following:

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

Exposure of the bank to the credit risk

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

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

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

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

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

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

RISK MANAGEMENT SYSTEM (continued)

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

Exposure of the bank to the credit risk (continued)

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 to the market risk

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

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

Currency risk

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

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

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

Assumptions of the main model are:

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

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

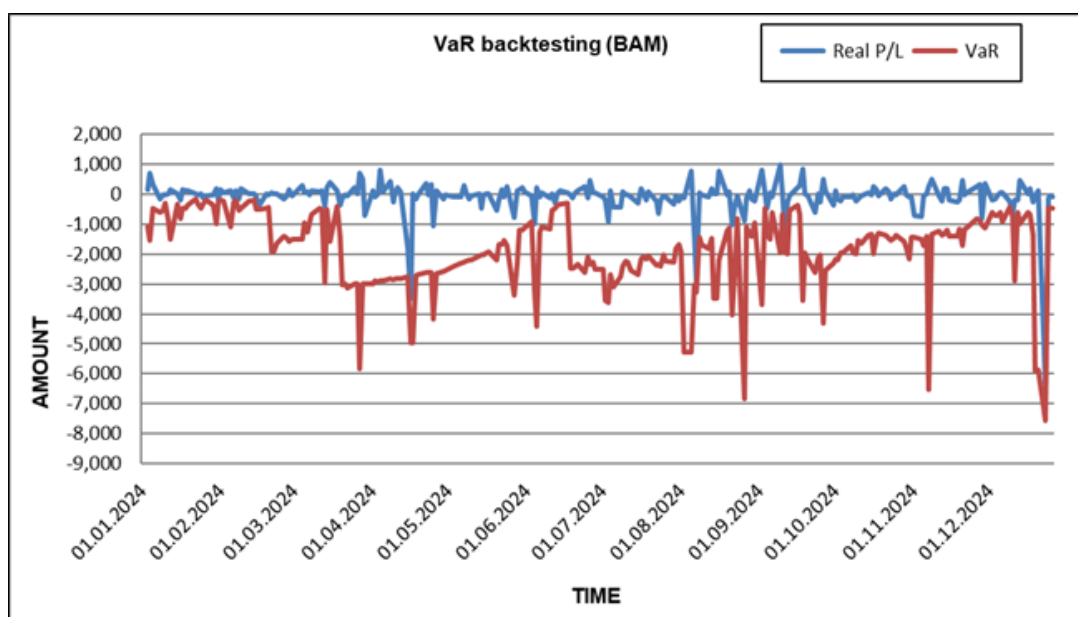
Model can calculate value at risk on different levels of aggregation – from individual position to any sub-level of portfolio. Accordingly, model enables detailed analysis of risk profile of portfolio hierarchy on several levels and effects of diversity which come out. Furthermore, measuring of value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

RISK MANAGEMENT SYSTEM (continued)

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

Exposure of the Bank to the market risk (continued)

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 2024, results of model testing have shown that the Bank recorded 1 exception in model testing (2023: there were 0 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 = KM 1.95583). Exposure to foreign exchange risk is present for USD and CHF. The table from Financial Statement of the Bank for 2024, note 5.3.1, 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.

More details for balance sheet items and foreign exchange risk exposure can be found in Note 5.3.1 of the Bank's Financial Statements for 2024.

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:

- Liquidity risk;
- Intraday liquidity risk;
- Funding liquidity risk;

RISK MANAGEMENT SYSTEM (continued)

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

Exposure of the Bank to the market risk (continued)

- Market liquidity risk;
- The risk of concentration of financing sources.

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 stable 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 31.12.2024 the liquidity coverage ratio amounted to 294.22%.

C 76.00.a Liquidity Coverage Ratio (LCR)		Value/Percentage
010	Liquidity buffer	538,653
020	Net liquidity outflow	183,076
030	Liquidity coverage ratio (%)	294.22%

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:

- **Interest rate risk** in the banking book is the risk of possible negative effects on the financial result and capital of the bank based on banking book position arising from potential changes in interest rates;
- **Basis risk** is the risk arising from the application of different reference interest rates for instruments with similar maturities or the time until the next interest rate change, or from the imperfection of the correlation of reference interest rates for interest-sensitive instruments;
- **Option risk** is the risk arising from options (embedded and explicit) in which the bank or its client can change the level or maturity of cash flows of interest-sensitive instruments;
- **Gap risk** is the risk arising from the term structure of interest-sensitive instruments, i.e. the difference in the period until their interest rate changes, and it includes changes in the term structure of interest rates that appear consistently on the yield curve (parallel risk) or vary by period (non-parallel risk);
- **Yield curve risk** is the risk to which the bank is exposed due to changes in the shape and slope of the yield curve.

RISK MANAGEMENT SYSTEM (continued)

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

Exposure to other risks (continued)

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 31.12.2024.

(000 BAM; %)				
FBA regulation	Change of banking book economic value	Regulatory capital	Limit	Utiliz. %
Change of banking book economic value toward liable capital +200 bps	12,809	342,097	20%	3.74%

CORPORATE GOVERNANCE

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

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

The basic principles of corporate governance are:

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

Transparency of Business Operations

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

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

CORPORATE GOVERNANCE (continued)

Transparency of Business Operations (continued)

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

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

Bank's Bodies

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

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

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

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

General Shareholders Meeting

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

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

Supervisory Board

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

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

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

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

CORPORATE GOVERNANCE (continued)

Supervisory Board (continued)

- 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.

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.

CORPORATE GOVERNANCE (continued)

Internal Audit and Compliance (continued)

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE TOPICS (ESG)

Following the Group commitment, the Intesa Sanpaolo Banka Bosna i Hercegovina has continued to strengthen the environmental, social and governance (ESG) activities, all with the aim to meet the requirements for banks, imposed by the regulatory bodies and the market itself. Over the previous year, the Bank has been actively working on meeting the requirements imposed to the banks by the Federal Banking Agency within the "Guidelines for the management of climate-related and environmental risks". The goal of the Guidelines is to instruct the banks in FBiH on how to establish, measure, manage and control the climate-related and environmental risks, and to disclose data thereof.

In 2024, several activities have been realized, aimed at implementing the ESG principles and at positioning the bank as a responsible financial intermediary amidst growing global challenges including mitigating climate change and reducing harmful environmental impacts, empowering marginalised communities, informal sector inclusion, ensuring gender equity, and working towards more accountability through transparent reporting.

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

In order to implement the ESG business principles, the Bank has established cooperation with international credible organisations, such as the UNDP, Net Zero Mission, as well as with the government bodies such as the City of Sarajevo and diplomatic missions of foreign countries in Bosnia and Herzegovina (French Embassy).

The Bank has implemented the environmental aspect by signing the agreement with the United Nations Development Programme in Bosnia and Herzegovina (UNDP). The cooperation with UNDP is reflected in several aspects - the crucial one being the joint program of UNDP and Intesa Sanpaolo Banka, aimed at preparing the SMEs for the ESG-related financing and application of circular and low-carbon business models. The UNDP has evaluated the Bank's CO2 footprint. The Bank has received a certificate confirming the total emission of CO2 into the atmosphere. In cooperation with the UNDP, the Bank will adopt the CO2 footprint reduction plan. Together with the French Embassy in BiH and the French Institute in BiH, the Bank has organized a conference called "From pollution to Solution", all within the UN SDG Week. The final outcome of this conference was the Manual on the effects of air pollution on public health in Sarajevo Canton. The Bank has also initiated cooperation with the 100 Net Zero Cities Mission in Bosnia and Herzegovina. The Bank plans to implement the aforementioned cooperation through initiatives for reducing the total CO2 emissions into the Sarajevo region atmosphere.

The social aspect has been realized through a large number of donations to socially vulnerable persons, as well as to institutions taking care of socially vulnerable persons. Together with the City of Sarajevo, the Bank has marked the European Mobility Week by donating vouchers for bicycle purchase to the citizens of Sarajevo. The Bank has supported the projects that improve the life quality in the community, and it has demonstrated dedication to the social aspect of ESG, by making a donation to an elementary school for purchase of the energy-efficient air conditioners.

In order to improve the governance system efficiency in the Bank, focused on sustainable development, and taking into account all requirements and rules of the governance system in the ISP Group (which has been actively working on ESG principles implementation worldwide in the past years), the Bank has established the ESG Office to act as central contact point for all ESG initiatives. The ESG Office also ensures application of the ESG-related strategies of the Group, monitors the Bank's progress in the field of ESG, coordinates regulatory and internal reporting, evaluates ESG-related credit proposals and develops an ESG culture within the bank. The ESG Office also works on developing cooperation with credible partners and provides support in the selection of donation projects. It also contributes to the ethical and sustainable practices within the Bank.

EVENTS AFTER THE REPORTING PERIOD

In line with the strategy followed, the Bank announced sale of Head Office Building located in Sarajevo, which is in accordance with the Bank's plan of relocating to the new location in 2025. In accordance with the agreed timeline, it is expected that sale of the Head Office properties will be completed by the end of 2025, at the latest. Head Office Property is presented in Note 7 - Operating Segments - Assets, under Other unallocated amounts column.

As of 31st December 2024, until the date of the financial statements, except for the above mentioned, there were no events that could significantly influence the financial statements for 2024 or were of significant importance for the Bank's operations to require disclosure within the financial statements' notes for 2024 year.



Financial statements as of 31st December 2024 Content

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Management Board's Report

The Management Board has pleasure in submitting its report for the year ended 31st December 2024.

Review of operations

The result for the year ended 31st December 2024 year 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 2024 year and up to the date of this report, the Supervisory Board comprised:

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

During the course of 2024 year and up to the date of this report, the Audit Committee comprised:

Audit Committee	
Tefiku Florian	Chairman, as of June 26th, 2024
Andrea Nani	Chairman, until June 25th, 2024
Ana Jadrešić	Member
Valentina Nuccio	Member, as of September 4th, 2024
Massimiliano Masturzo	Member, until September 3rd, 2024
James Vason	Permanent invitee person
Davor Vodanović	Permanent invitee person

As of 31st December 2024, the Management Board comprised a President and two Members, who served during the year and up to the date of this report as follows:

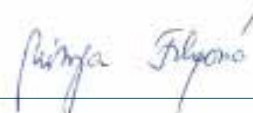
Management Board	
Michele Castoro	President of the Management Board, responsible person for Retail Division, Corporate and SME Division, HR and Organization, PR and Marketing Communication, as of October 19th, 2024 Deputy President of the Management Board, responsible MB member for Finance Division and ICT and Operation Division, until October 18th, 2024
Minja Filipović	Deputy President of the Management Board, responsible MB member for Finance Division and ICT and Operation Division, as of October 19th, 2024.
Indira Karamustafić	Management Board Member and Head of Risk Division, as of April 1st, 2024 (and elected again on the same position on October 19th, 2024).
Marco Trevisan	President of the Management Board, responsible person for Retail Division, Corporate and SME Division, HR and Organization, PR and Marketing Communication, until October 18th, 2024.
Edin Izmirlija	Management Board Member and Head of Risk Division, until March 31st, 2024

On behalf of the Bank:



Michele Castoro

President of the Management Board

Minja Filipović

Deputy President of the Management Board

Sarajevo, 17.02.2025. godine

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.

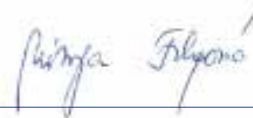
The financial statements set out on pages 9 to 96 were authorised by the Management Board on 14 February 2025 year for issue to the Supervisory Board, and are signed below to signify this, on behalf of the Bank, by:

On behalf of the Bank:



Michele Castoro

President of the Management Board



Minja Filipović

Deputy President of the Management Board



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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 2024, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a material accounting policy information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2024 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 1,850,624 thousand (or 63% of total assets) as at 31 December 2024. 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, 17 February 2025

 Danijela Mirković, Procurist		 Dženita Kadrić, Authorized auditor
Ernst & Young d.o.o. Sarajevo Vrbanja 1 (SCC-Sarajevo City Center) 71000 Sarajevo Bosnia and Herzegovina		

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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	2024.	2023.
Income from interest and similar income at the effective interest rate	8	84.776	75.616
Interest expenses and similar expenses at the effective interest rate	9	(18.524)	(10.187)
		—	—
Net income/(expenses) from interest and similar income at the effective interest ratei		66.252	65.429
		—	—
Income from fees and commissions	10	42.051	39.341
Expenses from fees and commissions	11	(11.082)	(9.657)
		—	—
Net income/(expenses) from fees and commissions		30.969	29.684
		—	—
Impairments and provisions	12	(4.715)	(9.167)
Other gains (losses) from financial assets	13	137	43
Gain (losses) from derivative financial instruments	14	504	388
Net positive/(negative) exchange rate differences	14	4.716	3.851
Gains and (losses) from long-term non-financial assets	15	(6)	(70)
Income from dividends	16	47	15
Other income	17	2.155	2.446
Personnel expenses	18	(32.910)	(28.577)
Depreciation costs	27,28	(6.163)	(5.485)
Other costs and expenses	19	(30.608)	(27.328)
		—	—
PROFIT/(LOSS) FROM REGULAR BUSINESS BEFORE TAX		30.378	31.229
		—	—
Current income tax		(3.642)	(3.925)
Deferred income tax		(4)	146
		—	—
TOTAL TAX FOR THE YEAR	20	(3.646)	(3.779)
		—	—
NET PROFIT FOR THE YEAR		26.732	27.450
		—	—

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 a

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

	Notes	2024.	2023.
Profit for the year		26.732	27.450
		=====	=====
Other comprehensive income for the year			
<u>Items that will not be reclassified to profit or loss</u>			
Change in fair value (Note 27)		-	5
<u>Items that may be reclassified subsequently to profit or loss</u>			
Net loss from change in fair value of financial assets through other comprehensive income (Note 24)		2.189	2.566
		=====	=====
Other comprehensive (expense)/income		2.189	2.571
		=====	=====
Total comprehensive income for the year		28.921	30.021
		=====	=====
Basic and diluted earnings per share (BAM)	21	59,70	61,31
		=====	=====

