



# **Disclosure of data and information of Bosna Bank International d.d. Sarajevo as of the reporting data 31.12.2024**



**Sarajevo, April 2025.**

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## INTRODUCTION

Bosna Bank International d.d. Sarajevo (hereinafter: the Bank) publicly discloses data and information for the period from January 1, 2024, to December 31, 2024 in accordance with:

- Law on Banks of the Federation of BiH (Official Gazette of the Federation of BiH, No 27/17 and 22/25)
- Decision on the publication of data and information of the Bank (Official Gazette of the Federation of BiH, No 39/21)
- Instructions for publication of bank data and information (number: 01-2376/21 from June 6, 2021),
- and the internal act "Instruction for filling in forms in accordance with the Decision on publication of bank data and information".

The Bank is not obliged to publish data and information that is not materially significant, data and information, public disclosure of which could adversely affect the competitive position of the Bank on the market and data that could adversely affect the safety employees and members of the Supervisory Board and the Management Board of the Bank, except for information related to the internal management system in the Bank or the selection and assessment of the members of the Supervisory Board and the Management Board of the Bank, regulatory capital and remuneration policy. Published data represent data and information that are materially significant, and they are not protected and confidential.

Additional data, information, and indicators, which are not provided or described in sufficient detail in this report, are published in the Annual Financial Report for 2024, which is published on the Bank's website.

The quantitative data in the document are presented on the prescribed forms.

Data are given in thousands of BAM, unless otherwise were stated.

Below are the data and information for the financial date of December 31, 2024, which are publicly available and published on the official website of Bosna Bank International d.d. <https://bbi.ba/o-nama/finansijski-izvjestaji/>.

## **BASIC DATA**

In accordance with the Decision, the Bank publishes data and information related to:

1. Name, headquarters, and organizational parts,
2. Ownership structure and bodies of the Bank,
3. Fee policy,
4. Scope of application of regulatory requirements
5. Strategy and risk management policy of the Bank.
6. Regulatory capital, protective layers of capital, capital requirements and adequacy of regulatory capital,
7. Data on financial leverage,
8. Liquidity requirements,
9. Exposures based on the Bank's equity investments,
10. Interest risk/profit margin risk in the banking book,
11. Internal capital adequacy assessment process - ICAAP,
12. Internal liquidity adequacy assessment process - ILAAP,
13. Unencumbered (unpledged) property and encumbered (pledged) property,
14. Low-quality restructured exposures and collateral acquired by taking over and implementing enforcement proceedings.

### **1. Name, headquarters and general information of the Bank**

Bosna Bank International d.d. Sarajevo was founded on October 19, 2000, as the first bank in Bosnia and Herzegovina that operates in accordance with the principles of Islamic banking. The Bank publishes general information as follows:

#### **1.1. Business name**

Bosna Bank International d.d. Sarajevo, abbreviated: BBI

#### **1.2. Headquarters**

Trg djece Sarajeva bb, 71000 Sarajevo

#### **1.3. Bank logo**



#### **1.4. ID number, VAT number and drawing account**

Identification number: 4200375980006

VAT number: 200375980006

Drawing account with the Central Bank of Bosnia and Herzegovina: 141-001-00000001-65

#### **1.5. Telephone and fax number**

Info telephone: 0800 200 20, fax 033 203 122

#### **1.6. E-mail address**

info@bbi.ba

#### **1.7. Official website**

[www.bbi.ba](http://www.bbi.ba)

#### **1.8. Main activity**

Another financial intermediation

The Bank performs the above-mentioned activities in Bosnia and Herzegovina, as well as in international transactions, in accordance with legal provisions and operating licenses.

### 1.9. Organizational Parts and Structure

The regulation of internal organization and systematization BBI no. 00-11-1822/24 of 31.10.2024. shall be determined in a manner that ensures the efficient performance of banking operations from the registered activity. The internal organization and systematization of the Bank's operations ensures uniform and efficient performance of tasks within its scope, adequate risk management, separation of business functions of risk management, support and risk assumption, independence of control functions, prevention of conflicts of interest and establishment of an adequate system of internal controls. The Bank conducts its business at the Bank's headquarters.

Management and organizational structure of Bank consists

<u>Bodies of the Bank</u>	<u>Organizational units</u>	<u>Segment of Retail</u>	<u>Segment of Corporate</u>
<u>Assembly</u>	<u>Sectors</u>		Large Corporate Client
<u>Supervisory board</u>	<u>Departments</u>	<u>Regions/ Branches</u>	Segment - LARGE
<u>Management</u>	<u>Segments</u>		Mid-Sized Corporate Client
			Segment (MID)

The Bank does not have any counters or representative offices abroad.

#### 1.9.1. Business Network

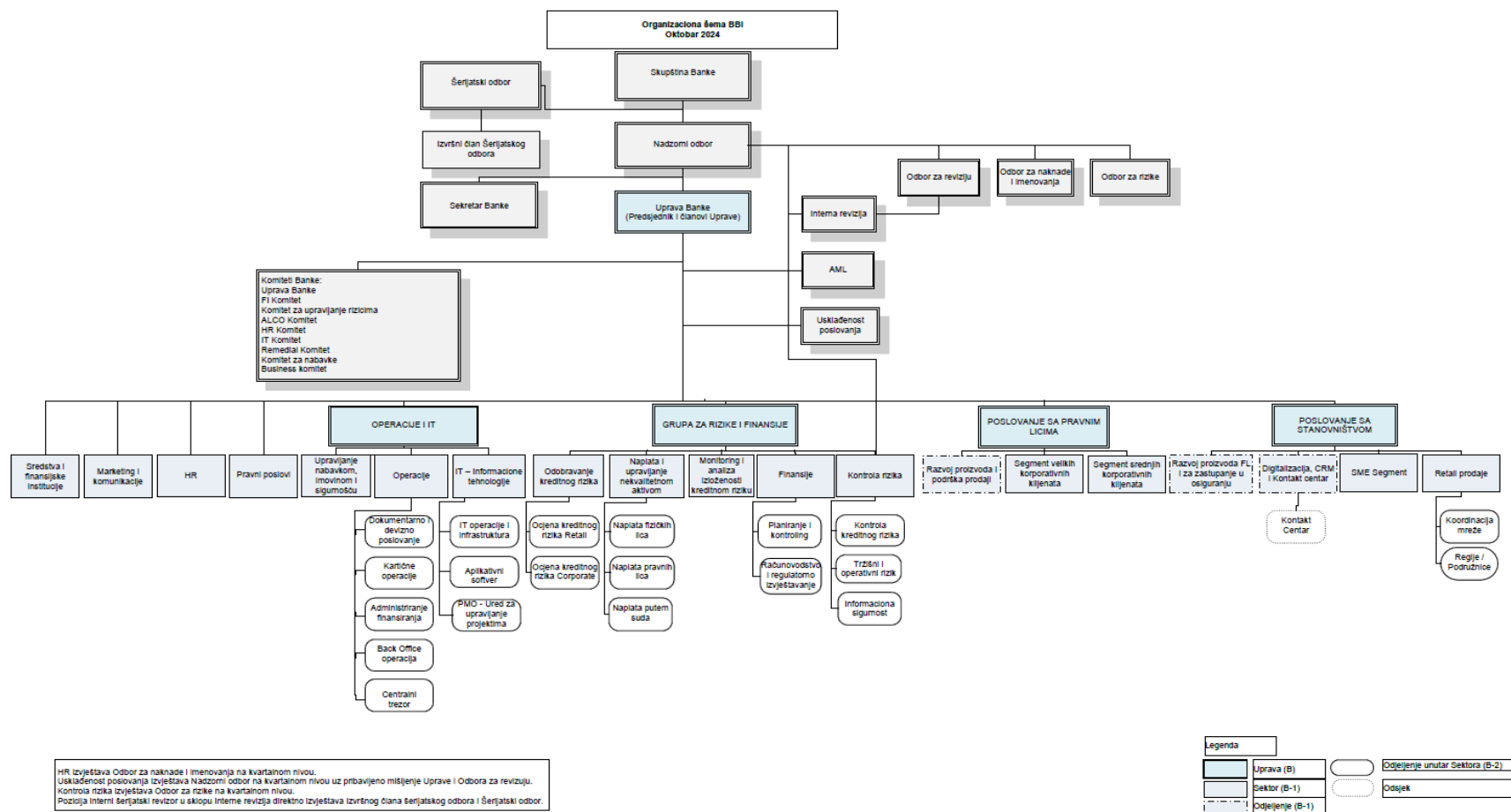
Network Bosna Bank International (BBI) d.d. as of December 31, 2024, Sarajevo has 33 business units as follows:

No	Branch	ADRESS	Contact data
<b>REGION SARAJEVO</b>			
1.	Branch Centar	Trg djece Sarajeva bb	71 000 Sarajevo +387 33/275-225 <a href="mailto:sarajevo@bbi.ba">sarajevo@bbi.ba</a>
2.	Branch Dobrinja	Dobrinjske bolnice 9	71 000 Sarajevo +387 33/275-518 <a href="mailto:dobrinja@bbi.ba">dobrinja@bbi.ba</a>
3.	Branch Ferhadija	Trg Fra Grge Martića 4	71 000 Sarajevo +387 33/253-925 <a href="mailto:ferhadija@bbi.ba">ferhadija@bbi.ba</a>
4.	Branch Ilidža	Dr. Mustafe Pintola 1	71 210 Ilidža +387 33/257-713 <a href="mailto:ilidza@bbi.ba">ilidza@bbi.ba</a>
5.	Branch Ilijaš	Hašima Spahića 23	71 380 Ilijaš +387 33/275-641 <a href="mailto:ilijas@bbi.ba">ilijas@bbi.ba</a>
6.	Branch Novo Sarajevo	Džemala Bijedića 25d	71 000 Sarajevo +387 33/257-701 <a href="mailto:novo_sarajevo@bbi.ba">novo_sarajevo@bbi.ba</a>
7.	Branch Novi Grad	Bulevar Meše Selimovića 97	71 000 Sarajevo +387 33/257-709 <a href="mailto:novi_grad@bbi.ba">novi_grad@bbi.ba</a>
8.	Branch Vogošća	Jošanička 2	71 320 Vogošća +387 33/279-130 <a href="mailto:vogosca@bbi.ba">vogosca@bbi.ba</a>
9.	Branch Goražde	Seada Sofovića Sofe 7	73 000 Goražde +387 38/241-490 <a href="mailto:gorazde@bbi.ba">gorazde@bbi.ba</a>
10.	Branch Malta	Zmaja od Bosne 74	71000 Sarajevo +387 338/257-720 <a href="mailto:malta@bbi.ba">malta@bbi.ba</a>