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. decembar 2024.	31. decembar 2023.
Cash and cash equivalents	22	643.954	538.330
Financial assets at fair value through profit and loss	23	956	270
Financial assets at fair value through other comprehensive income	24	154.845	120.847
Financial assets at amortized cost	25	2.103.249	1.922.671
Derivatives financial instruments	26	27	4
Prepaid income tax		3.750	3.402
Deferred tax assets	33	776	779
Tangible assets	27	37.721	21.937
Intangible assets	28	3.774	3.938
Long-term assets for sale	29	-	-
Other assets and receivables	30	3.078	1.610
		—	—
TOTAL ASSETS		2.952.130	2.613.788
		=====	=====
LIABILITIES			
Financial liabilities valued at amortized cost	31	2.573.806	2.263.912
Derivative financial instruments	32	-	311
Deferred tax liabilities	33	77	76
Provisions	34	4.835	4.815
Other liabilities	35	841	1.024
		—	—
TOTAL LIABILITIES		2.579.559	2.270.138
		=====	=====
EQUITY			
Share capital	36	44.782	44.782
Share premium		57.415	57.415
Reserves		240.029	212.579
Revaluation reserves		3.613	1.424
Profit		26.732	27.450
		—	—
TOTAL EQUITY		372.571	343.650
		=====	=====
TOTAL LIABILITIES AND EQUITY		2.952.130	2.613.788
		=====	=====

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

Statement of changes in shareholders' equity for the year ended 31st December 2024

(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 2024	44.782	57.415	212.579	1.706	(282)	27.450	343.650
General Assembly Decision – profit distribution	-	-	27.450	-	-	(27.450)	-
Net profit for the year	-	-	-	-	-	26,732	26,732
	-						
Other comprehensive income							
Net profit from change in fair value of financial assets through other comprehensive income (Note 24)	-	-	-	-	2.189	-	2.189
<i>Total other comprehensive income</i>	-	-	-	-	2.189	-	2.189
Total comprehensive income	-	-	-	-	2.189	26.732	28.921
	=====	=====	=====	=====	=====	=====	=====
Balance as of 31st December 2024	44.782	57.415	240.029	1.706	1.907	26.732	372.571
	=====	=====	=====	=====	=====	=====	=====

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

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

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

	Issued share capital	Share premium	Reserves	Fair value reserves on Property	Fair value reserves on Assets at FVOCI	Profit	TOTAL
Balance as of 1st January 2023	44.782	57.415	207.001	1.701	(2.848)	26.078	334.129
General Assembly Decision – profit distribution	-	-	5.578	-	-	(5.578)	-
Dividend payment	-	-	-	-	-	(20.500)	(20.500)
Net profit for the year	-	-	-	-	-	27.450	27.450
	-						
Other comprehensive income							
Net profit from change in fair value in Property through other comprehensive income (Note 28)	-	-	-	5	-	-	5
Net loss from change in fair value of financial assets through other comprehensive income (Note 24)	-	-	-	-	2.566		2.566
<i>Total other comprehensive income</i>	-	-	-	5	2.566	-	2.571
Total comprehensive income	-	-	-	-	2.566	27.450	30.021
	=====	=====	=====	=====	=====	=====	=====
Balance as of 31st December 2023	44.782	57.415	212.579	1.706	(282)	27.450	343.650
	=====	=====	=====	=====	=====	=====	=====

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

Cash flow statement

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

CASH FLOWS FROM OPERATING ACTIVITIES	Notes	31 December 2024.	31 December 2023.
Interest inflows and similar inflows based on EIR		81,876	72,843
Interest outflows and similar outflows based on EIR		(17,060)	(7,465)
Fee and commission inflows		51,092	45,355
Fee and commission outflows		(14,919)	(12,209)
Gain/(losses) from derivative financial instruments	14	504	388
Inflows from repayment of principal and interest previously written-off		1,844	2,265
Outflows from payments to employees		(31,891)	(26,919)
Outflows from payments of operating costs and expenses		(29,952)	(25,775)
Other inflows from operating activities		734	560
Other outflows from operating activities		-	-
Payment of income tax		(3,970)	(3,078)
		—	—
Cash flows from operating activities before changes in operating assets and operating liabilities		38.258	45.965
		=====	=====
Net (increase) / decrease in mandatory reserve with Central bank		(19,375)	(21,501)
Net (increase) / decrease in placements with other banks		-	-
Net (increase) / decrease in loans and receivables from clients		(164,637)	(106,788)
Net (increase) / decrease in receivables from financial leases		-	-
Net (increase) / decrease in other assets and receivables		2,356	(6,204)
Net increase / (decrease) in deposits from banks and other fin. institutions		28,593	(178,423)
Net increase / (decrease) in deposits from clients		223,975	180,041
Net increase / (decrease) in other financial liabilities at amortized cost		(5,098)	6,056
Net increase / (decrease) in provisions		(1,986)	(593)
Net increase / (decrease) in other liabilities		(183)	128
		—	—
Net cash flows from operating activities		101.903	(20.143)
		=====	=====

Cash flow statement

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

CASH FLOWS FROM INVESTMENT ACTIVITIES			
Purchases of debt instruments at fair value through OCI			(84,286)
Inflows from sales of debt instruments at fair value through OCI		83,226	68,716
Purchases of property, plant and equipment	27	(1,923)	(1,417)
Inflows from sale of property, plant and equipment		-	45
Purchases of intangible assets	28	(1,028)	(1,331)
Dividends received	16	47	15
Other inflows from investing activities		226	(207)
Other outflows from investing activities		(778)	141
		—	—
Net cash flows from investing activities		(35.635)	(18.324)
		=====	=====
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	38	-	(20,500)
Inflows from loans granted by banks	38	88,599	17,600
Repayments of principal regarding loans granted by banks		(44,257)	(38,667)
Repayments of principal regarding loans granted by other fin, institutions		-	-
Repayments of principal regarding leases		(4,614)	(4,452)
Other inflows from financing activities		-	-
Other outflows from financing activities		-	-
		—	—
Net cash flows from financing activities		39.728	(46.019)
		=====	=====
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		105.996	(84.486)
		—	—
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		538.330	624.067
		—	—
EFFECTS OF CHANGES IN CURRENCY EXCHANGE RATES OF CASH AND CASH EQUIVALENTS		(372)	(1.251)
		—	—
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		643.954	538.330
		=====	=====

Bilješke u nastavku čine sastavni dio ovih finansijskih izvještaja.

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 Rulebook on Chart of Accounts, Account Content and Application of Chart of Accounts for Companies (Official Gazette FBiH 81/21), Rulebook on Content and Form of Financial Statements for Companies (Official Gazette FBiH 81/21) and the Rulebook on Amendments to the Rulebook on the Content and Form of Financial Statements for Companies (Official Gazette FBiH 102/22, 99/23) prescribe forms of statement of financial position, statement of comprehensive income, statement of cash flows and statement of changes in equity. These local regulations governing the measurement and presentation of financial statements take precedence over the requirements defined in this regard by IFRS published by the Association.

In accordance with the provisions of the Decision, the Bank formed higher value credit allowances for credit losses in the amount of 8,031 thousand BAM as of December 31, 2024 (8,962 thousand BAM as of December 2023) 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 3,631 thousand BAM as of December 31, 2024 (3,564 thousand BAM, as of December 2023).

2. BASIS OF PREPARATION (continued)

Basis of accounting (continued)

- 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 155 thousand BAM as of December 31, 2024 (892 thousand BAM, as of December 2023).
- 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 3,245 thousand BAM as of December 31, 2024, out of which the amount of 1,762 thousand BAM refers to exposures not secured by eligible collateral, the amount of 1,483 thousand BAM on exposures which are secured by acceptable collateral (4,344 thousand BAM as of December 2023, of which the amount of 2,177 thousand BAM refers to exposures not secured by eligible collateral, the amount of 2,167 thousand BAM on exposures which are 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 183 thousand BAM as of December 31, 2024 (182 thousand BAM as of December 2023).
- 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 8,257 thousand (6,620 thousand BAM as of December 2023).

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	2024			2023		
	Gross amount	Impairment	Net amount	Gross amount	Impairment	Net amount
Assets which has been acquired in the last three years	16	16	0	16	16	5
Assets which was acquired over a period of more than three years	18	18	0	18	18	0
Total	34	34	0	34	34	5

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

	31.12.2024 IFRS	Effects of FBA Decision 31.12.2024.	31.12.2024.
Assets	(72.157)	(79.781)	(7.624)
Liabilities	2.076	2.482	406
Equity	(74.233)	(82.263)	(8.030)
	31.12.2023 IFRS	Effects of FBA Decision 31.12.2023.	31.12.2023.
Assets	(72.585)	(80.958)	(8.373)
Liabilities	1.590	2.179	589
Equity	(74.175)	(83.137)	(8.962)

2. BASIS OF PREPARATION (continued)

Basis of accounting (continued)

Financial result before tax for the year ended 31.12.2024 if IFRS methodology is used would be higher by 932

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

a) Functional and presentation currency

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

b) The concept of going concern

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

c) Use of estimates and judgments

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

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

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

d) Comparative figures

Financial statements for the year ended 31 December 2023 have been prepared in accordance with the requirements of the Rulebook on Chart of Accounts, Account Content and Application of Chart of Accounts for Companies (Official Gazette FBiH 81/21), Rulebook on Content and Form of Financial Statements for Companies (Official Gazette FBiH 81/21) and the Rulebook on Amendments to the Rulebook on the Content and Form of Financial Statements for Companies (Official Gazette FBiH 102/22, 99/23), and the instructions of the Banking Agency of the Federation of Bosnia and Herzegovina.

During 2024 year, there was no reclassification of positions in relation to the reporting period of December 31, 2023 year.

3. MATERIAL ACCOUNTING POLICY INFORMATION

a) Foreign currency transactions

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

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

31 December 2024	EUR 1= BAM 1,95583	USD 1 = BAM 1,872683
31 December 2023	EUR 1= BAM 1,95583	USD 1 = BAM 1,769982

b) Net trading income

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

c) Lease payments

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

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

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

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

Lease payments included in the measurement of the lease liability comprise of following: fixed payments, variable lease payments that depend on an index or a rate, amounts expected to be payable under a residual value guarantee, and the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is

reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

c) Lease payments (continued)

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 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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(e) Property and equipment (continued)

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:

	2024.	2023.
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 2024 and 2023:

Intangible assets – licenses	10% - 33,33%
Intangible assets – software	20%

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

g) Assets repossessed from disbursement of loans

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

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

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

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

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

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.

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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(j) Employee benefits (continued)

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.

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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(l) Equity (continued)

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 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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(q) Fee and commission income and expenses (continued)

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.

(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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(t) Financial assets and financial liabilities (continued)

2. Classification and subsequent measurement (continued)

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

Debt instruments

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

Classification and subsequent measurement of debt instruments depend on:

- (i) The purpose of managing financial assets (business model)
- (ii) The contractual characteristics of cash flows (Solely Payments of Principle and Interest, further "SPPI test" or "SPPI").

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

- **Financial assets measured at amortized cost**

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

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

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

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

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

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

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

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

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

- the assets are managed, evaluated and reported internally on a fair value basis;

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(t) Financial assets and financial liabilities (continued)

2. Classification and subsequent measurement (continued)

- 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.

• 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.

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),

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(t) Financial assets and financial liabilities (continued)

2. Classification and subsequent measurement (continued)

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

- 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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(t) Financial assets and financial liabilities (continued)

2. Classification and subsequent measurement (continued)

Designation at fair value through profit or loss

Financial assets

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

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

Financial liabilities

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

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

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

Loans and receivables from customers

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

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

Investment securities

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

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

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

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

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

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

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(t) Financial assets and financial liabilities (continued)

2. Classification and subsequent measurement (continued)

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

Financial guarantees and loan commitments

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

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

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

- The Bank recognizes a loss allowance.

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

3. Derecognition

Financial assets

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

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(t) Financial assets and financial liabilities (continued)

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

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

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

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

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

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

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

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. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(t) Financial assets and financial liabilities (continued)

4. Modifications of financial assets and 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	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

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(t) Financial assets and financial liabilities (continued)

5. Impairment (continued)

Current provision	Incurred loss	Incurred loss	Lifetime expected loss
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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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

(t) Financial assets and financial liabilities (continued)

5. Impairment (continued)

Accounting Write-off

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

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

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

(u) 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.

(v) 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.

(z) Related parties transactions

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

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

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

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 2024:

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

ab) Changes in accounting policy and disclosures (continued)

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

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, and are applied retrospectively. 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 within twelve months after the reporting period. The newly adopted IFRS and amendments to IFRS did not have a material impact on the Bank's accounting policies.

- **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. 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. Under the amendments, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use it retains. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease. The amendments apply retrospectively to sale and leaseback transactions entered into after the date of initial application, being the beginning of the annual reporting period in which an entity first applied IFRS 16. The newly adopted IFRS and amendments to IFRS did not have a material impact on the Bank's accounting policies.

- **IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments Disclosures - Supplier Finance Arrangements (Amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2024. The amendments supplement requirements already in IFRS and require an entity to disclose the terms and conditions of supplier finance arrangements. Additionally, entities are required to disclose at the beginning and end of reporting period the carrying amounts of supplier finance arrangement financial liabilities and the line items in which those liabilities are presented as well as the carrying amounts of financial liabilities and line items, for which the finance providers have already settled the corresponding trade payables. Entities should also disclose the type and effect of non-cash changes in the carrying amounts of supplier finance arrangement financial liabilities, which prevent the carrying amounts of the financial liabilities from being comparable. Furthermore, the amendments require an entity to disclose at the beginning and end of the reporting period the range of payment due dates for financial liabilities owed to the finance providers and for comparable trade payables that are not part of those arrangements. The newly adopted IFRS and amendments to IFRS did not have a material impact on the Bank's accounting policies.

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

- **IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability (Amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2025, with earlier application permitted. The amendments specify how an entity should assess whether a currency

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

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

is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. A currency is considered to be exchangeable into another currency when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations. If a currency is not exchangeable into another currency, an entity is required to estimate the spot exchange rate at the measurement date. An entity's objective in estimating the spot exchange rate is to reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions. The amendments note that an entity can use an observable exchange rate without adjustment or another estimation technique. The requirements of this standard are not expected to have a material impact on the Bank's financial statements.

- **IFRS 18 Presentation and Disclosure in Financial Statements**

IFRS 18 introduces new requirements on presentation within the statement of profit or loss. It requires an entity to classify all income and expenses within its statement of profit or loss into one of the five categories: operating; investing; financing; income taxes; and discontinued operations. These categories are complemented by the requirements to present subtotals and totals for 'operating profit or loss', 'profit or loss before financing and income taxes' and 'profit or loss'. It also requires disclosure of management-defined performance measures and includes new requirements for aggregation and disaggregation of financial information based on the identified 'roles' of the primary financial statements and the notes. In addition, there are consequential amendments to other accounting standards. IFRS 18 is effective for reporting periods beginning on or after January 1, 2027, with earlier application permitted. Retrospective application is required in both annual and interim financial statements. In the following reporting periods, Management will analyse the requirements of this newly issued standard and assess its impact.

- **IFRS 19 Subsidiaries without Public Accountability: Disclosures**

IFRS 19 permits subsidiaries without public accountability to use reduced disclosure requirements if their parent company (either ultimate or intermediate) prepares publicly available consolidated financial statements in compliance with IFRS accounting standards. These subsidiaries must still apply the recognition, measurement and presentation requirements in other IFRS accounting standards. Unless otherwise specified, eligible entities that elect to apply IFRS 19 will not need to apply the disclosure requirements in other IFRS accounting standards. IFRS 19 is effective for reporting periods beginning on or after January 1, 2027, with early application permitted. 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.

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

(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.

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

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

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

c) Regulatory requirements (continued)

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

Number:	Days of delay	Minimum expected credit loss
1.	do 180 dana	15%
2.	od 181 do 270 dana	45%
3.	od 271 do 365 dana	75%
4.	od 366 do 456 dana	85%
5.	preko 456 dana	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%

(d) Litigation and claims

The total amount of litigations and claims amounts to BAM 9,581 thousand as of 31.12.2024 (31.12.2023: BAM 10,048 thousand).

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

As stated in Note 34, the Bank provided BAM 1,256 thousand as of 31.1.2024 (31.12.2023: BAM 1,653 thousand), which management estimates as sufficient. Since the estimate is made considering the specifics of each individual case based on the likelihood and magnitude of an outflow of resources.

5. FINANCIAL RISK MANAGEMENT

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

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

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

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

5.1 Credit risk

5.1.1 Risk limit control and mitigation policies

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

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

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

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

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

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

Off-balance-sheet credit instruments

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

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

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).

	2024.			2023.	
	Stage 1	Stage 2	Stage 3	Total	Total
Cash and cash equivalents – Note 22					
Performing - Stage 1	644.552	-	-	644.552	538.841
Total Gross	644.552		-	644.552	538.841
	=====	=====	=====	=====	=====
Less: impairment allowance	(598)	-	-	(598)	(511)
	=====	=====	=====	=====	=====
Carrying amount	643.954	-	-	643.954	538.330
	=====	=====	=====	=====	=====
Reserves with Central Bank - Note 25.1					
Performing - Stage 1	244.140	-	-	244.140	224.766
Total Gross	244.140	-	-	244.140	224.766
	=====	=====	=====	=====	=====
Less: impairment allowance	(244)	-	-	(244)	(225)
	=====	=====	=====	=====	=====
Carrying amount	243.896	-	-	243.896	203.062
	=====	=====	=====	=====	=====
Loans and receivables from customers at amortized cost - Note 25.2					
Performing - Stage 1	1.705.616	-	-	1.705.616	1.563.430
Performing - Stage 2	-	175.277	-	175.277	150.345
Past due impaired	-	-	4.824	4.824	5.053
unlikely to pay	-	-	11.836	11.836	11.350
doubtful	-	-	30.765	30.765	35.959
Total Gross	1.705.616	175.277	47.425	1.928.318	1.766.137
	=====	=====	=====	=====	=====
Less: impairment allowance	(20.221)	(20.438)	(37.035)	(77.694)	(79.096)
	=====	=====	=====	=====	=====
Carrying amount	1.685.395	154.839	10.390	1.850.624	1.687.041
	=====	=====	=====	=====	=====

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)

<i>Other financial assets at amortized cost - Note 25.4</i>					
Ostala imovina	8.376	474	1.124	9.974	12.198
Total Gross	8.376	474	1.124	9.974	12.198
Loss allowance	(75)	(103)	(1.067)	(1.245)	(1.109)
Carrying amount	8.301	371	57	8.729	11.089
<i>Financial assets at FVOCI - Note 24</i>					
Performing - Stage 1	154.845	-	-	154.845	120.847
Total Gross	154.845	-	-	154.845	120.847
Loss allowance	-	-	-	-	-
Carrying amount	154.845	-	-	154.845	120.847
Total on-balance exposure	2.736.391	155.210	10.447	2.902.048	2.581.848
<i>Contingent liabilities - Note 39</i>					
Stage 1	149.965	-	-	149.965	156.317
Stage 2	-	3.519	-	3.519	4.700
Stage 3	-	-	-	-	-
Total Gross	149.965	3.519	-	153.484	161.017
Less: impairment allowance	(335)	(134)	-	(469)	(476)
Carrying amount	149.630	3.385	-	153.015	160.541
<i>Loan commitments - Note 39</i>					
Stage 1	454.466	-	-	454.466	395.390
Stage 2	-	23.513	-	23.513	12.680
Stage 3	-	-	377	377	527
Total Gross	454.466	23.513	377	478.356	408.597
Less: impairment allowance	(1.134)	(708)	(171)	(2.013)	(1.703)
Carrying amount	453.332	22.805	206	476.343	406.894
Total off balance exposure	602.962	26.190	206	629.358	567.435
Total exposure to credit risk	3.339.353	181.400	10.653	3.531.406	3.149.283

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.

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.3 Collateral held and other credit enhancements (continued)

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 2024	31 December 2023
LTV ratio		
Less than 50%	62.548	52.158
51–70%	94.160	73.085
71–90%	54.718	60.383
91–100%	10.301	12.771
More than 100%	1.473	418
	=====	=====
Total	223.200	198.815
	=====	=====
Credit-impaired loans	2024	2023
Less than 50%	1.036	1.153
51–70%	576	507
More than 70%	678	890
Total	2.290	2.550
	=====	=====

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).

	2024	2023
Property	34	34
	=====	=====
Total	34	34
	=====	=====

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".

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

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

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

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

(ii) Definition of default

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

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

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

Stage assignment for Loans:

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

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.4 Allowance for expected credit losses (continued)

(ii) Definition of default (continued)

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

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

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

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

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

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

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

2. a quarterly average of more than 1% of the due amount for all exposures in the Bank and more than 110 BAM of the due amount on average for revolving products in the last month, or
2. average quarterly more than 1% of the due amount for all exposures in the Bank and more than 250 BAM of the due amount for all products on the reporting² date.

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

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

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

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

The FBA Decision regulates the rules for classification of financial instruments based on 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 largely consistent with the Guidelines issued by the European Banking Supervisory Authority (EBA).

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

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

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.4 Allowance for expected credit losses (continued)

(ii) Definition of default (continued)

The Decision, like the Guidelines, prescribe automatic 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 - BAM1,000 and 1% of total debtor balance sheet exposure.

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

- a. Individual – 100 EUR and 1% of total debtor balance exposure;
- b. Legal entity – 500 EUR and 1% of total debtor balance sheet exposure.

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

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

(iii) Inclusion of forward-looking element

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

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

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

During 2023 and 2024, 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 (considered as post-model management adjustments): Management overlay based on sensitivity analysis for Retail and Corporate portfolio with respect to the downside risks and uncertainties related to the expectations for 2024. "Management overlay" is estimated to BAM 2,65 million, based on sensitivity analysis in Retail portfolio is estimated to BAM 1,4 million, and BAM 1,25 million in Corporate portfolio, primarily related to the potential increase in NPL portfolio.

(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).

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.4 Allowance for expected credit losses (continued)

(iv) Modified financial assets (continued)

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

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

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

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

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

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

(v) Expected Credit Loss Measurement

The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. In general, the Bank calculates ECL using three main components: a probability of default ("PD"); a loss given default ("LGD"); and the exposure at default ("EAD").

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

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

Loss given default (LGD) measures the expected loss suffered by the Bank in the event of counterparty's default. In ISP 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.

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 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)

Loans and advances to customers at amortized cost	2024				2023			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January	18,419	19,387	41,290	79,096	20,224	16,984	42,852	80,060
First time adoption of FBA Impairments	-	-	-	-	0	0	0	0
Transfers to Stage 1	7,890	-7,830	-60	0	6,445	-6,391	-54	0
Transfers to Stage 2	-3,157	4,638	-1,481	0	-1,392	3,113	-1,721	0
Transfers to Stage 3	-2	-2,817	2,819	0	-5	-3,126	3,131	0
Net remeasurement of loss allowance	10,615	5,227	2,279	18,121	8,458	4,785	2,286	15,529
New financial assets originated or purchased	-8,349	11,169	5,498	8,318	-8,985	11,187	9,201	11,403
Financial assets that have been derecognized	-5,195	-9,337	-9,659	-24,191	-6,326	-7,166	-9,248	-22,740
Total effect through Profit and Loss (Note 25)	-2,929	7,059	-1,882	2,248	-6,853	8,806	2,239	4,192
Write off-s	-	-	-3,801	-3,801	0	0	-5,126	-5,126
Unwinding the discount	-	-	-133	-133	-	-	-252	-252
Sale and other movements	-	1,00	283	284	0	1	221	222
Balance as at 31 December	20,221	20,438	37,035	77,694	18,419	19,387	41,290	79,096

In Other Assets positions there have been no movements between stages in 2024.

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

31 December 2024	Stage 1	Stage 2	Stage 3	Total
Gross exposure				
Retail loans				
Consumer loans	404.850	39.634	29.189	473.673
Housing loans	290.548	18.288	5.589	314.425
Credit card loans and overdrafts	37.172	6.820	2.618	46.610
Total	732.570	64.742	37.396	834.708
Corporate loans				
Large	523.163	59.843	1.469	584.475
Other	449.883	50.692	8.560	509.135
Total	973.046	110.535	10.029	1.093.610
Total Gross exposure	1.705.616	175.277	47.425	1.928.318

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.4 Allowance for expected credit losses (continued)

(v) Expected Credit Loss Measurement (continued)

	Stage 1	Stage 2	Stage 3	Total
Impairment				
Retail loans				
Consumer loans	8.500	6.587	24.712	39.799
Housing loans	2.667	1.918	3.049	7.634
Credit card loans and overdrafts	759	483	2.198	3.440
	=====	=====	=====	=====
Total	11.926	8.988	29.959	50.873
	=====	=====	=====	=====
Corporate loans				
Large	4.870	6.058	694	11.622
Other	3.425	5.392	6.382	15.199
	=====	=====	=====	=====
Total	8.295	11.450	7.076	26.821
	=====	=====	=====	=====
Total Impairment	20.221	20.438	37.035	77.694
	=====	=====	=====	=====
	1.685.395	154.839	10.390	1.850.624
	=====	=====	=====	=====

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

31 December 2023	Stage 1	Stage 2	Stage 3	Total
Gross exposure				
Retail loans				
Consumer loans	382.521	35.891	32.671	451.083
Housing loans	254.669	15.903	6.411	276.983
Credit card loans and overdrafts	38.641	6.416	3.052	48.109
	=====	=====	=====	=====
Total	675.831	58.210	42.134	776.175
	=====	=====	=====	=====
Corporate loans				
Large	446.671	37.681	302	484.654
Other	440.928	54.454	9.926	505.308
	=====	=====	=====	=====
Total	887.599	92.135	10.228	989.962
	=====	=====	=====	=====
Total Gross exposure	1.563.430	150.345	52.362	1.766.137
	=====	=====	=====	=====

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.4 Allowance for expected credit losses (continued)

(v) Expected Credit Loss Measurement (continued)

	Stage 1	Stage 2	Stage 3	Total
Impairment				
Retail loans				
Consumer loans	7.991	4.925	27.066	39.982
Housing loans	2.211	1.601	3.671	7.483
Credit card loans and overdrafts	734	464	2.528	3.726
Total	10.936	6.990	33.265	51.191
Corporate loans				
Large	4.499	4.739	213	9.451
Other	2.984	7.658	7.812	18.454
Total	7.483	12.397	8.025	27.905
Total Impairment	18.419	19.387	41.290	79.096
Total Net Exposure	1.545.011	130.958	11.072	1.687.041

Non-performing loans - Stage 3

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

	Retail loans			Corporate loans			
	Consumer loans	Housing loans	Credit card loans and overdrafts	Total	Large	Other	Total
31 December 2024							
Gross exposure	29.189	5.589	2.618	37.396	1.469	8.560	10.029
Impairment	(24.712)	(3.049)	(2.198)	(29.959)	(694)	(6.382)	(7.076)
Net	4.477	2.540	420	7.437	775	2.178	2.953
Rate of impairment	85%	55%	84%	80%	47%	75%	71%

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.4 Allowance for expected credit losses (continued)

Non-performing loans - Stage 3 (continued)

Estimated value of collateral							
Mortgage	103	2.539	-	2.642	-	1.030	1.030
	_____	_____	_____	_____	_____	_____	_____
Total	103	2.539	-	2.642	-	1.030	1.030
	=====	=====	=====	=====	=====	=====	=====

	Retail loans			Corporate loans			
	Consumer loans	Housing loans	Credit card loans and overdrafts	Total	Large	Other	Total
31 December 2023							
Gross exposure	32.671	6.411	3.052	42.134	302	9.926	10.228
Impairment	(27.066)	(3.671)	(2.528)	(33.265)	(213)	(7.812)	(8.025)
	_____	_____	_____	_____	_____	_____	_____
Net	5.605	2.740	524	8.869	89	2.114	2.203
	_____	_____	_____	_____	_____	_____	_____
Rate of impairment	83%	57%	83%	79%	71%	79%	78%
	=====	=====	=====	=====	=====	=====	=====
Estimated value of collateral							
Mortgage	185	2.737	-	2.922	-	1.605	1.605
	_____	_____	_____	_____	_____	_____	_____
Total	185	2.737	-	2.922	-	1.605	1.605
	=====	=====	=====	=====	=====	=====	=====

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 10,284 thousand for corporate loans and BAM 13,363 thousand for retail loans as of 31st December 2024 (2023: BAM 9,277 thousand for corporate and BAM 14,510 for retail loans).