REGION ZENICA			
11.	Branch Zenica	Islambegovića put	72 000 Zenica +387 32/209-596 <a href="mailto:zenica@bbi.ba">zenica@bbi.ba</a>
12.	Branch Vitez	Poslovni centar 96	72 250 Vitez +387 30/718-571 <a href="mailto:vitez@bbi.ba">vitez@bbi.ba</a>
13.	Branch Visoko	Alije Izetbegovića 39	71 300 Visoko +387 32/731-301 <a href="mailto:visoko@bbi.ba">visoko@bbi.ba</a>
14.	Branch Kakanj	Alije Izetbegovića 165	72 240 Kakanj +387 32/771-730 <a href="mailto:kakanj@bbi.ba">kakanj@bbi.ba</a>
15.	Branch Tešanj	Titova bb	74 260 Tešanj +387 32/656-770 <a href="mailto:tesanj@bbi.ba">tesanj@bbi.ba</a>
16.	Branch Bugojno	Zlatnih Ljiljana bb	70 230 Bugojno +387 30/260-020 <a href="mailto:bugojno@bbi.ba">bugojno@bbi.ba</a>
17.	Branch Travnik	Bosanska 157	72 270 Travnik +387 30/547-030 <a href="mailto:travnik@bbi.ba">travnik@bbi.ba</a>
18.	Branch Gornji Vakuf	Gradska bb	70 240 Gornji Vakuf +387 30/259-680 <a href="mailto:gornjivakuf@bbi.ba">gornjivakuf@bbi.ba</a>
REGION TUZLA			
19.	Branch Tuzla	1 Inženjerske brigade 6	75 000 Tuzla +387 35/300-862; <a href="mailto:tuzla@bbi.ba">tuzla@bbi.ba</a>
20.	Branch Tuzla II	Armije BiH 1	75 000 Tuzla +387 35/365-232 <a href="mailto:tuzla-2@bbi.ba">tuzla-2@bbi.ba</a>
21.	Branch Gradačac	Husein-kapetana Gradašćevića bb	76 250 Gradačac +387 35/821-096 <a href="mailto:gradacac@bbi.ba">gradacac@bbi.ba</a>
22.	Branch Gračanica	Mehmeda Ahmedbegovića bb	75 320 Gračanica +387 35/701-120 <a href="mailto:gracanica@bbi.ba">gracanica@bbi.ba</a>
23.	Branch Srebrenik	1. marta bb	75 350 Srebrenik +387 35/647-780 <a href="mailto:srebrenik@bbi.ba">srebrenik@bbi.ba</a>
24.	Branch Kalesija	Trg Šehida bb	75 260 Kalesija +387 35/610-090 <a href="mailto:kalesija@bbi.ba">kalesija@bbi.ba</a>
25.	Branch Živinice	Ulica oslobođenja bb	75 270 Živinice +387 35/743-240 <a href="mailto:zivinice@bbi.ba">zivinice@bbi.ba</a>
26.	Filijala Brčko	Bulevar mira 2	76 000 Brčko +387 49/235-951 <a href="mailto:brcko@bbi.ba">brcko@bbi.ba</a>
27.	Filijala Bijeljina	Gavrila Principa 12	76 300 Bijeljina +387 55/991-900 <a href="mailto:bijeljina@bbi.ba">bijeljina@bbi.ba</a>
REGION BIHAĆ			
28.	Branch Bihać	Husrefa Redžića 6	77 000 Bihać +387 37/329-614 <a href="mailto:bihac@bbi.ba">bihac@bbi.ba</a>

29.	Branch Cazin	Dr. Iršana Ljubijankića bb	77 220 Cazin +387 37/510-103 cazin@bbi.ba
30.	Branch Sanski Most	Mahala 2	79 260 Sanski Most +387 37/688-680 <a href="mailto:sanski_most@bbi.ba">sanski_most@bbi.ba</a>
31.	Branch Banja Luka	Ulica Ivana Frane Jukića 2	78 000 Banja Luka +387 51/329-810 <a href="mailto:banjaluka@bbi.ba">banjaluka@bbi.ba</a>
<b>REGION MOSTAR</b>			
32.	Branch Mostar	Trg Republike 3	88 000 Mostar +387 36/555-710 <a href="mailto:mostar@bbi.ba">mostar@bbi.ba</a>
33.	Branch Konjic	Maršala Tita 35	88 400 Konjic +387 36/712-730 <a href="mailto:konjic@bbi.ba">konjic@bbi.ba</a>

## 1.9.2. Organizational scheme of the Bank



The Bank had 423 employees, as of December 31, 2024.

## 2. Ownership structure and bodies of the Bank

### 2.1 Shareholders of the Bank

The structure of the Bank's share capital as of December 31, 2024 is as follows:

Ownership structure			
No	Shareholders who have a 5% or more share in the capital (order by the size of the share)	% share	
		Ordinary shares	Preferred shares
1.	Islamic Development Bank (IDB)	45,46%	-
2.	Abu Dhabi Islamic Bank (ADIB)	27,27%	-
3.	Dubai Islamic Bank (DIB)	27,27%	-

### 2.2. Supervisory Board of the Bank

The Bank has established a clear organizational structure with clearly defined competencies and responsibilities, which avoid conflicts of interest. The composition, duties, and responsibilities of the members of the Bank's Supervisory Board are determined by the Bank's Articles of Association, The Rules of Procedure of the Supervisory Board. Members of the Supervisory Board are appointed and dismissed by the Assemble of the Bank, with the possibility of re-election, for a period of 4 (four) years. Members of the Supervisory Board meet the conditions and criteria prescribed for membership in the Supervisory Board.

Supervisory Board of the Bank as of December 31, 2024 has 5 members: the Chairman of the Supervisory Board, Vice president and 3 members:

Members of the Supervisory Board of the Bank:		
No.	Name and surname	Short biography
1.	Abdulaziz Al Mheiri, Chairman, independent member	Mr. Al Mheiri is currently a member of the Board of Directors of Dubai Islamic Bank (DIB) and a member of the Board of Borse Dubai. He previously held the following positions: Member of the Dubai Advisory Council; Member of the Board of Directors of Dubai International Capital LLC; Regional Manager for Dubai and Managing Director of the Northern Emirates at Abu Dhabi Islamic Bank; Chairman of the Supervisory Board of BBI Real Estate d.o.o. Sarajevo; and Deputy Head of the Banking Department of the National Bank of Abu Dhabi Bachelor of Science from the American College in Switzerland.
2.	Abdulla Al Shehhi, Vice Chairman	Has in total 34 years of working experience in the Banking industry of which the most were spent in holding roles at Senior Management level at Abu Dhabi Islamic Bank (ADIB) in the UAE. Mr. Shehhi has changed different senior positions since he has joined ADIB in 1998 i.e. Head of Financial Institutions, Head of Treasury, Head of Human Resources, Head of International Expansion and currently is holding the position of "Global Head of International Banking Group (IBG)". In his current role, Mr. Shehhi is responsible for leading business in five countries (UK/Iraq/Qatar/Sudan/Saudi Arabia) as well as leading the Financial Institutions Group.

Members of the Supervisory Board of the Bank:		
No.	Name and surname	Short biography
		He completed his Master of Business Administration at UAE University and his Bachelor of Science degree at the University of South Carolina, USA.
3.	Muhammed Umair Husain, member	Mr. Husain is the Lead Investment Portfolio Specialist at the Islamic Development Bank (IsDB), Saudi Arabia. Mr. Husain holds the Chartered Financial Analyst® designation and the Financial Risk Manager® designation. He completed MSc. Accounting & Finance from the London School of Economics & Political Science and Bachelor of Business Administration from the Institute of Business Administration (IBA), Pakistan.
4.	Abdelmonem Mohamad Sharaf, member	Mr. Sharaf is the Treasurer, Treasury Department, IsDB, previously Senior Investment Portfolio Management Manager, Islamic Development Bank (IDB), Saudi Arabia. Master of Finance, University of Bradford, UK, Master of Business Administration, B.A Accounting
5.	Nedim Haverić, independent member	Director of Capitalia Ltd Sarajevo (Capitalia Ltd., 2010 – present) Director of Corporate Division and Financial Markets (UniCredit Bank dd, 2005-2010) University of Sarajevo, Faculty of Economics 1996-2000, Authorized Auditor, Certified Accountant

### 2.3 The Bank's Management

The composition, duties, and responsibilities of the members of the Supervisory Board of the Bank are determined by the Bank's Statute and the Rules of Procedure of the Supervisory Board. The Management Board of the Bank organizes the work, manages the business, and represents the Bank. The members of the Management Board of the Bank have appropriate qualifications, professional knowledge, skills, and experience in the field of finance necessary for managing the Bank's business, and meet the necessary conditions and criteria for performing the function of a member of the Management Board of the Bank. The term of office of the members of the Management Board lasts 4 (four) years, with the possibility of re-election.

The Management Board of the Bank as of 31.12.2024. consists of 5 members: the President of the Management Board and 4 members of the Management Board.

Members of the Bank's Management Board		
No.	Name and surname	Short Biography
1.	Alek Bakalović, CEO	Chief executive officer – President of the Management board of BBI since 29 March 2022 Member of the Management Board for Corporate and SME – Intesa SanPaolo Bank d.d. Executive Director for Corporate and SME – Intesa SanPaolo Bank d.d. Director of Corporate Segment – Intesa SanPaolo Bank d.d. Member of the Management Board – UniCredit Bank d.d. ILUM Kuala Lumpur, Malaysia, Bachelor of Economics
2.	Azra Hadžiomerađić, member	Member of the BBI Management board since 29 March 2022, responsible for retail business.  Director of Retail Sales at Raiffeisen Bank d.d.  Director of personnel affairs – Raiffeisen Bank d.d.