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.4 Allowance for expected credit losses (continued)

Loans and receivables with renegotiated terms (continued)

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 2024							
Gross exposure	12.489	874	-	13.363	-	10.284	10.284
Impairment	(8.120)	(133)	-	(8.253)	-	(2.538)	(2.538)
	—	—	—	—	—	—	—
Net	4.369	741	-	5.110	-	7.746	7.746
	—	—	—	—	—	—	—
<i>Rate of impairment</i>	65%	15%	-	62%	-	25%	25%
	==	==	==	==	==	==	==

	Retail loans			Corporate loans			
	Consumer loans	Housing loans	Credit card loans and overdrafts	Total	Large	Other	Total
31 December 2023							
Gross exposure	13.431	1.050	29	14.510	752	8.525	9.277
Impairment	(8.680)	(218)	(18)	(8.916)	(40)	(2.104)	(2.144)
	—	—	-	—	—	—	—
Net	4.751	832	11	5.594	712	6.421	7.133
	—	—	-	—	—	—	—
<i>Rate of impairment</i>	65%	21%	62%	61%	5%	25%	23%
	==	==	==	==	==	==	==

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:

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.5 Concentration of credit risk per geographic location (continued)

	Bosnia and Herzegovina	EU countries	Non-EU countries	Total
31 December 2024				
FINANCIAL ASSETS				
Cash and cash equivalents	385.750	211.233	46.971	643.954
Financial assets at fair value through other comprehensive income	26.307	128.538	-	154.845
Financial assets at fair value through P&L	-	956	-	956
Financial assets at amortized cost	2.099.606	3.643	-	2.103.249
TOTAL FINANCIAL ASSETS	2.511.663	344.370	46.971	2.903.004
	=====	=====	=====	=====

	Bosnia and Herzegovina	EU countries	Non-EU countries	Total
31 December 2023				
FINANCIAL ASSETS				
Cash and cash equivalents	429.021	99.047	10.262	538.330
Financial assets at fair value through other comprehensive income	20.151	100.696	-	120.847
Financial assets at fair value through P&L	-	270	-	270
Financial assets at amortized cost	1.917.060	5.611	-	1.922.671
TOTAL FINANCIAL ASSETS	2.366.232	205.624	10.262	2.582.118
	=====	=====	=====	=====

5.1.6 Decision on temporary measures to mitigate the risk of interest rate increase and Decision on special measures applied by the bank in extraordinary circumstances - floods of October 2024

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

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

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 and Decision on special measures applied by the bank in extraordinary circumstances - floods of October 2024 (continued)

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 started to implement a product with a combination of fixed and variable interest rates (fixed to variable), which in the first years of loan repayment would have a fixed interest rate, and after that period the interest would be variable so that in the first years of repayment during the existence of significant interest rate fluctuations rates on the market, clients were protected from interest-induced credit risk.
- The Bank also introduced additional monitoring and reporting by the Credit Risk Management Committee on the quality of the portfolio with a variable interest rate in order to recognize potential vulnerabilities and deterioration of the portfolio in time.

As of 31 December 2024, the Bank recorded 790 loans in total amount of BAM 72,054 thousand with significant increase of interest rate in comparison with reference date from the FBA decision, i.e. 30.06.2022. (2023 year: 504 loans; 55,901 thousand BAM).

On October 8, 2024, the Banking Agency of the Federation of BiH adopted a Decision on special measures that the bank applies in extraordinary circumstances - the floods of October 2024.

The Bank has conducted an analysis of the potential effects of this Decision, and has not had a single request from its clients for its application.

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 financial liabilities as of 31st December 2024 and 31st December 2023, except for financial assets at fair value through other comprehensive income which have been classified in accordance with their secondary liquidity characteristic as maturing within one month and obligatory reserves which have been classified in the maturity period within one month. Other items of assets and liabilities that have no contractual maturities are classified as having a remaining maturity of over 5 years.

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
31st December 2024						
Financial Assets						
Cash and cash equivalents	635.670	8.284	-	-	-	643.954
Financial assets at fair value through profit and loss	956	-	-	-	-	956
Financial assets at fair value through other comprehensive income	20.129	44.620	75.753	14.180	163	154.845
Financial assets at amortized cost	371.836	192.404	879.351	354.811	304.847	2.103.249
<i>Reserves with Central Bank</i>	243.896	-	-	-	-	243.896
<i>Loans and receivables from customers</i>	119.211	192.404	879.351	354.811	304.847	1.850.624
<i>Other financial assets at amortized cost</i>	8.729	-	-	-	-	8.729
Prepaid profit tax	3.750	-	-	-	-	3.750
	=====	=====	=====	=====	=====	=====
Total	1.032.341	245.308	955.104	368.991	305.010	2.906.754
	=====	=====	=====	=====	=====	=====
Financial Liabilities						
Financial liabilities valued at amortized cost	1.569.473	41.151	252.371	670.487	40.324	2.573.806
<i>Deposits from banks and other financial institutions</i>	27.053	5.800	44.300	44.968	-	122.121
<i>Deposits from customers</i>	1.510.179	31.971	170.174	446.993	14.719	2.174.036
<i>Liabilities for loans and other borrowings</i>	20	3.036	34.688	166.035	16.133	219.912
<i>Lease payables</i>	171	344	3.209	12.491	9.472	25.687

5. FINANCIAL RISK MANAGEMENT (continued)

5.2 Liquidity risk management (continued)

<i>Other financial liabilities valued at amortized cost</i>	32.050	-	-	-	-	32.050
Total	1.569.473	41.151	252.371	670.487	40.324	2.573.806
Maturity gap	(537.132)	204.157	702.733	(301.496)	264.686	332.948

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
31st December 2023						
Financial Assets						
Cash and cash equivalents	538.330	-	-	-	-	538.330
Financial assets at fair value through profit and loss	-	-	270	-	-	270
Financial assets at fair value through other comprehensive income	9.981	19.849	37.463	53.395	159	120.847
Financial assets at amortized cost	327.426	123.940	517.366	680.132	273.807	1.922.671
<i>Reserves with Central Bank</i>	224.541	-	-	-	-	224.541
<i>Loans and receivables from customers</i>	91.796	123.940	517.366	680.132	273.807	1.687.041
<i>Other financial assets at amortized cost</i>	11.089	-	-	-	-	11.089
Prepaid profit tax	3.402	-	-	-	-	3.402
Total	879.139	143.789	555.099	733.527	273.966	2.585.520
Financial Liabilities						
Financial liabilities valued at amortized cost	1.430.490	65.665	274.380	450.551	42.826	2.263.912
<i>Deposits from banks and other financial institutions</i>	9.491	3.552	34.069	46.306	-	93.418
<i>Deposits from customers</i>	1.384.192	58.650	203.348	288.517	14.373	1.949.080
<i>Liabilities for loans and other borrowings</i>	271	3.053	35.058	109.268	27.920	175.570
<i>Lease payables</i>	203	410	1.905	6.460	533	9.511
<i>Other financial liabilities valued at amortized cost</i>	36.333	-	-	-	-	36.333
Total	1.430.490	65.665	274.380	450.551	42.826	2.263.912
Maturity gap	(551.351)	78.124	280.719	282.976	231.140	321.608

5. FINANCIAL RISK MANAGEMENT (continued)

5.2 Liquidity risk management (continued)

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 (Note 39).

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total gross cash flows	Total carrying amount
31 December 2024							
Financial commitments and contingencies							
Undrawn credit lines	17.737	32.620	151.227	276.772	-	478.356	478.356
Contingent liabilities	8.164	31.586	64.108	46.215	3.411	153.484	153.484
	=====	=====	=====	=====	=====	=====	=====
Total contingent liabilities and commitments	25.901	64.206	215.335	322.987	3.411	631.840	631.840
	=====	=====	=====	=====	=====	=====	=====
31 December 2023							
Financial commitments and contingencies							
Undrawn credit lines	15.719	27.395	155.046	210.437	-	408.597	408.597
Contingent liabilities	17.784	26.282	67.824	45.716	3.411	161.017	161.017
	=====	=====	=====	=====	=====	=====	=====
Total contingent liabilities and commitments	33.503	53.677	222.870	256.153	3.411	569.614	569.614
	=====	=====	=====	=====	=====	=====	=====

Total expected outflow

The estimated future cash flows for the Bank's interest-bearing liabilities, including expected interest as at 31 December 2024 and as at 31 December 2023 are shown in the following table:

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total	Carrying value
31 December 2024							
Liabilities							
Due to banks and other financial institutions	27.120	6.174	45.989	47.987	-	127.270	122.121
Due to borrowings	63	3.813	37.681	173.710	16.250	231.517	219.912
Due to customers	1.511.273	33.230	175.354	467.101	15.286	2.202.244	2.174.036

5. FINANCIAL RISK MANAGEMENT (continued)

5.2 Liquidity risk management (continued)

Total expected outflow Total expected outflow (continued)

Lease Liabilities	238	476	3.772	14.506	10.252	29.244	25.687
	—	—	—	—	—	—	—
Total expected outflow	1.538.694	43.693	262.796	703.304	41.788	2.590.275	2.541.756
	—	—	—	—	—	—	—

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total	Carrying value
31 December 2023							
Liabilities							
Due to banks and other financial institutions	9.496	3.757	35.347	48.312	-	96.912	93.650
Due to borrowings	322	3.117	36.800	112.764	28.196	181.199	175.570
Due to customers	1.383.752	59.874	206.217	299.764	14.929	1.964.536	1.948.848
Lease Liabilities	204	457	2.028	6.720	533	9.942	9.511
	—	—	—	—	—	—	—
Total expected outflow	1.393.774	67.205	280.392	467.560	43.658	2.252.589	2.227.579
	—	—	—	—	—	—	—

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.

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 MARKET RISK (continued)

5.3.1 Foreign exchange risk (continued)

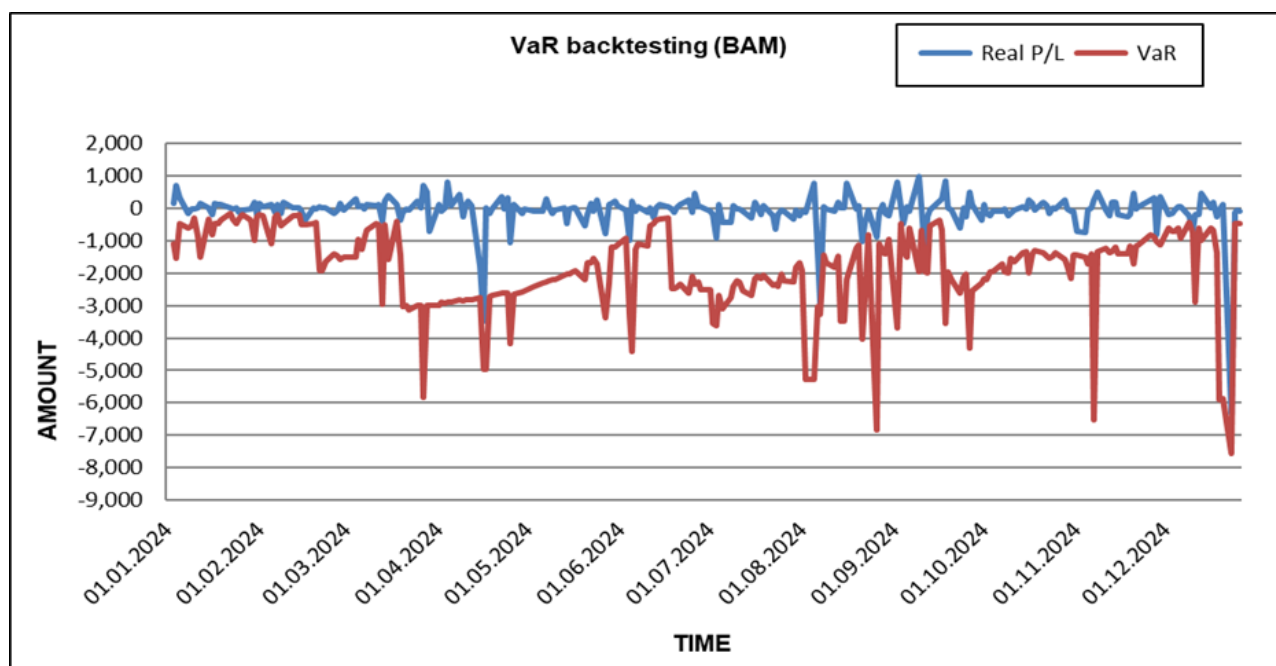
The main model assumptions are:

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

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

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

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



**The table above shows Value at Risk (VaR) and it is stated in BAM*

During 2024, the Bank improved the model for calculation of VaR in accordance with best practices and as a result, the Bank recorded one exceptions (results for 2023: there was zero 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 2024

Currency	Open position (in BAM)	Stress Test	
		10% Move Up	10% Move Down
CHF	(986)	(99)	99
GBP	3.040	304	(304)
USD	(9.983)	(998)	998
CAD	959	96	(96)
SEK	(617)	(62)	62
Other	(4.398)	(440)	440
EUR	2.406.724	240.672	(240.672)

31st December 2023

Currency	Open position (in BAM)	Stress Test	
		10% Move Up	10% Move Down
CHF	(20.725)	(2.073)	2.073
GBP	770	77	(77)
USD	12.077	1.208	(1.208)
CAD	5.915	592	(592)
SEK	1.180	118	(118)
Other	3.708	371	(371)
EUR	1.415.990	141,599	(141.599)

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, in absolute value.

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 2024 and 31 December 2023. Included in the table are the Bank's financial assets and financial 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:

31. decembar 2024.	EUR	EUR Linked	EUR Total	USD	Other FX	BAM	Total
Financial Assets							
Cash and cash equivalents	191.295	-	191.295	46.639	26.573	379.447	643.954
Financial assets at fair value through profit and loss	956	-	956	-	-	-	956
Financial assets at fair value through other comprehensive income	128.539	-	128.539	-	-	26.306	154.845
Financial assets at amortized cost	11.748	609.488	621.236	1	2	1.482.010	2.103.249
<i>Reserves with Central Bank</i>	5.874	-	5.874	-	-	238.022	243.896
<i>Loans and receivables from customers</i>	-	609.488	609.488	-	-	1.241.136	1.850.624
<i>Other financial assets at amortized cost</i>	5.874	-	5.874	1	2	2.852	8.729
Prepaid profit tax	-	-	-	-	-	3.750	3.750
	—	—	—	—	—	—	—
Total	332.538	609.488	942.026	46.640	26.575	1.891.513	2.906.754
	—	—	—	—	—	—	—
Financial Liabilities							
Financial liabilities valued at amortized cost	758.407	209.573	967.980	46.636	24.470	1.534.720	2.573.806
<i>Deposits from banks and other financial institutions</i>	5.298	65.823	71.121	14.176	-	36.824	122.121
<i>Deposits from customers</i>	530.193	143.750	673.943	32.073	24.450	1.443.570	2.174.036
<i>Liabilities for loans and other borrowings</i>	219.912	-	219.912	-	-	-	219.912
<i>Obligations based on leases</i>	-	-	-	-	-	25.687	25.687
<i>Other financial obligations valued at amortized cost</i>	3.004	-	3.004	387	20	28.639	32.050
	—	—	—	—	—	—	—
Total	758.407	209.573	967.980	46.636	24.470	1.534.720	2.573.806
	—	—	—	—	—	—	—
Maturity gap	(425.869)	399.915	(25.954)	4	2.105	356.793	332.948
	—	—	—	—	—	—	—

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 MARKET RISK (continued)

5.3.1 Foreign exchange risk (continued)

Foreign exchange position (continued)

31st December 2023	EUR	EUR Linked	EUR Total	USD	Other FX	BAM	Total
Financial Assets							
Cash and cash equivalents	83.203	-	83.203	9.556	23.404	422.167	538.330
Financial assets at fair value through profit and loss	270	-	270	-	-	-	270
Financial assets at fair value through other comprehensive income	106.935	-	106.935	-	-	13.912	120.847
Financial assets at amortized cost	7.255	564.604	571.859	-	-	1.350.812	1.922.671
<i>Reserves with Central Bank</i>	-	-	-	-	-	224.541	224.541
<i>Loans and receivables from customers</i>	-	564.604	564.604	-	-	1.122.437	1.687.041
<i>Other financial assets at amortized cost</i>	7.255	-	7.255	-	-	3.834	11.089
Prepaid profit tax	-	-	-	-	-	3.402	3.402
	=====	=====	=====	=====	=====	=====	=====
Total Assets	197.663	564.604	762.267	9.556	23.404	1.790.293	2.585.520
	=====	=====	=====	=====	=====	=====	=====
Financial Liabilities							
Financial liabilities valued at amortized cost	665.541	171.932	837.473	29.010	23.414	1.374.015	2.263.912
<i>Deposits from banks and other financial institutions</i>	2.629	79.051	81.680	-	-	11.970	93.650
<i>Deposits from customers</i>	482.691	92.881	575.572	28.298	23.379	1.321.599	1.948.848
<i>Liabilities for loans and other borrowings</i>	175.570	-	175.570	-	-	-	175.570
<i>Obligations based on leases</i>	-	-	-	-	-	9.511	9.511
<i>Other financial obligations valued at amortized cost</i>	4.651	-	4.651	712	35	30.935	36.333
	=====	=====	=====	=====	=====	=====	=====
Total	665.541	171.932	837.473	29.010	23.414	1.374.015	2.263.912
	=====	=====	=====	=====	=====	=====	=====
Maturity gap	(467.878)	392.672	(75.206)	(19.454)	(10)	416.278	321.608
	=====	=====	=====	=====	=====	=====	=====

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 MARKET RISK (continued)

5.3.2 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 2024, the effect, in terms of economic value of interest risk-sensitive balance-sheet portfolios, would have been BAM -12,467 thousand (31 December 2023: BAM -10,780 thousand).

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 MARKET RISK (continued)

5.3.2 Interest rate risk (continued)

In 2024 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 2024				31st December 2023			
	TOTAL	0-18 month	18 months - 5 years	over 5 years	TOTAL	0-18 month	18 months - 5 years	over 5 years
EUR	(3.815)	339	3.224	(7.378)	(2.421)	(374)	2.850	(4.897)
USD	268	35	228	5	204	28	171	5
CHF	1	(2)	3	-	98	6	92	-
BAM	(8.922)	(2.527)	(3.637)	(2.758)	(8.660)	(2.162)	(3.791)	(2.707)
Other currencies	1	1	-	-	(1)	(1)	-	-
	_____	_____	_____	_____	_____	_____	_____	_____
Total	(12.467)	(2.154)	(182)	(10.131)	(10.780)	(2.503)	(678)	(7.599)
	=====	=====	=====	=====	=====	=====	=====	=====

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 2024 is an increase of BAM 10,167 thousand (31 December 2023: BAM 7,737 thousand), while if changes in interest rates market moving had been 100 basis points lower the result is decrease of BAM 11,132 thousand as of 31 December 2023 (31 December 2023: decrease of BAM 8,932 thousand). In addition, the Bank also prepares shift sensitivity of the interest margin based on the sensitivity range of +50/-0 bps. Increase by 50 bps of interest rates would increase the result for the year by BAM 5,152 thousand, while a decrease by 50 bps in interest rates would decrease result for the year by BAM 5,552 thousand as of 31 December 2023 (31 December 2023: BAM 3,930 thousand for +50 bps and decrease of BAM 4,459 thousand for -50 bps).

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 MARKET RISK (continued)

5.3.2 Interest rate risk (continued)

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

5.4 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 Bank as of 31 December 2024 and 31 December 2023, taken from the calculations submitted to the Agency in respect of those period-ends.

	31 December 2024	31 December 2023
Tier 1 capital		
Share capital	44.776	44.776
Share premium	57.415	57.415
Reserves	241.936	212.297
Intangible assets	(2.036)	(4.717)

5. FINANCIAL RISK MANAGEMENT (continued)

5.4 Capital management (continued)

Total qualifying Tier 1 Capital	342.091	309.771
	—	—
Tier 2 capital		
Priority shares	6	6
	—	—
Total qualifying Tier 2 Capital	6	6
	==	==
Total regulatory capital	342.097	309.777
	==	==
Capital requirements (*)		
Risk weighted assets	1.721.052	1.484.757
Operational risk	111.664	107.715
	—	—
Total	1.832.716	1.592.472
	==	==
Capital adequacy ratio (unaudited)	18,67%	19,45%
	==	==

(*) 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 11,02% as of 31 December 2024 (regulatory limit: 6,0%), calculated in accordance with FBA Decision on the Bank's Capital Calculation as ration between Tier 1 Capital and Exposure in accordance with FBA Decision.

5.5 Climate changes risk

Climate change and environmental degradation give rise to structural changes that affect economic activity and, consequently, the financial system. Banks have a key role to play in the area of climate change as they are able to direct funding and investments towards environmentally sustainable transactions and companies in order to limit the risks associated with climate change.

Climate and environmental risks are the two main risk factors that cut across all traditional risk families:

- physical risk, means the economic/financial impact resulting from tangible events related to climate change, including more frequent extreme weather events and gradual climate change, as well as environmental degradation, i.e. air, water and soil pollution, water stress, loss of biodiversity and deforestation. Physical risk is classified as "acute" if caused by extreme events such as floods, storms and fires, and "chronic" if caused by progressive changes such as rising temperatures leading to droughts, rising sea levels, water stress, loss of biodiversity, land-use change, habitat destruction and resource scarcity. This risk can lead directly to, for example, material damage or a drop-in productivity, or have indirect impact such as disruption of production chains;
- transition risk means the economic/financial loss that an institution may incur, directly or indirectly, as a result of failing to adjust to a low-carbon and more environmentally sustainable economy. This could be caused, for example, by the relatively sudden adoption of climate and environmental policies, technological progress or changing market confidence and preferences.

5. FINANCIAL RISK MANAGEMENT (continued)

5.5 Climate changes risk (continued)

The impact that climate and environmental risks have on the activities may occur directly, e.g. through reduced profitability of companies or devaluation of assets, or indirectly, e.g. through legal challenges (legal risk) or reputational damage that arises if the public, the institution's counterparties and/or investors associate the institution with adverse environmental effects (reputational risk).

The Bank takes into account the environmental, social and governance risks associated with the activities of client companies and the economic activities in which they invest, also in relation to the context in which they operate. In particular, these factors can be considered according to the principle of double materiality in the:

- financial area, in terms of the impact of ESG risk factors on the "performance, development and position" of the economic activity considered
- social and environmental area, in terms of the impact that economic and financial activities have on the environmental and social context in which they take place.

The Chief Risk Officer Division has a particular focus on the impacts that environmental and climate risk factors generate, integrating them into the various risk management areas and carrying out monitoring and coordination of ESG risks in order to guarantee vision and consistency in terms of approaches and methodologies adopted.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

6.1 Valuation models

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

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

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

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

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

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

6.1 Valuation models (continued)

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.

31 December 2024	Note	Level 1	Level 2	Level 3	Total
Financial assets at fair value through other comprehensive income	24				
Treasury bills issued by the Belgium		19.768	-	-	19.768
Treasury bills issued by the FBiH		-	17.589	-	17.589
Treasury bills issued by the Spain		10.075	-	-	10.075
Bonds issued by the Croatia		40.096	-	-	40.096
Bonds issued by the Luxembourg		28.996	-	-	28.996
Bonds issued by the Spain		19.763	-	-	19.763
Bonds issued by the France		9.730	-	-	9.730
Bonds issued by the FBiH		-	8.665	-	8.665
Equity securities issued by non-resident legal entities		-	109	-	109
Equity securities issued by resident legal entities		-	54	-	54
		=====	=====	=====	=====
Financial assets at fair value through profit and loss					
Equity shares	23	956	-	-	956
Derivatives held for trading – OTC product	26	-	27	-	27
Total		129.384	26.444	-	155.828
		=====	=====	=====	=====
Financial liabilities at fair value through profit and loss					
Derivatives held for trading – OTC product	32	-	-	-	-
		=====	=====	=====	=====
Total		-	-	-	-
		=====	=====	=====	=====

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

31 December 2023	Note	Level 1	Level 2	Level 3	Total
Financial assets at fair value through other comprehensive income	24				
Treasury bills issued by the Spain		19.642	-	-	19.642
Treasury bills issued by the France		19.414	-	-	19.414
Treasury bills issued by the Belgium		9.930	-	-	9.930
Treasury bills issued by the FBiH		-	9.789	-	9.789
Bonds issued by the Croatia		39.836	-	-	39.836
Bonds issued by the France		9.490	-	-	9.490
Bonds issued by the Luxembourg		8.517	-	-	8.517
Bonds issued by the FBiH		-	4.070	-	4.070
Equity securities issued by non-resident legal entities		-	105	-	105
Equity securities issued by resident legal entities		-	54	-	54
		=====	=====	=====	=====
Financial assets at fair value through profit and loss					
Equity shares	23	270	-	-	270
Derivatives held for trading – OTC product	26	-	4	-	4
Total		107.099	14.022	-	121.121
		=====	=====	=====	=====
Financial liabilities at fair value through profit and loss					
Derivatives held for trading – OTC product	32	-	311	-	311
Total		-	311	-	311
		=====	=====	=====	=====

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 2024	Level 1	Level 2	Level 3	Total fair value	Carrying value
Assets					
Cash and cash equivalents	-	144.654	499.300	643.954	643.954
Reserves with the Central Bank	-	-	243.896	243.896	243.896

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

6.3 Financial instruments not measured at fair value (continued)

Loans and receivables from customers	-	444.325	1.360.342	1.804.667	1.850.624
Other assets at amortized cost	-	-	8.729	8.729	8.729
Total	-	588.979	2.112.267	2.701.246	2.747.203
Liabilities					
Due to banks and other financial institutions	-	56.522	64.396	120.918	122.121
Due to customers	-	1.529.042	639.310	2.168.352	2.174.036
Borrowings	-	-	181.543	181.543	219.912
Lease Liabilities	-	-	25.687	25.687	25.687
Total	-	1.585.564	910.936	2.496.500	2.541.756

31 December 2023	Level 1	Level 2	Level 3	Total fair value	Carrying value
Assets					
Cash and cash equivalents	-	60.340	477.990	538.330	538.330
Reserves with the Central Bank	-	-	224.541	224.541	224.541
Loans and receivables from customers	-	343.162	1.292.853	1.636.015	1.687.041
Other assets at amortized cost	-	-	11.089	11.089	11.089
Total	-	403.502	2.006.473	2.409.975	2.461.001
Liabilities					
Due to banks and other financial institutions	-	30.898	59.473	90.371	93.650
Due to customers	-	1.435.968	504.875	1.940.843	1.948.848
Borrowings	-	-	159.537	159.537	175.570
Lease Liabilities	-	-	9.511	9.511	9.511
Total	-	1.466.866	733.396	2.200.262	2.227.579

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

6.3 Financial instruments not measured at fair value (continued)

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

Cash and cash equivalents

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

Placements with other banks

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

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

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

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

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

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

7. OPERATING SEGMENTS

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

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

7. OPERATING SEGMENTS (continued)

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.