Members of the Bank's Management Board		
No.	Name and surname	Short Biography
		<p>Head of the Compensation and Benefits Department - Raiffeisen Bank d.d.</p> <p>Master of Economic Sciences, Business Economics major in Marketing, University of Sarajevo.</p>
3.	Ibro Osmanović, member	<p>Member of the BBI Management Board since 12 October 2023, responsible for corporate business.</p> <p>Head of Credit Risk Management Department - Intesa Sanpaolo Bank dd;</p> <p>Associate for credit risk management in the segment of business with legal entities - Intesa Sanpaolo Bank dd;</p> <p>Head of the Sarajevo Region - Privredna Banka Sarajevo;</p> <p>Bachelor of Economics - Faculty of Economics, University of Sarajevo.</p> <p>Certified broker</p>
4.	Jasmina Dobrača, member	<p>Member of the BBI Management Board since 19 September 2022, responsible for risk and finance.</p> <p>Board member responsible for finance and risks and external manager - Sberbank BH d.d. Sarajevo;</p> <p>Director of PricewaterhouseCoopers Sarajevo;</p> <p>Senior Manager PricewaterhouseCoopers Audit, Neuilly-sur-Seine; France;</p> <p>Audit manager Deloitte Sarajevo</p> <p>Diploma in Economics and Management - University of Paris III "Sorbonne nouvelle" Paris, France;</p> <p>Master Corporate Finance INSEEC Paris, France;</p> <p>ACCA and FCCA, Association of Chartered Certified Accountants, Glasgow, Great Britain</p>
5.	Hrvoje Lovrić, member	<p>Member of the BBI Management Board since 12 October 2023, responsible for operations and IT.</p> <p>Director of Retail Sales - Raiffeisen bank BH dd;</p> <p>Assistant director of the postal network sector - Hrvatska pošta d.o.o. Mostar;</p> <p>Director of Operations - UniCredit Bank d.d.;</p> <p>Retail Product Development Director - UniCredit Bank d.d.</p> <p>Director of the Business Banking Segment - UniCreditBank d.d.;</p> <p>Executive director and member of the Retail Management Board - UniCredit Bank d.d.;</p> <p>Director of Client Spending Financing - UniCredit Bank d.d.;</p> <p>Graduated in Economics - University of Split; Faculty of Tourism and Foreign Trade Dubrovnik.</p>

## 2.4 Number of Director functions, members of the Supervisory Board and the Bank's Management Board

No	Name and surname of a member of the Board of Directors or the bank's management	Number of executive directorships	Number of non-executive directorships	Of this, the number of executive directorships in the group	Of this, the number of non-executive director positions in the group	Number of directorships in a group whose main activity is non-profit
1.	Abdulaziz Al Mheiri	-	2	-	-	-
2.	Abdulla Al Shehhi	-	1	-	-	-
3.	Muhammed Umair Husain	-	1	-	-	-
4.	Abdelmonem Mohamad Sharaf	-	1	-	-	-
5.	Nedim Haverić	1	-	-	-	-
6.	Alek Bakalović	1	-	-	-	-
7.	Azra Hadžiomerađić	1	-	-	-	-
8.	Jasmina Dobrača	1	-	-	-	-
9.	Ibro Osmanović	1	-	-	-	-
10.	Hrvoje Lovrić	1	-	-	-	-

## 2.5 Policies for the selection and assessment of members of the Supervisory Board and the Bank's Management Board

The Bank's Assembly adopted the Policies for the selection and evaluation of members of the Bank's bodies (Supervisory Board and Bank Management) under the number 1117-7/18 of March 12, 2018, i.e. the new text under the number: 1707-1/24 of February 29, 2024.

This document prescribes in more detail the criteria and procedures for the assessment of proposed and elected, that is, appointed members of the Supervisory Board and the Bank's Management in terms of whether they have a good reputation and sufficient experience to perform the functions of members of the Bank's bodies, and the measures that the Bank applies in cases where candidates or members bodies of the Bank are not suitable for the performance of their functions.

The provisions of this Policy define that the Bank will evaluate the members of the Bank's bodies in the following cases:

- In the process of nominating members of the Supervisory Board for a new four-year mandate, in the Bank's communication with the Bank's shareholders and in the process of nominating members of the Bank's Management Board (depending on the decision of the Supervisory Board which nomination procedure will be carried out), and in any case before submitting a request to the FBA for granting prior approval for appointment;
- During the performance of the functions of the elected or appointed members of the Bank's board, at least once a year;
- In other cases that the Supervisory Board of the Bank, by its decision or on the proposal of the Bank's Management, deems relevant to the performance of the function of a member of the Bank's body.

Also, this document defines the levels of authority and responsibility for assessment, general requirements for assessment, assessment procedure, obligations to submit assessments according to FBA, the Bank's procedure for assessments, the need for reassessment, obligations of members of the Bank's bodies, assessments of other Bank employees, measures taken by the Bank in the event ratings of inadequacy, criteria and assessment of reputation, criteria and assessment of experience, and other important criteria in the assessment. The Bank takes particular care when assessing the independence of the members of the Bank's bodies, i.e. the member's ability to independently perform his duties in the interest of the Bank and without the influence of other persons that may lead to a conflict of interest, and that there is collective and individual knowledge and expertise for the performance of functions, as well as the possibility of devoting enough time to the work of the Bank's bodies.

During 2024, the Bank performed a regular (annual) assessment of the members of the Supervisory Board and the Management Board of the Bank, as well as the Bank's bodies, and submitted the results of the assessment to the FBiH Banking Agency within the prescribed deadline.

## 2.6 Audit Board

Members of the Audit Board of the Bank:

1. Zamir Bukhari, Chairman, since 28.09.2021.

Working for Dubai Islamic Bank for over 19 years in various capacities. Since 2014 working in International Business Unit as Assistance Vice President. Key responsibilities include budgeting, planning, monitoring, and reporting on DIB's International franchises. Previously held CFO position in DIB Capital (Regulated by DIFC UAE) for over 4 years; beside Finance managed Treasury, HR and Admin functions of the Company. Prior to joining DIB, worked for following prestigious organization in various roles:

- Al Rajhi Bank Riyadh, Kingdom of Saudi Arabia - Budgeting & Planning Manager for SME Business
- Union Bank Pakistan - Head of Analytics, Budget and Planning - Consumer Business
- Gillette Limited Pakistan - Finance Manager
- Merck Sharpe & Dohme Pakistan - Accounting Manager
- Ford Rhodes Robson Morrow Member firm of Ernst & Young Pakistan - Audit Supervising Senior

Holds Professional Accounting Affiliate and CA Finalist qualification from the Institute of Chartered Accountant of Pakistan. Secured Bachelors of Commerce from Punjab University Lahore Pakistan. Besides being certified SAP Consultant in Finance module from Team SAP Academy Siemens Pakistan also completed Business Analytics and Insight course from Wharton Business School USA.

2. Badar uz Zaman, deputy chairman since 15.01.2022.

Worked at the Islamic Bank of Abu Dhabi (ADIB), UAE in various executive and leadership roles from January 1998 to March 2019, including the Group's chief internal auditor, head of corporate governance and compliance and head of corporate governance of the Group.

Prior to joining ADIB, he worked at Kuwait Finance House for six years as an assistant manager of internal auditing and with leading accounting firms, Ernst & Young and Arthur Andersen, in Kuwait, Bahrain and Pakistan.

Currently associated with Up-Right Management & Consultancy, UAE as Senior Director Providing Consulting Services in Audit, Compliance, Risk and Corporate Governance.

Qualified chartered accountant, certified internal auditor and certified anti-money laundering expert

Certified anti-money laundering specialist from the Association of Certified Anti-Money Laundering Experts, USA.

Certified Internal Auditor from the Institute of Internal Auditors, U.S.A.

Chartered Accountant - fellow member of the Institute of Chartered Accountants of Pakistan (ICAP).

Graduate - Bachelor of Economics at the University of Karachi

Member of the Association of Accountants and Auditors of the UAE

Board Member of Pakistan Business Professional Council Abu Dhabi

3. Prof. dr. Azra Zaimović, member since 02.11.2021.

Full professor of Finance at the School of Economics and Business, University of Sarajevo.

Member of the Commission for Public Investment Program of the Federation of BiH, Federal Ministry of Finance and Government of the FBiH (from 2019- on going)

Member of the audit committee of Raiffeisen Invest (from 2019).

Ongoing project: Managing public investment for results: Public Investment Planning and Management System - PIPMS, funded by The Delegation of the European Union to Bosnia and Herzegovina, senior expert (2023-)

Ongoing project: Financial literacy in Bosnia and Herzegovina, University of Sarajevo, co-funded by Ministry for Science, Higher Education and Youth, Canton Sarajevo, team leader (2022-)

Certified Appraiser (2023-)

Authorized Auditor (from 2021)

Chartered Certified Accountant (from 2017)

Investment advisor on the capital market in BiH (from 2003)

Doctor of Economic Sciences (2010)

## **Other Boards established by the Supervisory Board**

The bank publishes the members of other committees appointed by the Supervisory Board:

- Remuneration and Appointments Committee (REMCO)
- Risk Board

### **2.7.1. Remuneration and Appointments Committee (REMCO)**

The Remuneration and Appointments Committee was formed by the decisions of the Supervisory Board dated March 12, 2018. and 22.10.2018, i.e. 21.06.2021.

The members of the Committee are as follows:

1. Nedim Haverić, member of the Supervisory Board, chairman of the Remuneration and Appointments Committee from July 25, 2022;
2. Abdulla Al Shehhi, Deputy Chairman of the Supervisory Board, member of the Remuneration and Appointments Committee;
3. Muhammad Umair Husain, member of the Supervisory Board, member of the Remuneration and Committee;
4. Director of the HR sector, member of the Nomination and Remuneration Committee, from June 21, 2021.