Segmental information for the year ended 31st December 2024

	Retail	Corporate	Treasur	Total
PROFIT AND LOSS				
Income from interest and similar income at the effective interest rate	44.039	26.852	13.885	84.776
Interest expenses and similar expenses at the effective interest rate	(7.397)	(7.246)	(3.881)	(18.524)
	=====	=====	=====	=====
Net income/(expenses) from interest and similar income at the effective interest rate	36.642	19.606	10.004	66.252
	=====	=====	=====	=====
Income from fees and commissions	28.826	12.885	340	42.051
Expenses from fees and commissions	(6.278)	(4.417)	(387)	(11.082)
	=====	=====	=====	=====
Net income/(expenses) from fees and commissions	22.548	8.468	(47)	30.969
	=====	=====	=====	=====
Impairments and provisions	(3.310)	(947)	(458)	(4.715)
Other gains and (losses) from financial assets	-	-	137	137
Net gains/(losses) from derivative financial instruments	-	-	504	504
Net positive/(negative) exchange rate differences	-	-	4.716	4.716
Gains and (losses) from long-term non-financial assets	-	-	(6)	(6)
Income from dividends	-	-	47	47
Other income	1.802	353	=	2.155
Personnel expenses	(25.036)	(7.037)	(837)	(32.910)

7. OPERATING SEGMENTS (continued)

Depreciation costs	(5.308)	(745)	(110)	(6.163)
Other costs and expenses	(21.929)	(6.580)	(2.099)	(30.608)
	=====	=====	=====	=====
PROFIT/(LOSS) FROM REGULAR BUSINESS BEFORE TAX	5.409	13.118	11.851	30.378
	=====	=====	=====	=====
Current income tax				(3.642)
Deferred income tax				(4)
				=====
TOTAL TAX FOR THE YEAR				(3.646)
				=====
NET PROFIT FOR THE YEAR				26.732
				=====

Segmental information as of 31st December 2023

	Retail	Corporate	Treasur	Total
ASSETS				
Cash and cash equivalents	50.082	-	593.872	643.954
Financial assets at fair value through profit and loss	-	-	956	956
Financial assets at fair value through other comprehensive income	-	-	154.845	154.845
Financial assets at amortized cost	788.872	1.067.382	246.995	2.103.249
<i>Reserves with Central Bank</i>	-	-	243.896	243.896
<i>Loans and receivables from customers</i>	783.835	1.066.789	-	1.850.624
<i>Other financial assets at amortized cost</i>	5.037	593	3.099	8.729
Other unallocated amounts	-	-	-	49.126
	=====	=====	=====	=====
TOTAL ASSETS	838.954	1.067.382	996.668	2.952.130
	=====	=====	=====	=====
LIABILITIES				
Financial liabilities valued at amortized cost	986.828	1.349.078	237.900	2.573.806
<i>Deposits from banks and other financial institutions</i>	-	104.402	17.719	122.121
<i>Deposits from customers</i>	963.255	1.210.781	-	2.174.036
<i>Liabilities for loans and other borrowings</i>	-	-	219.912	219.912
<i>Obligations based on leases</i>	2.428	23.259	-	25.687
<i>Other financial obligations valued at amortized cost</i>	21.145	10.636	269	32.050

7. OPERATING SEGMENTS (continued)

Other unallocated amounts	-	-	-	5.753
	=====	=====	=====	=====
TOTAL LIABILITIES	986.828	1.349.078	237.900	2.579.559
	=====	=====	=====	=====

Segment information for the year ended 31st December 2023

	Retail	Corporate	Treasur	Total
PROFIT AND LOSS				
Income from interest and similar income at the effective interest rate	42.246	24.594	8.776	75.616
Interest expenses and similar expenses at the effective interest rate	(3.773)	(3.337)	(3.077)	(10.187)
Net income/(expenses) from interest and similar income at the effective interest rate	38.473	21.257	5.699	65.429
	=====	=====	=====	=====
Income from fees and commissions	26.333	12.333	675	39.341
Expenses from fees and commissions	(5.542)	(3.733)	(382)	(9.657)
	=====	=====	=====	=====
Net income/(expenses) from fees and commissions	20.791	8.600	293	29.684
	=====	=====	=====	=====
Impairments and provisions	(4.255)	(4.530)	(382)	(9.167)
Other gains and (losses) from financial assets	-	-	43	43
Net gains/(losses) from derivative financial instruments	-	-	388	388
Net positive/(negative) exchange rate differences	-	-	3.851	3.851
Gains and (losses) from long-term non-financial assets	-	-	(70)	(70)
Income from dividends	-	-	15	15
Other income	1.965	481	-	2.446
Personnel expenses	(21.818)	(6.053)	(706)	(28.577)
Depreciation costs	(4.749)	(660)	(76)	(5.485)
Other costs and expenses	(19.936)	(5.849)	(1.543)	(27.328)
	=====	=====	=====	=====
PROFIT/(LOSS) FROM REGULAR BUSINESS BEFORE TAX	10.471	13.246	7.512	31.229
	=====	=====	=====	=====
Current income tax				(3.925)
Deferred income tax				146

7. OPERATING SEGMENTS (continued)

TOTAL TAX FOR THE YEAR				(3.779)
NET PROFIT FOR THE YEAR				27.450

Segment information as of 31st December 2023

	Retail	Corporate	Treasur	Total
ASSETS				
Cash and cash equivalents	42.461	-	495.869	538.330
Financial assets at fair value through profit and loss	-	-	270	270
Financial assets at fair value through other comprehensive income	-	-	120.847	120.847
Financial assets at amortized cost	732.382	962.664	227.625	1.922.671
<i>Reserves with Central Bank</i>	-	-	224.541	224.541
<i>Loans and receivables from customers</i>	725.014	962.027	-	1.687.041
<i>Other financial assets at amortized cost</i>	7.368	637	3.084	11.089
Other unallocated amounts	-	-	-	31.670
TOTAL ASSETS	774.843	962.664	844.611	2.613.788
LIABILITIES				
Financial liabilities valued at amortized cost	873.575	1.208.331	182.006	2.263.912
<i>Deposits from banks and other financial institutions</i>	-	87.608	6.042	93.650
<i>Deposits from customers</i>	851.876	1.096.972	-	1.948.848
<i>Liabilities for loans and other borrowings</i>	-	-	175.570	175.570
<i>Obligations based on leases</i>	3.279	6.232	-	9.511
<i>Other financial obligations valued at amortized cost</i>	18.420	17.519	394	36.333
Other unallocated amounts	-	-	-	6.226
TOTAL LIABILITIES	873.575	1.208.331	182.006	2.270.138

8. INTEREST AND SIMILAR INCOME AT THE EFFECTIVE INTEREST RATE

	2024	2023
Interest income from financial assets at amortized costs		
Retail clients	40.837	39.540
Corporate clients	30.027	27.266
Banks and other financial institutions	9.486	6.454
Interest income from financial assets at FVOCI		
Interest from securities	4.426	2.356
	84.776	75.616

9. INTEREST AND SIMILAR EXPENSE AT THE EFFECTIVE INTEREST RATE

	2024	2023
Interest expense from financial assets at amortized costs		
Retail clients	6.497	3.076
Corporate clients	6.450	2.699
Banks and other financial institutions	3.799	2.864
Negative interest on interest bearing assets	18	9
Interest expense on lease	375	193
Other	108	146
Interest expense from financial assets at FVOCI		
Interest from securities	1.277	1.200
	18.524	10.187

10. FEE AND COMMISSION INCOME

	2024	2023
Credit card business	14.939	12.545
Domestic payment transactions	7.165	7.402

10. FEE AND COMMISSION INCOME (continued)

Account service fee	5.691	5.603
Foreign payment transactions	4.525	4.510
Loans to clients	2.740	2.772
Guarantees	2.102	2.125
FX transactions	1.954	1.815
Agency services	57	63
Other	2.878	2.506
	42.051	39.341

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

11. FEE AND COMMISSION EXPENSE

	2024	2023
Credit card operations	9.155	7.808
Banks services	1.065	967
Domestic payment transactions	394	380
Other	468	502
	11.082	9.657

12. IMPAIRMENT AND PROVISIONS

	2024	2023
Net credit losses/(releases) from financial assets at amortized cost (Note 22, 25.1, 25.2, 25.3, 25.4)	(2.516)	(4.362)
Net provisions from financial assets at fair value through other comprehensive income (Note 24)	(370)	(420)
Net provisions for off-balance-sheet credit risk (Note 34)	(303)	497
Net provisions for legal proceedings (Note 34)	(1.526)	(4.882)
	(4.715)	(9.167)

12. IMPAIRMENT AND PROVISIONS (continued)

Net credit losses/ (net write-offs from financial assets at amortized cost		
for cash and cash equivalents (Note 22)	(15)	129
for reserves with the Central bank (Note 25.1)	(19)	(22)
for reserves with placements with banks (Note 22)	(72)	(36)
for debt instruments at amortized costs (Note 25.3)	-	-
for Loans to customers (Note 25.2)	(2.248)	(4.192)
for Other financial assets (Note 25.4)	(162)	(241)
	=====	=====
	(2.516)	(4.362)
	=====	=====

13. OTHER GAIN/ (LOSSES) FROM FINANCIAL ASSETS

	2024	2023
Net gains/(losses) on financial instruments at fair value through profit or loss – Equity shares	137	43
Net gains/losses on financial instruments at FVOCI - bonds	=====	=====
	137	43
	=====	=====

14. NET POSITIVE/(NEGATIVE) EXCHANGE RATE DIFFERENCE

	2024	2023
Net gain/(losses) from foreign exchange spot trading	504	388
Net gains from currency translation of assets and liabilities	(1.340)	436
Operations with exchange and currency conversion	6.056	3.415
	=====	=====
	5.220	4.239
	=====	=====

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

	2024	2023
Net gain/(losses) from tangible assets	(6)	(66)
Net gain/(losses) from repossessed Assets held for sale	-	(4)
	=====	=====
	(6)	(70)
	=====	=====

16. INCOME FROM DIVIDENDS

	2024	2023
Income from dividends	47	15
	—	—
	47	15
	==	==

17. OTHER INCOME

	2024	2023
Collections of off balance accrued interest	1.516	1.838
Other income from previous periods	274	220
Other income from collections related to loans previously written off	42	47
Other income	323	341
	—	—
	2.155	2.446
	==	==

18. PERSONNEL EXPENSES

	2024	2023
Net salaries	19.759	17.365
Tax and contributions	11.026	9.210
Other expenses	1.948	1.842
Provisions for liabilities and charges (Note 34)	177	160
	—	—
	32.910	28.577
	==	==

19. OTHER COST AND EXPENSES

	2024	2023
Maintenance expenses	6.367	5.547
Savings deposit insurance	4.227	3.457
Telecommunication and post expense	3.333	3.239
Card business intermediation expenses	3.178	2.955
Security and transport costs	2.905	2.883
Consultancy and the Federal Banking Agency expenses	2.128	1.653
Rent and other rent-related expense	1.588	1.556

19. OSTALI TROŠKOVI I RASHODI (nastavak)

Representation and marketing expense	1.284	983
Consultancy expenses	1.205	1.132
Material expenses	809	765
Energy	801	791
Other insurance charges	572	576
Other expenses	2.211	1.791
	=====	=====
	30.608	27.328
	=====	=====

20. INCOME TAXES

	2024	2023
Current tax	3.642	3.925
Deferred tax (Note 33)	4	(146)
	=====	=====
Total income tax	3.646	3.779
	=====	=====

Income tax recognised in the profit or loss statement comprises current tax, Official corporate income tax rate is 10% (2023: 10%).

	2024	2023
Profit before income tax	30.378	31.229
Tax calculated at rate of 10%	3.038	3.123
Non-deductible expenses	604	802
Deferred tax (Note 33)	4	(146)
	=====	=====
Income tax expense	3.646	3.779
	=====	=====
Average income tax rate	12,00%	12,10%
	=====	=====

21. BASIC AND DILUTED EARNINGS PER SHARE

	2024	2023
Net profit (BAM '000)	26.732	27.450
Weighted average number of ordinary shares outstanding	447.760	447.760
Basic and diluted earnings per share (BAM)	59,70	61,31
	=====	=====

22. CASH AND CASH EQUIVALENTS

	31 December 2024	31 December 2023
Current account with the Central Bank	336.004	386.947
Current accounts with other banks	94.671	17.911
Placements with other banks	163.795	91.522
Cash in hand in domestic currency	43.055	34.931
Cash in hand in foreign currency	7.027	7.530
	=====	=====
	644.552	538.841
	=====	=====
Less: impairment allowance	(598)	(511)
	643.954	538.330
Balance as at 1 January	511	604
Net charge to profit or loss statement (Note 12)	87	(93)
Balance at the end of period	598	511
	=====	=====

Placement with bank:	Original currency	Original currency	BAM
LANDESBANK BADEN-WUERTTEMBERG	EUR	35.067	68.585
BELFIUS BANK SANV	EUR	26.119	51.085
INTESA SANPAOLO SPA	EUR	17.201	33.643
INTESA SANPAOLO SPA	CHF	4.002	8.295
INTESA SANPAOLO SPA	GBP	430	1.014
INTESA SANPAOLO SPA	SEK	2.800	477
INTESA SANPAOLO SPA	CAD	320	416
INTESA SANPAOLO SPA	AUD	240	280
			=====
TOTAL			163.795
			=====

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOS

	31 December 2024	31 December 2023
Equity shares designated at fair value through profit or loss	956	270
	_____	_____
	956	270
	=====	=====

Equity shares designated at fair value through profit or loss as of December 31st 2024 and 2023, relate to shares in Intesa Sanpaolo S.p.A, amounting to BAM 956 thousand (31.12.2023: BAM 270 thousand).

24. FINANCIAL ASSETS AT FER VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2024	31 December 2023
<i>Debt instruments</i>		
Treasury bills issued by Belgium	19.768	9.930
Treasury bills issued by Federation of Bosnia and Herzegovina	17.589	9.789
Treasury bills issued by Spain	10.075	19.642
Bonds issued by the Croatia	-	19.414
Bonds issued by the Luxembourg	40.096	39.836
Bonds issued by the Spain	28.996	8.517
Bonds issued by the France	19.763	-
Bonds issued by the Federation of Bosnia and Herzegovina	9.730	9.490
Obveznice izdate od od Federacije Bosne i Hercegovine	8.665	4.070
	_____	_____
	154.682	120.688
	=====	=====
<i>Equity instruments</i>		
Equity securities at fair value	163	159
	_____	_____
	163	159
	=====	=====
	154.845	120.847
	=====	=====

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOS (continued)

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 2024	31 December 2023
Beginning balance 1 January	(282)	(2.848)
Fair valuation effects (Note Changes in Equity)	1.819	2.146
Allowance for expected credit losses (Note 12)	370	420
	—	—
Total changes for the year	2.189	2.566
	—	—
Balance as of 31 December	1.907	(282)
	—	—

25. FINANCIAL ASSETS AT AMORTIZED COST

	31 December 2024	31 December 2023
Reserves with Central bank	243.896	224.541
Loans and receivables from customer	1.850.624	1.687.041
Other financial assets at amortized cost	8.729	11.089
	—	—
	2.103.249	1.922.671
	—	—

25.1 RESERVES WITH CENTRAL BANK

	31 December 2024	31 December 2023
Obligatory reserve	244.140	224.766
	—	—
	244.140	224.766
	—	—
Less: impairment allowance	(244)	(225)
	—	—
	243.896	224.541
	—	—
Balance as at 1 January	225	203
Net charge to profit or loss statement (Note 12)	19	22

25. FINANCIAL ASSETS AT AMORTIZED COST (continued)

25.1 RESERVES WITH CENTRAL BANK (continued)

Balance at the end of period	244	225

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.

In 2024, the CBBH kept the same amount of fees on the required reserve that it pays to commercial banks. Consequently, CBBH pays a fee of 50 basis points (0.50%) to commercial banks on required reserve funds based on the basis in the domestic currency BAM, and on required reserve funds based on the basis in foreign currencies and in the domestic currency with a currency clause at a rate of 30 basis points (0.30%).

Cash held as a mandatory reserve in an account with the CBBH is not available for use without the special approval of the CBBH and the Banking Agency of the Federation of Bosnia and Herzegovina (FBA).

25.2 LOANS AND RECEIVABLES FROM CUSTOMER

	31 December 2024	31 December 2023
Short-term loans		
<i>Corporate</i>		
- in BAM and BAM linked to foreign currency	479.818	383.596
- in foreign currency	-	-
<i>Retail</i>		
- in BAM and BAM linked to foreign currency	59.516	59.949
	539.334	443.545
Long-term loans		
<i>Corporate</i>		
-in BAM and BAM linked to foreign currency	613.792	606.366
<i>Retail</i>		
-in BAM and BAM linked to foreign currency	775.192	716.226
	1.388.984	1.322.592
Total loans	1.928.318	1.766.137
Less: impairment allowance	(77.694)	(79.096)
	1.850.624	1.687.041

25. FINANCIAL ASSETS AT AMORTIZED COST (continued)

25.2 LOANS AND RECEIVABLES FROM CUSTOMER (continued)

Loans and receivables from customers are presented including accrued interest in the amount of BAM 5,727 thousand (2023: BAM 5,202 thousand), and net of up-front fees in the amount of BAM 5,436 thousand (2023: BAM 7,031 thousand).

As of 31 December 2024, 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 2,331 thousand and BAM 630,067 thousand, respectively (31 December 2023: BAM 12,406 thousand and BAM 576,7610 thousand, respectively).

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

	2024	2023
Balance as of 1 January	79.096	80.060
	—	—
Net charge to profit or loss statement (Note 12)	2.248	4.192
Unwinding of discount	(133)	(252)
Write-offs	(3.801)	(5.126)
Sales and other transfers	284	222
	—	—
Balance as of 31 December	77.694	79.096
	—	—

Concentration of credit risk by industry:

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

	31 December 2024	31 December 2023
Trade	420.749	381.605
Manufacturing, agriculture, forestry, mining and energy	349.081	311.636
Administrative and other public institutions	86.136	76.884
Services, finance, sport, tourism	85.418	72.291
Construction industry	67.070	70.182
Transport and telecommunications	60.608	51.270
Other	24.548	26.094
Citizens	834.708	776.175
	—	—
	1.928.318	1.766.137
	—	—

25. FINANCIAL ASSETS AT AMORTIZED COST (continued)

25.3 OTHER FINANCIAL ASSETS AT AMORTIZED COST

	31 December 2024	31 December 2023
Receivables from card operations	4.490	6.776
Fees receivable	1.611	1.477
Other assets	3.873	3.945
	=====	=====
Total other financial assets at amortized cost	9.974	12.198
	=====	=====
Less: impairment allowance	(1.245)	(1.109)
	=====	=====
	8.729	11.089
	=====	=====

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

Balance as of 1 January	1.109	918
	=====	=====
Net charge to profit or loss statement (Note 12)	162	241
Write-offs and sale of property	(26)	(50)
	=====	=====
Balance as of 31 December	1.245	1.109
	=====	=====

26. DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2024	31 December 2023
Derivatives held for trading	27	4
	=====	=====
	27	4
	=====	=====

26. DERIVATIVES FINANCIAL INSTRUMENTS (continued)

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

	31 December 2024	31 December 2024	31 December 2023	31 December 2023
Financial assets	Notional amount	Fair value	Notional amount	Fair value
<i>Derivatives classified as held for trading – OTC products</i>	6.612	27	189	4
Forward foreign exchange contracts	6.612	27	189	4
	=====	=====	=====	=====

27. TANGIBLE ASSETS

	Land and buildings	Computers and other equipment	Assets under construction	Leasehold improvements	Buildings Right of Use	Equipment Right of Use	Total
Cost							
As of 1st January, 2023	12.611	16.183	101	8.721	16.037	2.436	56.089
Additions	-	-	1.417	-	690	947	3.054
Disposals	-	(971)	-	(111)	(1.796)	(541)	(3.419)
Reduction to fair value – trough profit or loss	(85)	-	-	-	-	-	(85)
Reduction to fair value – thought capital	5	-	-	-	-	-	5
Transfers	75	982	(1.125)	68	-	-	-
	=====	=====	=====	=====	=====	=====	=====
As of 31st December, 2023	12.606	16.194	393	8.678	14.931	2.842	55.644
	=====	=====	=====	=====	=====	=====	=====
Additions	-	-	1.923	-	19.604	869	22.396
Disposals	-	(1.270)	-	(294)	(3.406)	(485)	(5.455)
Value adjustment	(4.901)	-	-	-	-	-	(4.901)
Transfers	72	2.018	(2.248)	158	-	-	-
	=====	=====	=====	=====	=====	=====	=====
As of 31st December, 2024	7.777	16.942	68	8.542	31.129	3.226	67.684
	=====	=====	=====	=====	=====	=====	=====
Accumulated depreciation							
As of 1st January, 2023	4.525	12.326	-	8.070	6.620	293	31.834
Depreciation for the year	377	1.050	-	209	2.232	563	4.431
Disposals	-	(969)	-	(111)	(1.339)	(139)	(2.558)

27. TANGIBLE ASSETS (continued)

As of 31st December, 2023	4.902	12.407	-	8.168	7.513	717	33.707
	=====	=====	=====	=====	=====	=====	=====
Depreciation for the year	270	1.213	-	218	2.591	679	4.971
Value adjustment	(4.901)	-	-	-	-	-	(4.901)
Disposals	-	(1.263)	-	(294)	(2.053)	(204)	(3.814)
As of 31st December, 2024	271	12.357	-	8.092	8.051	1.192	29.963
	=====	=====	=====	=====	=====	=====	=====
Net carrying value							
As of 31st December, 2024	7.506	4.585	68	450	23.078	2.034	37.721
As of 31st December, 2023	7.704	3.787	393	510	7.418	2.125	21.937
	=====	=====	=====	=====	=====	=====	=====

Gross value of Property and Equipment that is in use and 100% depreciated at the end of 2024 amounts to BAM 8,868 thousand (31.12.2023: BAM 9,042 thousand).

Lease Liabilities	31 December 2024	31 December 2023
Liabilities based on Asset with Right of Use - IFRS 16		
- Obligation for renting office space	23.655	7.421
- Obligation for renting other equipment	2.032	2.090
Total Liabilities - IFRS 16	25.687	9.511
	=====	=====

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

	Buildings	Equipment	Total
Less than one year	3.091	633	3.724
Between one and five years	11.153	1.337	12.490
More than five years	9.411	62	9.473
	=====	=====	=====
As of 31st December, 2024	23.655	2.032	25.687
	=====	=====	=====
Less than one year	1.979	539	2.518
Between one and five years	5.154	1.306	6.460

27. TANGIBLE ASSETS (continued)

More than five years	288	245	533
As of 31st December, 2023	7.421	2.090	9.511

28. INTANGIBLE ASSETS

	Software and licence	Assets under development	Total
Cost			
As of 1st January, 2023	19.042	426	19.468
Additions	65	1.266	1.331
Transfers	1.459	(1.459)	-
Disposals	(449)	-	(449)
As of 31st December, 2023	20.117	233	20.350
Additions	-	1.028	1.028
Transfers	1.261	(1.261)	-
As of 31st December, 2024	21.378	-	21.378
Amortization			
As of 1st January, 2023	15.807	-	15.807
Amortization for the year	1.054	-	1.054
Disposals	(449)	-	(449)
As of 31st December, 2024	16.412	-	16.412
Amortization for the year	1.192	-	1.192
As of 31st December, 2024	17.604	-	17.604
Net carrying value			
As of 31st December, 2024	3.774	-	3.774
As of 31st December, 2023	3.705	233	3.938

Value of Intangible Assets that is in use and 100% depreciated at the end of 2024 is in the amount of BAM 15,220 thousand (31.12.2023: BAM 14,035 thousand).

29. LONG TERM ASSETS FOR SALE

	31 December 2024	31 December 2023
Assets held for sale - property	1.030	1.030
Assets acquired upon foreclosure of loans	34	34
Total assets	1.064	1.064
	—	—
Less: impairment allowance	(1.064)	(1.064)
	—	—
Net carrying value	-	-
	==	==

30. OTHER ASSETS AND RECEIVABLES

	31 December 2024	31 December 2023
Prepaid expenses	3.078	1.610
	—	—
	3.078	1.610
	==	==

31. FINANCIAL LIABILITIES VALUED AT AMORTIZED COST

	31 December 2024	31 December 2023
Due to banks and other financial institutions	122.121	93.650
Due to customers	2.174.036	1.948.848
Borrowings	219.912	175.570
Lease liabilities	25.687	9.511
Other financial liabilities at amortized cost	32.050	36.333
	—	—
	2.573.806	2.263.912
	==	==

31.1. DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2024	31 December 2023
Due to banks		
Current accounts and term deposits		
Demand deposits		
-in BAM	176	385

31. FINANCIAL LIABILITIES VALUED AT AMORTIZED COST (continued)

31.1. DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

-in foreign currencies	529	659
	=====	=====
Term deposits		
-in BAM	3.000	5.000
-in foreign currencies	14.046	-
	=====	=====
	17.751	6.044
	=====	=====
Due to other financial institutions		
Current accounts and term deposits		
Demand deposits		
-in BAM	10.125	8.355
-in foreign currencies	142	10
	=====	=====
Term deposits		
-in BAM	89.384	77.280
-in foreign currencies	4.719	1.961
	=====	=====
	104.370	87.606
	=====	=====
Total Due to Banks and other financial institutions	122.121	93.650
	=====	=====

Due to banks presented above include accrued interest in the amount of BAM 1 thousand (31.12.2023: BAM 7 thousand).

Due to other financial institutions are presented including accrued interest in the amount of BAM 33 thousand (31.12.2023: BAM 385 thousand).