The HR department provides professional assistance in the work of the Committee.

The jurisdiction of the Remuneration and Appointment Committee is determined by the provisions of the Law on Banks and other regulations of the FBA, as well as by the Rules of Procedure of the Committee. Bearing in mind the structure, size and complexity of the Bank's operations, the Bank's Supervisory Board formed a committee that covers both appointments and remuneration. Committee's meetings are held as a rule before supervisory board meetings or more often at the discretion of the Chairman of the Supervisory Board or if the situation so requires. In 2024, the Appointments and Remuneration Committee held 5 meetings.

### **2.7.2. Risk Board**

The Risk Board was formed by the decisions of the Supervisory Board dated March 12, 2018, 22.10.2018, and 21.06.2021. The members of the Risk Board are as follows:

1. Abdulla al Shehhi, Deputy Chairman of the Supervisory Board, Chairman of the Risk Board from 07/25/2022;
2. Nedim Haverić, member of the Supervisory Board, member of the Risk Board from June 21, 2021;
3. Muhammad Umair Husain, member of the Supervisory Board, member of the Risk Board;
4. Mohamed Sharaf, member of the Supervisory Board, member of the Risk Board from June 21, 2021;
5. Director of the risk control sector, member of the Risk Board, from June 21, 2021.

The risk control department provides expert assistance in the work of the Board.

The competence of the Risk Board is determined by the provisions of the Law on Banks and other regulations of the FBA, as well as by the Rules of Procedure of the Committee. Board meetings are held as a rule before supervisory board meetings or more often at the discretion of the Chairman of the Supervisory Board or if the situation so requires. In 2024, the Risk Board held 6 meetings.

## **2.8 The way of organizing the function of Internal Audit and the Head of Internal Audit**

The Internal Audit Department is an independent organizational part of the Bank, independent of the Bank's Management, and directly responsible to the Supervisory Board and the Bank's Audit Board. The internal audit control function carries out impartial, independent, permanent, and comprehensive control over the Bank's operations, and with its objective conviction based on risk assessment,

contributes to the implementation of the Bank's goals and the improvement of the efficiency of risk management, the Bank's internal control system and management.

Evaluations of the quality and effectiveness of internal controls, including the assessment of the risk management system and processes, are submitted to the Bank's Management, the Audit Board, and the Supervisory Board, as well as audited organizational units of the Bank in the form of audit reports.

The control function of the Internal Audit performs the audit function with special professional attention, in accordance with the professional principles and standards of the Internal Audit, as well as the internal rules of the Internal Audit. At the same time, it adheres to the applicable legislation, regulations and regulations that regulate the field of business that is the subject of the audit.

In accordance with the FBiH Bank Law, the Supervisory Board of the Bank appoints and dismisses, makes a decision on the remuneration of the holder of the control function of Internal Audit, and appoints internal auditors. The Internal Audit Charter, as well as other documents that define the work of the Internal Audit control function, were adopted by the Bank's Supervisory Board.

The Internal Audit Department is managed by the Chief Internal Auditor of the Bank, Elma Spahović.

## **2.9 Appointment of the Bank's external auditor**

The independent external auditor is appointed by the Bank's Assembly on the proposal of the Supervisory Board, with the prior approval of FBA, for a period of 3 years. The independent external auditor performs external audit activities in the Bank in the manner and under the conditions prescribed by laws, FBA decisions and international audit standards (IAudS).

The Bank's external auditor for 2024 was Deloitte d.o.o. Sarajevo.

## **3. Remuneration Policy**

### **3.1 General information about the remuneration policy**

The remuneration policy is based on the Law on Banks and the Decision on the Internal Management System in banks, and is aligned with the Bank's business strategy and objectives, corporate culture and values, and the Bank's long-term interests and the interests of its shareholders.

Through the remuneration policy, the Bank establishes clear, objective, and transparent criteria for classifying all categories of fees of the Bank into the fixed or variable fee category, taking into account that there are no other categories of fee.

In the case that the Bank cannot classify a certain category of fee as a fixed fee, such a category should be classified in the variable fee category.

The Supervisory Board, the Management Board of the Bank, the Remuneration and Appointments Committee and the Risk Board are actively participating in order to ensure that the Policy and its implementation are consistent with the scope of the undertaken risk and effective and appropriate risk management.

The Supervisory Board of the Bank reviews the fundamental principles and implementation of this policy at least once a year, and makes the following decisions on:

- the total amount of variable compensation paid by the Bank to employees for a certain business year
- remuneration of members of the Management Board of the Bank, Bank Secretary and employees in control functions, on an individual basis, at the proposal of the President of the Bank's Management Board
- reduction, non-payment, or cancellation of variable fees, including the activation provisions on mauls and refund of fees, if the performance of the Bank is impaired or losses are incurred.

In accordance with legal regulations, the Supervisory Board established the Compensation and Appointments Committee (hereinafter: the Committee) in December 2018.

It consists of a president and at least two members. The members of the Board are appointed from the members of the Supervisory Board and at most one person from the professional services of the Bank.

The Committee has the following tasks:

- Providing support to the Supervisory Board of the Bank in the adoption and regular review of the general principles of this Policy,
- Providing support and advising the Bank's Management during the preparation of Policy proposals, as well as amendments to the Policy,
- Drafting proposals for decisions of the Supervisory Board,
- Drafting proposals for decisions of the Bank's Supervisory Board that have an impact on the Bank's risks and risk management,
- Making proposals to the Supervisory Board of the Bank related to the possible use of consulting services regarding Policies and their implementation,
- Reviewing and checking the implementation of the Policy or providing support to the Supervisory Board of the Bank in reviewing and checking the implementation of the Policy, etc.

During 2024, five meetings of the Committee were held, where all topics from the field of remuneration policy and other benefits paid to the Bank's employees were discussed. Accordingly, the Supervisory Board discussed topics from the above-mentioned areas at sessions in 2024, as part of the agenda of the Supervisory Board sessions and as part of the regular reports from the sessions of the Committee that are submitted to the Supervisory Board.

### **3.2 Information on the relationship between pay and performance, that is, on the correlation between compensation, performance, and risk for all employees**

To measure the performance of the Bank's employees, operational business goals and sustainable business goals are used that derive from the Bank's business strategy and goals, corporate culture and values, the long-term interests of the Bank and shareholders, and the risk management strategy in terms of promoting appropriate and efficient risk management, in a way that does not encourage the assumption of risks that exceeds the level of acceptable risk for the Bank.

The Supervisory Board adopts the Bank's Business Strategy and Operational Plan at the proposal of the Management Board.

Based on the Business Strategy and the Operational Plan, the Bank's Management defines goals and key performance indicators of organizational units.

Based on the goals and key indicators of success defined by the operational plan, the managers of the organizational units define the goals and key indicators of each employee.

Performance goals and key performance indicators for members of the Management Board, the Bank's Secretary and heads of control functions are adopted by the Supervisory Board in accordance with the Bank's Business Strategy and Operational Plan.

The Management proposes to the Compensation and Appointments Committee the setting of goals for identified employees, except for those under the jurisdiction of the Supervisory Board, which the Compensation and Appointments Committee then submits to the Supervisory Board for decision.

The work performance management system and measurement of achieved goals is prescribed by the Procedure for managing the work performance of the Bank's employees.

Employees, for the work performed, have the right to fixed and variable compensation.

Fixed fees reflect professional experience, level of education and training, expertise and skills, and responsibilities arising from the job description of an individual employee and are paid to all employees in accordance with the Bank's internal act defining salaries and fees.

Variable compensation reflects performance that is sustainable and risk-adjusted, as well as performance that exceeds the standard expected in accordance with an individual employee's job description.

The bank must take into account the appropriate ratio between the variable and fixed part of the total compensation for all categories of employees, and for them determine the appropriate upper limit of that ratio, above which the payment of the variable part of compensation is not allowed.

When determining the relationship between the fixed and variable part of the fees, following is taken into account:

- the quality of performance measurement and the associated adjustment of compensation to risks,
- the length of the period of delay and withholding of benefits,
- the type, scope and complexity of the Bank's business activities,
- types of risks to which the Bank is exposed,
- the category to which a certain employee belongs,
- the employee's position in the organizational structure, and the powers and responsibilities associated with that position,
- other elements that the Bank considers to be important during the assessment period.

Variable fees are fees that are paid in the form of additional payments or other benefits, and depend on the individual performance of the employee, the business unit and the Bank or the achievement of other (contracted) criteria.

All employees have the right to variable remuneration, in accordance with the employment contract, the Procedure for evaluating work performance and the decision of the Management Board.

Payment of the variable fee is not guaranteed.

Before the payment of variable fees, the bank is obliged to re-evaluate the performance in order to adjust the variable fees with additional risks that were determined after the variable fees were awarded.

Variable fees can be paid only if the financial position of the Bank is sustainable and if the payment of variable fees is justified, which is decided by the Supervisory Board.

The Supervisory Board will make decisions about:

- the total amount of variable compensation that the Bank will pay to employees for a certain business year,
- remuneration of members of the Management Board, Bank Secretary and the Heads of control functions, on an individual basis, at the proposal of the President of the Management Board of the Bank,
- reduction, non-payment, or cancellation of variable fees, including the application of provisions on mauls and refund of fees, if the performance of the Bank is impaired or losses are incurred.

Decisions of the Supervisory Board from the previous paragraph are proposed and implemented by the Management of the Bank, in accordance with Remuneration policy.

The amount of variable remuneration of members of senior management and employees of the Bank who do not belong to the category of identified employees can be decided by the Supervisory Board on a group basis, and the CEO is authorized to make a decision on their individual payment. Management is obliged to inform the Supervisory Board about the compensation of employees whose professional activities have a significant impact on the Bank's risk profile.

The bank is obliged to postpone and determine the payment schedule in the period of postponement for a significant part of the variable remuneration of the identified employee for an appropriate period of time. The portion of the variable compensation of the identified employee that will be deferred and the length of the deferment period is determined in accordance with:

- the position, responsibilities, and tasks of the identified employee,
- the business cycle and characteristics of the Bank's operations,
- the Bank's risks and the level of risk that the identified employee can take,
- the relationship between fixed and variable remuneration, and the amount of variable remuneration of the identified employee.

Regardless of the above, the Bank is obliged to defer at least 40% of the variable part of the remuneration of the identified employee. Exceptionally, if the amount of the variable part of the remuneration is extremely high, the Bank is obliged to postpone the payment of at least 60% of the variable part of the remuneration of the identified employee.

The deferral period of the variable compensation must not be shorter than three years, and exceptionally, for those identified employees who have the most significant impact on the Bank's risk profile, the deferral period must not be shorter than five years.

The bank is obliged to pay a significant part of the variable fee, deferred and non-deferred part, in the form of financial instruments. The portion of the variable remuneration, which will be paid in the form of financial instruments, is determined in accordance with the

position, powers and responsibilities of the identified employee, the amount of the variable remuneration of the identified employee and the level of risk that the identified employee can take.

Regardless of the previous article, at least 50% of each variable fee must consist of financial instruments. The variable part of the remuneration, which consists of financial instruments, is calculated as the ratio between the amount of the variable part of the remuneration awarded in the instruments and the sum of the variable part of the remuneration awarded in cash and other benefits, at the time of payment.

The financial instruments used by the Bank for the allocation of variable compensation must contribute to aligning the variable compensation with the success and risks of the Bank. Financial instruments in terms of Remuneration policy can be:

- a) ordinary shares,
- b) financial instruments linked to ordinary shares, the value of which is based on the market price of the share and which have a contractual clause that limits the maximum possible value of the instrument to the value that was valid on the day the compensation was determined,
- c) priority shares,
- d) shares of the parent company of the legal entity and financial instruments related to the shares of the parent company of the legal entity, the value of which is based on the market price of the share and which have a contractual clause that limits the maximum possible value of the instrument to the value that was valid on the day of determining the fees,
- e) other financial instruments for the use of which the Agency has obtained prior consent.

When using financial instruments, the Bank is obliged to adopt an appropriate compensation retention policy, which aligns employee motivation with the Bank's long-term interests, whereby the compensation retention policy is applied to deferred and non-deferred variable compensation.

The Bank may not pay an identified employee dividends or yield on financial instruments that have been allocated to him and deferred, neither during the deferment period nor after the end of the deferment period. All returns, i.e. dividends that could be paid during the grace period, become the property of the Bank.

Provisions on the postponement of variable remuneration and payment in financial instruments do not apply if the variable remuneration on an annual basis is below or equal to the gross amount of 100,000.00 BAM.

### 3.3 Group remunerations by business area in 2024

Gross variable remuneration (monthly and annual) paid by sector in 2024

(in 000 BAM)

Remunerations by category	Number of employees	The total amount of gross remuneration expressed by sector
Managing functions	3	159
Direct work with clients	174	321
Back offices	85	366
Risks	23	68
Control functions	17	68
<b>Total</b>	<b>302</b>	<b>982</b>

\* Only employees of the Credit Risk Approval Division are included in the Risks.

Gross fixed fees paid by sector in 2024

(in 000 BAM)

Remunerations by category	Number of employees	Total amount of remunerations per divisions
Managing functions	5	1.189
Direct work with clients	300	5.564
Back offices	166	5.026
Risks	37	1.198
Control functions	36	1.191
<b>Total</b>	<b>544</b>	<b>14.168</b>

#### Sum of all benefits by employee category

The sum of all gross compensation by categories of employees, and information on compensation divided into the Management Board, the Supervisory Board, and other employees of the bank whose professional activities have a significant impact on the bank's risk profile.

(in 000 BAM)

Remunerations by category	Fixed remunerations	Variable remunerations	Total
Managing functions	1.189	159	1.348
Direct work with clients	5.564	321	5.885
Back offices	5.026	366	5.391
Risks	1.198	68	1.266
Control functions	1.191	68	1.260
<b>Total</b>	<b>14.168</b>	<b>982</b>	<b>15.151</b>

Remunerations by category	Number	Total remunerations 000 BAM
Supervisory Board	5	296
Management Board	6	1.348

Number of workers whose compensation amounts to one hundred thousand BAM or more per financial year:

The determined number of employees whose total annual gross receipts in the financial year exceed one hundred thousand amounts to 10 (ten).

In 2024, the Bank issued financial instruments, and there were no discretionary retirement benefits granted to employees.

#### 4. Scope of application of regulatory requirements

Bosna Bank International d.d. is not a member of the banking group.

## 5. Risk management strategy and policy

### 5.1 A brief description of the strategy and policies for each individual risk

The risk management strategy defines the basic objectives and basic principles of risk management and is part of the overall management strategy of the Bank. The risk management strategy prescribes key principles for ensuring the Bank's sustainability, capital, and liquidity adequacy, protecting the Bank through comprehensive integration of the risk management system and the Bank's business activities, for strategic planning and business development that are fully aligned with the established risk appetite.

The basic components of risk management are adjusted to the risk profile, available infrastructure, and professional corporate culture.

The Bank is obliged to continuously identify the risks to which it is or could be exposed in its operations, and to analyse the causes of risk exposure, as well as regularly measure, or assess the risks it has identified. The risk assessment process is determined by appropriate internal documents in accordance with legal and regulatory regulations.

Control of the risk management process represents a good basis for the successful achievement of risk management objectives.

In accordance with the Law on Banks, the Bank is obliged to monitor the following types of risks as a minimum: credit risk, concentration risk, residual risk, country risk, market risk, currency risk, profit/interest rate risk, liquidity risk, operational risks, internal and external fraud, outsourcing risk, compliance risk, cyber risks, malpractice risks. In addition to the mentioned risks prescribed as a minimum, the Bank decided to monitor additional types of risks. At the highest level, risks are divided into a group of financial and non-financial risks. Financial risks are product-related (directly related to financial contracts or financing portfolio), while non-financial risks are activity- or process-based.

Below is a list of risks based on which the Bank evaluates materiality/ significance:

Risk	Definition of risk/subcategory of risk
<b>1. Credit risk</b>	<b>Risk of loss due to non-payment of the debtor's financial liabilities to the Bank.</b>
1.1. Credit risk	<b>Credit risk</b> - the risk of loss due to non-payment of the debtor's financial liabilities to the Bank.
1.2. FX induced credit risk	<b>FX-induced credit risk</b> is the risk of loss to which the Bank that approves placements in foreign currency or with a currency clause is additionally exposed and which results from the debtor's exposure to currency risk.
1.3. Profit/interest induced credit risk	<b>Profit/interest induced credit risk</b> is the risk of loss to which the Bank that assumes the credit risk is additionally exposed from exposures related to variable profit rates.
1.4. Concentration risk	<b>Concentration risk</b> is any individual, direct or indirect exposure to one person, i.e. a group of related persons or a set of exposures that are connected by common causes of risk such as the same economic sector, i.e. geographical area, similar products, i.e. the application of credit risk reduction techniques, including special risks associated with large indirect credit exposures to an individual collateral provider that may lead to such losses that could threaten the continuation of the Bank's operations or materially significant changes in its risk profile.
1.5. Risk of (free) delivery	<b>The risk of (free) delivery</b> is the risk of loss of the Bank that occurs when the payment of securities, currency or goods is made before they are received or the delivery in question is made before they are paid for, i.e. if the payment made or the delivery made is not in accordance with the expected time dynamics.
1.6. Settlement risk	<b>Settlement risk</b> is the risk of negative effects on the Bank's financial result or capital due to the difference in the agreed settlement price for a specific debt, equity, foreign currency or commodity instrument and its current market value.

1.7. Counterparty risk	<b>Counterparty risk</b> is the risk that the other party to the transaction could default or deteriorate in credit quality before the final settlement of the cash flows of the contracted transaction (most often refers to derivatives or other similar financial instruments).
1.8. Country risk	<b>Country risk</b> is the risk related to the country of origin of the person to whom the Bank is exposed, i.e. the risk of the possibility of negative effects on the Bank's financial result or capital due to the inability of the Bank to collect its claims from this person due to reasons resulting from political, economic, or social circumstances in the country of origin of that person.
1.9. Risk of Transfer	<b>Transfer risk</b> implies the risk of loss due to the Bank's inability to collect claims expressed in a currency that is not the official currency of the debtor's country of origin, due to the limitation of payment of liabilities to creditors from other countries in a certain currency, which is determined by acts of state and other debtors of the debtor's country of origin.
1.10. Political and economic risk	<b>Political-economic risk</b> means the risk of loss due to the Bank being prevented from collecting claims due to restrictions established by regulations/acts of state and other state authorities from the debtor's country of origin, as well as general and systemic circumstances in that country.
1.11. Migration risk	<b>Migration risk</b> is the risk of loss due to a change in the fair value of credit exposure, as a result of a change in the client's rating.
1.12. Residual risk	<b>Residual risk</b> is the risk of loss that arises if recognized credit risk reduction techniques used by the Bank are less effective than originally expected or their application has insufficient effect on reducing the risks to which the Bank is exposed.
<b>2. Market risk</b>	<b>Market risk is the risk of losses on balance and off-balance sheet positions due to changes in market prices.</b>
2.1. Market risk	<b>Market risk</b> is the risk of losses on balance and off-balance sheet positions due to changes in market prices.
2.2. FX risk	<b>FX risk</b> is the risk of loss resulting from a change in the currency exchange rate and/or a change in the price of gold.
2.3. Position risk	<b>Position risk</b> is the risk of loss arising from a change in the price of a financial instrument or in the case of derivatives, a change in the price or variable.
2.4. Commodity risk	<b>Commodity risk</b> is the risk of loss arising from a change in the price of a commodity.
2.5. Credit margin risk	<b>Credit margin risk</b> is the risk of loss due to changes in the market value of debt financial instruments, caused by changes in the credit range, liquidity premium and other factors that may affect the change in market value.
2.6. Credit Valuation Adjustment Risk (CVA Risk)	<b>Credit valuation adjustment risk</b> is the risk of loss based on OTC derivatives that may arise as a result of a deterioration in the creditworthiness of the counterparty (a subtype of credit risk) or a change in the price of the derivative (a subtype of market risk) or a combination of the above.
<b>3. Profit rate risk/ interest rate risk in the banking book</b>	<b>Profit rate risk / interest rate risk in the banking book is the risk of possible negative effects on the Bank's financial result and capital based on positions in the banking book due to changes in profit / interest rates.</b>
3.1. Profit rate risk/ interest rate risk in the banking book	<b>Profit rate risk / interest rate risk</b> in the banking book is the risk of possible negative effects on the Bank's financial result and capital based on positions from the banking book due to changes in profit / interest rates.