31.2 DUE TO CUSTOMERS

	31 December 2024	31 December 2023
Demand deposits:		
Retail clients:		
-in BAM	442.570	396.045
-in foreign currencies	106.930	102.998
Corporate clients:	=====	=====

31. FINANCIAL LIABILITIES VALUED AT AMORTIZED COST (continued)

31.2 DUE TO CUSTOMERS (continued)

-in BAM	764.082	691.476
-in foreign currencies	178.063	162.341
	=====	=====
Total demand deposits	1.491.645	1.352.860
	=====	=====
Term deposits:		
Retail clients:		
-in BAM	162.921	123.968
-in foreign currencies	250.834	228.865
	=====	=====
Corporate clients:		
-in BAM	217.747	202.991
-in foreign currencies	50.889	40.164
	=====	=====
Total term deposits	682.391	595.988
	=====	=====
Total Due to customers	2.174.036	1.948.848
	=====	=====

Amounts due to customers are presented including accrued interest in the amount of BAM 4,878 thousand (2023: BAM 2,413 thousand).

In Retail banking, interest rates on demand deposits are 0,01% (2023: 0,01%), The interest rates on time deposits are in the range of 0,01% to 0,30% (2023: 0,01% to 0,30%) and for other time deposits (kids saving CRISPY, Step saving, saving with premium) up to 1% (2023: up to 15).

For Small Corporate clients, interest rates on demand deposits are 0,00% (2023: 0,00%). The interest rates on time deposits are in the range of 0,00% to 2,20% (2023: 0,00% to 2,20%).

In Corporate banking, interest rates on demand deposits are from 0,00% to 0,10% (2023: from 0,00% to 0,10%). The interest rates on time deposits are in the range of 0,00% to 3,50% (2023: 0,00% to 3,00%).

31.3 BORROWINGS

	31 December 2024	31 December 2023
Long-term borrowings		
- Foreign banks	219.912	175.570
	=====	=====
Total Borrowings	219.912	175.570
	=====	=====

31. FINANCIAL LIABILITIES VALUED AT AMORTIZED COST (continued)

31.3 BORROWINGS (continued)

	31 December 2024	Average interest rate	31 December 2023	average interest rate
The Bank had borrowings from below institutions:				
Borrowings to banks				
Intesa Sanpaolo SPA	59.946	4,28%	-	-
European Investment bank -EIB	92.991	0,81%	112.897	0,94%
European bank for Reconstruction and Development - EBRD	66.689	2,51%	62.477	1,27%
	—		—	
	219.626		175.374	
	—		—	

Borrowings from banks presented above include accrued interest in the amount of BAM 286 thousand (2023: BAM 196 thousand).

As of December 31st 2024, undrawn borrowings amount to a total of BAM 45,962 thousand, and relate to Social Impact Loan from EIB, amounting to BAM 39,117 thousand, that can be withdrawn in accordance with negotiation between the bank and EIB, and BAM 6,845 thousand BAM in cooperation with EBRD (Go Green) that can be withdrawn until 12.06.2026.

31.4 LEASE LIABILITIES

	31 December 2024	31 December 2023
Lease liabilities – Buildings	23.655	7.421
Lease liabilities - Equipment	2.032	2.090
	—	—
	25.687	9.511
	—	—

31.5 OTHER FINANCIAL LIABILITIES AT AMORTIZED COST

	31 December 2024	31 December 2023
Loan repayments before due dates	12.268	11.129
Liabilities for employees' bonuses	6.081	5.239
Credit card liabilities	5.826	7.011
Liabilities to vendors	2.689	2.522
Liabilities to shareholders	146	197

31. FINANCIAL LIABILITIES VALUED AT AMORTIZED COST (continued)

31.5 OTHER FINANCIAL LIABILITIES AT AMORTIZED COST (continued)

Other liabilities	5.040	10.235
	—	—
	32.050	36.333
	==	==

32. DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2024	31 December 2023
Derivatives held for trading	-	311
	—	—
	-	311
	==	==

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

	31 December 2024	31 December 2024	31 December 2023	31 December 2023
Financial liabilities	Notional amount	Fair value	Notional amount	Fair value
<i>Derivatives classified as held for trading – OTC products</i>				
Forward foreign exchange contracts	-	-	19.823	311
	==	==	==	==

33. DEFERRED 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, 2023	60	616
<i>Recognised in other comprehensive income</i>	=====	=====
<i>Recognised in profit or loss</i>		
Decrease in deferred tax assets for provisions for litigations	-	-
Decrease in deferred tax assets for other provisions	-	(1)
Increase in deferred tax assets for other provisions	16	164
	=====	=====
As of 31st December, 2023	76	779
	=====	=====
As of 1st January, 2024	76	779
<i>Recognised in profit or loss</i>	=====	=====
Decrease in deferred tax assets for provisions for litigations	-	(40)
Increase in deferred tax liabilities for other provisions	1	37
	=====	=====
As of 31st December, 2024	77	776
	=====	=====

34. PROVISIONS

	31 December 2024	31 December 2023
Provisions for off-balance-sheet credit risk (Note 39)	2.482	2.179
Provisions for legal proceedings (Note 12)	1.256	1.653
Provisions for retirement employee benefits (Note 18)	1.097	983
	=====	=====
	4.835	4.815
	=====	=====

34. PROVISIONS (continued)

Movement in provisions for liabilities and charges for the year ended 31 December 2024 and 31 December 2023 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 39)	Total
Balance as of 1st January 2023	1.955	876	2.681	5.512
Net charge to profit or loss state- ment	4.882	160	(497)	4.545
Reductions arising from payments - legal disputes	(457)	(53)	(5)	(515)
Reductions arising from payments - tax disputes	(4.727)	-	-	(4.727)
Balance as of 31st December 2023	1.653	983	2.179	4.815
Balance as of 1st January 2024	1.653	983	2.179	4.815
Net charge to profit or loss state- ment	1.526	177	303	2.006
Reductions arising from payments - legal disputes	(949)	(63)	-	(1.012)
Reductions arising from payments - tax disputes	(974)	-	-	(974)
Balance as of 31st December 2024	1.256	1.097	2.482	4.835

The calculation of provisions for retirement benefits of BAM 809 thousand as of 31st December 2024 (31st December 2023: BAM 725 thousand) is performed by an independent actuary, applying a discount rate of 3% over the working life and average salary of each employee.

Provisions for unused days of vacation of BAM 288 thousand as of 31st December 2024 (31st December 2023: BAM 258 thousand) are calculated for every employee, taking as a basis his/her salary and unused days of vacation.

35. OTHER LIABILITIES

	31 December 2024	31 December 2023
Accrued income	633	606
Liabilities in respect of managed funds (Note 41)	22	27
Other liabilities	186	391
	841	1.024

36. SHARE CAPITAL

	31 December 2024 and 31 December 2023		
	Class ES Ordinary shares	Class EP Preference shares	Total
Number of shares	447.760	60	447.820
Pair value (BAM)	100	100	100
	=====	=====	=====
Total	44.776	6	44.782
	=====	=====	=====

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

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

The shareholding structure of the Bank as of 31st December 2024 is as follows:

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

The shareholding structure of the Bank as of 31st December 2023 was as follows:

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

37. SHARE-BASED PAYMENTS

In 2024, there were 32.727 transfer of shares, and purchased 107.021 shares, so at the end of 2024 the Bank had 126.578 equity shares. The residual shares will be assigned to beneficiaries when vesting conditions are met.

In 2023, there were 30121 transfer of shares, and purchased 42.751 shares, so at the end of 2023 the Bank had 52.264 equity shares. The residual shares will be assigned to beneficiaries when vesting conditions are met.

38. ADDITIONAL INFORMATION ON THE CASH FLOW STATEMENT

The table below presents the movements in the position Deposits from banks and other financial institutions (Note 31.1) that have an impact on the movement of cash and cash equivalents:

	31 December 2024	31 December 2023
Balance as of 1st January	93.650	207.757
Inflows from deposit receipts	11.475.882	4.644.419
Outflows from deposit withdrawals	(11.447.289)	(4.760.048)
	=====	=====
Net increase / (decrease) in deposits from banks and other financial institutions	28.593	(115.629)
	=====	=====
Other changes:		
Effect of exchange rate changes on deposits from banks and other financial institutions	(122)	1.522
	=====	=====
Balance as of 31st December (Note 31.1)	122.121	93.650
	=====	=====

The table below presents the movements in the position of Deposits due to customers (Note 31.2) that have an impact on the movement of cash and cash equivalents:

	31 December 2024	31 December 2023
Balance as of 1st January	1.948.848	1.771.726
Inflows from deposit receipts	24.352.630	22.094.128
Outflows from deposit withdrawals	(24.128.655)	(21.915.705)
	=====	=====
Net increase / (decrease) in deposits due to customers	223.975	178.423
	=====	=====
Other changes:		
Effect of exchange rate changes Deposits due to customers	1.213	(1.301)
	=====	=====
Balance as of 31st December (Note 31.2)	2.174.036	1.948.848
	=====	=====

The table below presents the movements in the position of Borrowings (Note 31.3) that have an impact on the movement of cash and cash equivalents:

	31 December 2024	31 December 2023
Balance as of 1st January	175.570	196.637
Repayments of principal regarding loans granted by banks	88.599	17.600
Repayments of principal regarding loans granted by other financial institutions	(44.257)	(38.667)
	=====	=====

38. ADDITIONAL INFORMATION ON THE CASH FLOW STATEMENT (continued)

Net increase / (decrease) in borrowings	44.342	(21.067)
	—	—
Balance as of 31st December (Note 31.3)	219.912	175.570
	==	==

39. 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 2024	31 December 2023
Contingent liabilities		
Performance guarantees	93.510	105.396
Payment guarantees	42.792	48.723
Letters of credit	17.182	6.898
	—	—
Total contingent liabilities	153.484	161.017
	==	==
Commitments		
Undrawn lending commitments	478.356	408.597
	—	—
Total commitments	478.356	408.597
	==	==
Total contingent liabilities and commitments	631.840	569.614
	==	==

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:

	2024				2023			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January	1,497	412	270	2,179	1,829	521	331	2,681
First time adoption of FBA Impairments	-	-	-	-	0	0	0	0
Transfers to Stage 1	236	-236	0	0	196	-193	-3	0
Transfers to Stage 2	-78	92	-14	0	-51	73	-22	0
Transfers to Stage 3	-1	-10	11	0	0	-21	21	0
Net remeasurement of loss allowance	3,085	1,354	148	4,587	1,946	644	176	2,766
New financial assets originated or purchased	-284	308	80	104	-573	125	264	-184
Financial assets that have been derecognized	-2,986	-1,078	-324	-4,388	-1,850	-737	-492	-3,079
Total effect through Profit and Loss (Note 30)	-185	584	-96	303	-477	32	-52	-497
Other movements	-	-	0	0	-	-	-5	-5
Balance as at 31 December	1,469	842	171	2,482	1,497	412	270	2,179

40. 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 (2023: 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 2024 and as of 31st December 2023 is presented below:

	31 december 2024	31 december 2023
Assets		
Receivables from key management personnel and their close family members	378	443
Bank accounts and loans – Intesa Sanpaolo Group	61.515	48.528
Financial assets at fair value through profit or loss – Intesa Sanpaolo Group	24	-
Other receivables – Intesa Sanpaolo Group	30	24
	=====	=====
	61.947	48.995
	=====	=====
Liabilities		
Deposits – key management personnel and their close family members	915	1.444
Borrowings and term deposits – Intesa Sanpaolo Group	60.584	1.591
Financial liabilities at fair value through profit or loss – Intesa Sanpaolo Group	-	311
Other liabilities – Intesa Sanpaolo Group	918	-
	=====	=====
	62.417	3.346
	=====	=====
Financial commitments and contingencies		
Financial Guarantees	4.543	3.582
Undrawn lending commitments – key management personnel and close family members	98	105
	=====	=====
	4.641	3.687
	=====	=====

	2024	2023
Income		
Interest income – key management personnel and close family members	18	13

40. RELATED-PARTY TRANSACTIONS (continued)

Interest income – Intesa Sanpaolo Group	1.778	1.565
Other Income – Intesa Sanpaolo Group	240	225
	=====	=====
	2.036	1.803
	=====	=====
Expenses		
Interest expense – key management personnel and close family members	3	2
Interest expense – Intesa Sanpaolo Group	1.254	636
Other expenses – Intesa Sanpaolo Group	4.720	3.701
	=====	=====
	5.977	4.339

The remuneration of key management personnel was as follows:

	2024	2023
Net salaries for key management personnel	1.316	1.230
Taxes and contributions on net salaries	1.029	960
Payments based on shares	250	268
Bonuses to management and employees	601	507
Other management benefits	1.481	572
	=====	=====
	4.677	3.537
	=====	=====

41. MANAGED FUNDS

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

	31 decembar 2024	31 decembar 2023
Liabilities		
Banks and insurance companies	6.349	13.009
Government organisations	7.461	7.476
Associations and Agencies	255	258
	=====	=====
Total	14.065	20.743
	=====	=====
Assets		
Loans to companies	13.860	20.532
Loans to citizens	183	184
	=====	=====
Total	14.043	20.716
	=====	=====
Amounts due to original creditors – managed funds (Note 35)	22	27
	=====	=====

42. EVENTS AFTER THE REPORTING DATE

In line with the strategy followed, the Bank announced sale of Head Office Building located in Sarajevo, which is in accordance with the Bank's plan of relocating to the new location in 2025. In accordance with the agreed timeline, it is expected that sale of the Head Office properties will be completed by the end of 2025, at the latest. Head Office Property is presented in Note 7 - Operating Segments - Assets, under Other unallocated amounts column.

As of 31st December 2024, until the date of the financial statements, except for the above mentioned, there were no events that could significantly influence the financial statements for 2024 or were of significant importance for the Bank's operations to require disclosure within the financial statements' notes for 2024.