3.2. Basis risk	<b>Basis risk</b> 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, i.e. from the imperfection of the correlation of reference interest rates for interest-sensitive instruments.
3.3. Option risk	<b>Option risk</b> is the risk arising from options (embedded and explicit), where the bank or its client can change the level or maturity of cash flows of interest-sensitive instruments.
3.4. Deviation risk	<b>Deviation risk</b> is the risk arising from the term structure of interest-sensitive instruments, i.e. differences in the period until their interest rate changes, and includes changes in the term structure of interest rates that appear consistently on the yield curve (parallel risk) or differently per period (non-parallel risk).
3.5. Yield curve risk	<b>Yield curve risk</b> is the risk to which the Bank is exposed due to changes in the shape and slope of the yield curve.
<b>4. Liquidity risk</b>	<b>Liquidity risk is the risk of loss arising from the existing or expected inability of the Bank to settle its due financial liabilities.</b>
4.1. Liquidity risk	<b>Liquidity risk</b> is the risk of loss arising from the existing or expected inability of the Bank to settle its due financial liabilities.
4.2. Market liquidity risk	<b>Market liquidity risk</b> is the risk arising from the Bank's inability to simply settle positions or eliminate those positions at the market price, due to market disruption or insufficient market depth.
4.3. Intraday liquidity risk	<b>Intraday liquidity risk</b> is the risk of inadequate management of intraday liquidity, which may lead to the impossibility of timely liabilities' repayment and impact on the Bank's liquidity position and the liquidity of other parties.
4.4. Liquidity financing risk	<b>Liquidity financing risk</b> is the risk that the Bank will not be able to successfully meet the expected and unexpected current and future needs for funds, as well as the needs for insurance instruments, without affecting the regular daily operations or the Bank's financial results.
4.5. Risk of concentration of financing sources	<b>The risk of concentration of financing sources</b> is the risk of excessive concentration of financing sources in the same maturity/type/individual source, which in the case of a negative trend can lead to a negative impact on the Bank's liquidity position and the risk of the inability to adequately finance operations.
<b>5. Operational risks</b>	<b>Operational risk</b> is the risk of loss due to inadequate or failed internal processes, people and systems or external events, including legal risk.
5.1. Operational risk	<b>Operational risk</b> is the risk of loss due to inadequate or failed internal processes, people and systems or external events, including legal risk.
5.2. Conduct risk	<b>Conduct risk</b> is the risk of losses due to inappropriate provision of financial services, including cases of intentional or unintentional violation of rules and regulations.
5.3. The risk of IT and communication	<b>The risk of IT and communication technology</b> is the risk of losses due to inappropriateness or interruptions in the operation of hardware and software components of the technical infrastructure, which may threaten the availability, integrity, accessibility and security of such infrastructure and data.
5.4. Internal and external fraud risk	<b>Internal and external fraud risk</b> is the risk of loss as a result of fraudulent behaviour attempted or committed by internal or external parties.

5.5. Employee relations and workplace safety	<b>Employee relations and workplace safety</b> represent the risk of losses that do not comply with labor, health or safety laws or contracts and compensation payments for bodily injury or from diversity/discrimination related events.
5.6. The risk of damage to tangible assets	<b>The risk of damage to tangible assets</b> is the risk of losses resulting from the loss or damage of tangible assets due to natural disasters or other events
5.7. Execution, delivery, and process management risk	<b>Execution, delivery, and process management risk</b> is the risk of potential loss from failed transaction processing or process management, from relationships with trading counterparties and suppliers.
5.8. Legal risk	<b>Legal risk</b> is the risk that arises due to the possibility of legal proceedings against the Bank, non-fulfilment of the Bank's contractual obligations, as well as the Bank's business decisions which are found to be unenforceable, negatively affecting the Bank's operations or financial position.
5.9. Compliance risk	<b>Compliance risk</b> is the risk of imposing possible measures and penalties and the risk of significant financial loss that the Bank may suffer due to non-compliance with regulations, standards and codes and internal acts.
5.10. Externalization risk	<b>Externalization risk</b> is the risk that arises when the Bank contractually entrusts a third party (service providers) with the performance of activities that it would otherwise perform itself.
5.11. Risk of money laundering and terrorist financing	<b>The risk of money laundering and terrorist financing</b> is the risk that the client misuses the Bank for money laundering or financing terrorist activities and that some business relationship, transaction or product is specifically or directly used for money laundering and/or financing terrorist activities.
5.12. Cyber risk	<b>Cyber risk</b> is the risk of losses due to breach of confidentiality, loss of system and data integrity, inappropriateness or unavailability of systems and data, or the impossibility of changing information technologies within a reasonable time and at reasonable costs in the event of a change in environmental or business requirements (i.e. adaptability). Includes security risks arising from inadequate or failed internal procedures or external events, including cyber intrusions or inadequate physical security
5.13. Model risk	<b>Model risk</b> is the risk of loss due to making business and risk management decisions that would be based on the results of internal models, including models for determining internal capital requirements, product prices, valuation of financial instruments and the like. Losses could occur due to inadequate initial settings of the model, errors in the implementation of the model or improper use of the model.
5.14. Personnel risk	<b>Personnel risk</b> is the Bank's potential loss due to the departure of employees with critical knowledge and the outflow of know-how who are not replaceable in the short term.
<b>6. Other risks</b>	
6.1. Reputational risk	<b>Reputational risk</b> is the risk of the possibility of negative effects on the Bank's financial results or capital due to loss of confidence in the Bank's integrity, which occurs due to unfavorable public opinion about the Bank's business practices or the activities of members of the Bank's bodies, regardless of whether or not there is a basis for such public opinion.
6.2. Strategic risk	<b>Strategic risk</b> is the risk of loss that occurs due to the lack of a long-term development strategy of the Bank, making wrong business decisions, lack of adaptation to changes in the economic environment, etc.

6.3. Profitability risk	<b>Profitability risk</b> is a risk that arises due to an inappropriate structure and distribution of earnings or the inability of the Bank to ensure an appropriate, stable and sustainable level of profitability.
6.4. Management risk	<b>Management risk</b> is the risk of loss that occurs because the Bank, due to its size and/or complexity of operations, has limited capacity to establish sophisticated management mechanisms, systems, and controls.
6.5. Risk of excessive financial leverage	<b>The risk of excessive financial leverage</b> is the risk arising from the Bank's vulnerability due to financial leverage or potential financial leverage that may lead to unwanted changes to its business plan, including the forced sale of assets, which may result in losses or adjustment of the valuation of its remaining assets.
6.6. Capital risk	<b>Capital risk</b> refers to the inadequate capital structure to support the scope and nature of the Bank's business activities or to the difficulties faced by the Bank in obtaining new sources of capital, especially in cases where there is an urgent need to increase capital or in unfavourable conditions.
6.7. Investment risk	<b>Investment risk</b> is the risk of loss arising from the Bank's investments in fixed assets and investments in other legal entities, due to changes in their market values.
6.8. Business risk	<b>Business risk</b> is a negative, unexpected change in the volume of operations and/or profit margins of the Bank, which can lead to significant losses and thus reduce the market value of the Bank. Business risk, first of all, can occur due to a significant deterioration of the market environment and changes in market competition or consumer behaviour on the market.
6.9. Climate change risk (as part of ESG risk)	<p><b>ESG (environmental, social and governance risks)</b> represent the probability of losses or additional costs or loss of planned revenues or loss of reputation of a financial institution due to the negative financial impact of current or future ESG factors on counterparties and their assets.</p> <p>The negative impacts of climate change (floods, storms, rising sea levels) represent a <b>growing risk</b> for the sustainable development of all countries. These risks affect macroeconomic indicators, including inflation, economic growth, and financial stability.</p>
6.10. Real estate risk	<b>Real estate risk</b> is the risk of loss arising from changes in market values of the real estate portfolio owned by the Bank.
6.11. Risk of introducing new products/services	<b>The risk of the introduction of new products/services</b> are risks arising from the introduction of new services, products, models, processes or systems, significant changes in existing services, products, models, processes or systems, entering new markets, trading with new instruments, or concluding similar deals which the bank has not dealt with before, including the procedures of mergers or acquisitions of other legal entities.

### 5.1.1. Credit risk

#### Strategy and policies for credit risk management

The Bank's business policy requires and foresees maximum protection against exposure to credit risk, as the most significant risk in banking business. The bank has provided an adequate credit risk management system with internal acts, policies and procedures related to risk management, which reduces it to an acceptable level.

The bank manages credit risk through:

- Financing/ placement approval processes;
- Collateral management processes;
- Credit risk measurement processes in accordance with the regulatory framework (decisions of the FBiH Banking Agency);
- The process of monitoring the portfolio and monitoring its quality;
- The process of calculating the minimum capital requirement for credit risk and internal assessment of capital adequacy;
- Early detection of warning signs (EWS) processes;
- Management processes of risky placements and NPF.

The Bank manages credit risk by establishing adequate processes for determining the borrower's ability to repay when approving a placement, as well as for regular monitoring of it for the duration of the contractual relationship, by defining different levels of decision-making when approving placement, by establishing limits that define the level of risk that the Bank is willing to accept at the level of individual clients, geographic areas and industries, as well as through the monitoring of these limits.

The goal of credit risk management is to minimize the negative effects of credit risk on the Bank's financial result and capital.

Risk management strategy, Financing policy, Collection policy, Policy for determining and monitoring large exposures and concentration risk, Collateral management policy and Program for credit risk management and determination of expected credit losses, more closely define the credit risk management system including concentration risk, residual risk, profit/ interest-induced credit risk and political-economic risk.

The risk management strategy is a framework document for creating policies and procedures for credit risk management with clearly defined rules and defines the following:

- overview and definition of all risks to which the Bank is exposed or may be exposed in its operations
- strategic goals and business strategy
- risk management policy and basic principles of risk management
- the basic principles of the internal assessment of the Bank's capital adequacy process
- monitoring the risk profile and credit risk limit.

The Financing policy defines guidelines for the efficient implementation of the credit process in accordance with the Bank's business model. The bank defines and implements processes related to credit operations in accordance with this policy and other policies adopted by the Supervisory Board and all applicable regulations, Decisions of the FBiH Banking Agency and the Law on Banks.

The collection policy defines the framework of actions in the process of collection of receivables from the moment of approval of any product through the regular monitoring of the settlement of liabilities and the procedure of transferring potentially problematic and problematic placements from the Retail division to the Division for collection and management of NPF.

Policies and procedures for determining and monitoring large exposures and concentration risk define risk concentration limits, as well as methods of management and control over the same.

The program for credit risk management and determination of expected credit losses, adopted by the Bank's Supervisory Board, prescribes the method of credit risk management, the method of assigning exposure to credit risk levels and the evaluation of exposure.

The Collateral Management Policy and Procedure define collateral management activities in accordance with the Decision on Credit Risk Management and Determination of Expected Credit Losses, Instructions for Assessing the Market Value of Collateral and Positive

Banking Practice. The mentioned document sets the minimum requirements for the assessment of the collateral that will secure the Bank's loan.

Credit risk reporting at the Bank's level includes the system of external and internal reporting on credit risk management. External reporting is done in accordance with the requirements of the FBiH Banking Agency, and internal reporting is done in accordance with the internal acts of the Bank.

The Risk profile report contains: total exposure to credit risk, amount of overdue receivables, review of NPF, value and type of acceptable collateral, amount of value adjustments and reserves for credit losses.

The credit risk management process in the Bank is subject to continuous control by the internal audit.

### **Functions of credit risk management**

In order to have a continuous and adequate management system, the Bank has defined an appropriate organizational structure, which is proportional to the size and internal organization of the Bank, the type, scope and complexity of operations, as well as the Bank's business model and risk profile. In this way, a transparent and clear organization of work is ensured, with defined and consistently applied lines of responsibility and authority, while respecting the policy for managing conflicts of interest.

The Bank's Management Board carries out the function of managing business processes and credit risks, and adopts key management decisions. Control and management of credit risks in the Bank is carried out in relation to the business strategy and risk strategy adopted by the Supervisory Board, as well as on the basis of risk management methodologies. The Bank's management and the Supervisory Board, as well as the sub-committees of the Supervisory Board, are informed in a timely manner about the indicators of operations, risk management, as well as the findings of the control functions through individual reports or through appropriate materials for reporting to the various Boards of the Bank.

As an important element of the credit risk management approach, the Bank applies the "three lines" of defense model, to distinguish functions that own and manage credit risks, functions that monitor credit risks and functions that provide independent assurance.

As the first line in the model, the Bank's functions responsible for providing financial services (Segment for business with legal entities and Segment for retail business) are functions that generate earnings and profits by assuming risks, i.e. establish, manage and maintain relationships with clients and thus represent a place of risk occurrence. They are responsible for applying risk exposure, adhering to approved limits, taking risks and continuously monitoring risks, establishing relationships with clients and managing products and providing quality data about clients and products for risk management purposes.

The second line of defence primarily includes control functions for monitoring compliance and risk management (including the organizational units that comprise it). However, in a broader sense, the second line of defence also includes other organizational units that monitor the work and control the activities of the units that represent the first line of defence.

As the second line of defence in the model is the Credit Risk Management Function, which is performed by four divisions:

- 1. The Division for credit risk approval** performs an independent assessment of the credit risk of individual clients/ transactions and provides opinions with risk assessment to competent authorities for decision-making within the scope of individual risk, monitors the compliance of financing applications with the Bank's goals in terms of risk level. The credit risk approval department is responsible for developing and maintaining a healthy, profitable risk portfolio of assets that will withstand economic downturns by keeping problem financing to a minimum.
- 2. The Credit risk exposure monitoring and analysis division** performs continuous monitoring of credit risks through the monitoring of subsequent conditions defined by the credit risk approval department or the FI Committee, financing policy management, collateral management, introduction of standards in credit risk management for segments of legal and natural persons, in part monitoring and analysis of credit risk exposure, development and maintenance of the EWS early warning signal process, development and maintenance of internal rating models.
- 3. The Risk Control Division (Risk control function)** is organized in such a way as to monitor, control and evaluate credit risk. The Director of the Risk Control Sector reports directly to the Supervisory Board and informs the Bank's Management. The function was established in such a way as to avoid conflicts of interest, and by function it is independent, that is, functionally separated from the business processes and activities in which the risk arises. The risk control division warns of possible deviations from the defined thresholds, analyses and reports (to the Supervisory

Board, the Bank's Management and the FBiH Banking Agency) about the quality of the Bank's portfolio from the aspect of credit risk, including concentration risk. It also calculates value corrections in accordance with the Decision FBA, credit control and collateral management and monitoring. The Risk Control Sector submits a Risk Profile Report to the Bank's Management and the Supervisory Board, in which the risks to which the Bank is exposed are presented and quantified.

4. **The Division for collection and management of non-performing assets**, whose main task is the efficient and effective management of the entire collection process at the Bank level, which includes the early and late stages of collection in the segment of legal and natural persons, and the management of tangible assets acquired in the collection process.

The third line of defence in the model:

**Internal audit control function** is an independent organizational unit, completely independent from the Bank's Management Board, and directly responsible to the Audit Board and the Bank's Supervisory Board. The internal audit control function contributes to improving the efficiency of risk management, improving the efficiency of the internal control system, and improving the Bank's corporate management. Evaluations of the quality and effectiveness of internal controls, including the assessment of the risk management system and processes, are submitted to the Bank's Management Board, the Audit Board and the Supervisory Board, as well as audited organizational units of the Bank in the form of audit reports.

All control functions have a direct line of reporting to the Bank's Boards.

The Bank's Management Board is actively involved in all credit risk management processes through the sessions of the Bank's Management Board, FI Committee, RICO, ALCO and Remedial Committee.

The Management Board regularly reports on the Bank's credit risk within the Audit Board and Supervisory Board sessions. The Director of the risk control sector reports on credit risk, within the relevant agenda items of the Audit Board, and on sector activities within the Risk Board-sessions. Also, in addition to the Chief Internal Auditor, the Head of the Compliance Department attends the Audit Board meetings, where they report on relevant points.

#### 5.1.2. Liquidity risk

##### **Strategy and policies for liquidity risk management**

The goal of liquidity risk management is to maintain the level of liquid assets, in order to timely settle the liabilities due to the Bank's balance sheet and off-balance sheet operations, i.e. to minimize the negative effects on the Bank's financial result and capital.

With the Risk Management Strategy, the Liquidity Risk Management Program and the Liquidity Risk Management Procedures, the Bank has defined the liquidity risk management system in more detail.

The objective of the liquidity risk management strategy is to determine the approach to liquidity that will ensure the preservation of the Bank's financial strength and its ability to withstand stressful events in the market.

The Bank's liquidity management strategy includes the following:

- Management of compliance of balance and off-balance sheet assets and liabilities
- Asset liquidity management
- Liability management in the context of liquidity
- Off-balance sheet management in the context of liquidity
- Projecting liquidity
- Inclusion of liquidity costs (LTP) in internal pricing
- Strategy for dealing with emergency situations
- Control and supervision of liquidity management.

The Bank strives to maintain a balance between funding continuity and flexibility, using liabilities of different maturities. The Bank continuously assesses liquidity risk by identifying and monitoring changes in financing that are necessary to achieve business goals.

There are three basic elements of liquidity risk:

- the risk of mismatched liquidity that arises due to the mismatch of the Bank's assets and liabilities

- the risk of increased liquidity arising from the cash flows of assets and liabilities, which show that the Bank could potentially have greater needs for more liquid funds in the future
- market liquidity risk that arises due to potentially weaker market liquidity and the Bank's inability to sell liquidity reserves.

The Bank has established the basic principles of liquidity risk management, namely:

- willingness to repay due liabilities through maintaining a minimum level of liquid assets
- maintenance of compliance between the inflow and outflow of funds by limiting the currency and maturity mismatch of receivables and liabilities
- determination of planned activities in case of unforeseen events.

Liquidity risk identification involves analysing all indicators that lead to the emergence and increase of liquidity risk, as well as monitoring the level of available liquid funds (liquidity reserves) and considering the type and amount of sources of funds, through an assessment of deposit stability. In addition to the indicators prescribed by the Law, the Bank has additionally established internal liquidity risk indicators as well as the frequency of their monitoring.

The established internal limits when monitoring liquidity risk indicators aim to timely detect deviations when it comes to exposure to liquidity risk and to take adequate measures in time that will lead to a reduction of exposure to liquidity risk and so that said exposure is in line with a liquidity risk management strategy.

The Bank has an established internal and external liquidity risk reporting system, which includes assessment and analysis of liquidity risk exposure, compliance with external and internal limits, stress test analysis results and proposed measures. Reporting is done daily to the Bank's Management Board and members of the Liquidity Commission, monthly to the Asset and Liability Management Committee and to the Risk Management Committee, and quarterly to the Risk Board, the Audit Board and to the Supervisory Board.

### **Liquidity risk management functions**

The following are responsible for liquidity risk management: Supervisory Board, Risk Board, Audit Board, Bank's Management Board, Bank's Asset and Liability Management Committee (ALCO), Risk Management Committee (RICO), Liquidity Committee, Assets and FI Division, Risk Control Division / Market and operational risk department.

**The Supervisory Board**, together with the Bank's Management Board, establishes a system for the identification, measurement and monitoring of liquidity risk in order to ensure the maintenance of the level and appropriate structure of the liquidity protection layer as part of the internal process of assessing liquidity adequacy.

The Supervisory Board of the Bank is obliged to adopt the Bank's Liquidity Program, which defines the Bank's liquidity management strategies, policies and procedures, and ensures the Bank's actions in accordance with the same. It will also periodically review and periodically harmonize the Program in accordance with the law and changes in the economic environment, at least once every six months.

The Supervisory board establishes a risk management control function separate from the business activities in which the risk arises. Liquidity risk control is an integral part of the activities of the risk control function.

**The Risk Board and the Audit Board** oversee the implementation of liquidity risk management strategies and policies and report it to the Supervisory Board.

**The Bank's Management Board** implements the Program (strategy, policies and procedures) for liquidity management adopted by the Supervisory Board, prepares and submits amendments to the Program to the Supervisory Board, reports quarterly to the Supervisory Board on the Bank's liquidity risk management, proposes liquidity limits to the Supervisory Board, monitors them and if necessary, proposes their revision.

Also, with the established organizational structure, business activities, decision-making lines and responsibilities are clearly demarcated into the liquidity risk management process (Risk Control Board - Market Risks Department) and the liquidity risk taking process (Assets and Financial Institutions Board).

**Risk Control Division** – Market and operational risk Department is in charge of monitoring the implementation of liquidity risk management policies and procedures and reporting on the same to the Bank's authorities and regulators. The Division is also in charge of conducting liquidity stress tests provided for by the Liquidity Risk Management Program, as well as the Methodological Framework

for Stress Resistance Testing. The risk control department, in the role of the risk management control function, monitors liquidity risk management, monitors liquidity management, participates in making all important decisions about risk, informs and warns the Supervisory Board about cases of specific developments in the area of liquidity risk that may have an impact on the Bank. At the same time, the Supervisory Board and the Bank's Management Board are responsible for liquidity risk management.

**The FI & Treasury Division** is in charge of monitoring compliance with regulatory requirements (legal, by-laws and internal acts) and adopting liquidity plans; preparation of reports for the Liquidity Commission.

The Director of the FI & Treasury Division is responsible for convening the ALCO session.

**The internal audit control function** is an independent organizational unit, completely independent from the Bank's Management Board, and directly responsible to the Audit Board and the Bank's Supervisory Board. The internal audit control function contributes to improving the efficiency of risk management, improving the efficiency of the internal control system, and improving the Bank's corporate management.

**The Compliance function** is responsible for managing changes in the regulatory environment, which also performs preventive mitigation of compliance risks. The Compliance Function is established with the aim of monitoring and mitigating compliance risks - the risk of imposing possible measures and penalties and the risk of significant financial loss that the bank may suffer due to non-compliance with regulations, standards, codes and internal acts.

**The Asset and Liability Management Committee (ALCO), The Risk Management Committee (RICO) and the Liquidity Committee** have a primary role in the liquidity risk management process, within their competence in regular and extraordinary business conditions.

Also, in the liquidity risk management process, other committees of the Bank (FI Committee, Committee for managing non-performing assets) play a role, whose decisions can affect the exposure to the mentioned risk.

### 5.1.3. Market risk

#### Strategy and policies for market risk management

The Bank considers following as market risks:

- FX risk
- positional risk
- commodity risk
- credit margin risk
- credit valuation adjustment risk (CVA risk)

The Bank does not have a trading book and given the same, positional risk is not relevant. It is also not exposed to commodity risk. The Bank does not have any interest-bearing debt securities or derivatives in its portfolio, so there is no credit spread risk or credit valuation adjustment risk (CVA risk).

In its operations, the Bank is, based on the positions maintained in the banking book, exposed to foreign exchange risk, which represents the possibility of negative effects on the Bank's financial result and capital as a result of currency/exchange rate changes.

When calculating capital requirements for market risk, the Bank applies a standardized approach.

With the Risk management strategy, foreign exchange risk management program and work procedures, the Bank has more closely defined the currency/ foreign exchange risk management system.

The Foreign exchange risk management program defines limits within the Law and decisions of the FBiH Banking Agency.

A reporting system has been established that includes assessment of exposure to currency risk, compliance with defined limits (external and internal), results of stress test analysis, as well as proposed measures. Reporting is done daily to the Bank's Management Board and members of the Liquidity Commission, monthly to the Asset and Liability Management Committee and the Risk Management Committee, and quarterly to the Risk Board, the Audit Board and the Supervisory Board.

### **Market risk management functions**

The Bank has established an appropriate organizational structure, business activities, decision-making lines and responsibilities by clearly demarcating the process of assuming currency/foreign exchange risk from its management and support processes.

#### **5.1.4. Interest/ profit rate risk management**

##### **Strategy and policies for managing interest/ profit rate risk**

Interest/ profit rate risk is the risk of possible negative effects on the Bank's financial result and capital based on positions in the banking book due to changes in interest/ profit rates.

Management of interest/ profit rate risk is carried out in accordance with the Policies of Management of Profit/Interest Risk in the Banking Book and the Procedures of Management of Profit/Interest Risk in the Banking Book.

The Bank manages various forms of interest/ profit risk as follows:

- Deviation risk is the risk arising from the term structure of interest-sensitive instruments, i.e. the difference in the period until a change in their interest/profit rate, and includes changes in the term structure of interest/profit rates that appear consistently on the yield curve (parallel risk) or differently by period (non-parallel risk).
- Basis risk – Basis risk is the risk arising from the application of different reference interest/profit rates for instruments with similar maturity or time until the next change in interest/profit rate, i.e. from the imperfect correlation of reference interest/profit rates for interest/profit sensitive instruments.
- Optionality risk – risk arising from the term structure of interest/profit sensitive instruments, i.e. the difference in the period until a change in their interest/profit rate, and includes changes in the term structure of interest/profit rates that appear consistently on the yield curve (parallel risk) or differently by period (non-parallel risk).
- Yield curve risk - risk arising from the impact of changes in the shape and/or slope of the yield curve.

The Bank's exposure to interest/ profit risk is measured by the sensitivity of the Bank's financial results and capital to possible negative movements in interest/ profit rates. The effect of a negative trend in interest/ profit rates on the Bank's financial result and capital is calculated by multiplying the GAPS of assumed changes in interest/ profit rates (a standard interest/ profit shock of 200 basis points is applied). GAP represents the difference between interest/ profit sensitive assets and interest/ profit sensitive liabilities.

The Bank calculates the ratio of the change in the economic value of the banking book and the regulatory capital of the Bank, which should not exceed 20% in accordance with the legal regulations.

The Bank has established a reporting system, which includes quantitative and qualitative assessment of exposure to interest rate risk and is performed using internal models of static and dynamic GAP and ratio analysis, economic value of capital, net present value and stress testing. The Bank also uses a method of estimating the impact on net income/ profit on a monthly basis in the management of interest rate/risk.

##### **Interest/ profit rate risk management functions**

The Bank has established an appropriate organizational structure, business activities, decision-making lines and responsibilities by clearly demarcating the risk-taking process from the risk management process.

The Asset and Liability Management Committee and the Risk Management Committee have a significant role in the interest rate risk/ profit rate risk management process. The report on interest/ profit rate risk submitted monthly to the Committee for Asset and Liabilities Management and the Committee for Risk Management and quarterly to the Risk Board, the Audit Board, and the Supervisory Board and the Banking Agency of the FBiH.

#### **5.1.5. Operational risk**

Operational risk represents the possibility of losses for the Bank and negative effects on the Bank's capital due to inadequate or failed internal processes, people and systems or external events, including legal risk.

In accordance with the Basel standards, the Bank recognized four main causes of events that lead to operational risks and losses in the Bank, namely: human factor, processes, systems and external factor.

The operational risk management system includes principles, rules, procedures and methods for operational risk management, and clearly defines roles and responsibilities at all levels of management that are established by general rules for risk management, policies, instructions, decisions, methodologies, and procedures.

The Bank places a special imperative and focus in the operational risk management policy on expanding the culture of risk management, on preventing money laundering and terrorist financing, on the protection of personal data, on the storage and protection of data and adequate management of information security risk, outsourcing risk, as well as an emergency plan situation, which ensures the continuity of business operations in situations of serious disruptions that are beyond the Bank's control.

The ultimate goal of operational risk management is to reduce the probability of primarily significant damages, as well as mitigating potential and actual losses, i.e. moving in the direction of less frequency of occurrence and smaller amounts of possible losses.

Identification and measurement of risks, which enables monitoring and appropriate mitigation of risks in order to align the Bank's exposure to operational risk, is the main objective of operational risk management.

The operational risk management levels are:

- **The Bank's Supervisory Board and the Bank's Management Board** are responsible for establishing the operational risk management system, and for monitoring and supervising the exposure to operational risk and the adequacy of operational risk management;
- **Managers of the Bank's organizational units** in charge of identifying, recording, assessing and monitoring identified operational risks;
- **The department for market and operational risk** has the function of risk control, that is, it is responsible for the coordination and control of collected data on operational risks, quantification of their effects and reporting to the Bank's Management and supervisory bodies;
- **All employees** of the Bank actively participate in the management of operational risk in their areas of responsibility.

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

- Identification of sources of operational risks and their reporting;
- Event analysis, which includes the analysis of identified and reported operational risk events in the Bank's operations that led to losses, as well as those events that could have caused the loss.

Self-assessment is carried out once a year for the purpose of assessing risks based on all recorded financial losses and the events that produced them.

A report is drawn up for the Bank's Management and the Supervisory Board on the assessment and measurement of risk based on the reported losses.

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

#### **5.1.6. Other risks**

In accordance with the procedure Identification and assessment of the significance of risks and the Risk Management Strategy, the Bank has defined other risks whose materiality / significance for the Bank is estimated at least on an annual basis.

The Bank has an established risk management and monitoring process and defined and adopted policies and procedures on the same.

#### **ESG risk**

ESG (Environmental, Social and Governance) risks represent the probability of losses or additional costs or loss of planned revenues or loss of reputation of a financial institution due to the negative financial impact of current or future ESG factors on counterparties and their assets.

The impacts of climate change are already visible, and a significant increase in the frequency and/or intensity of extreme weather events is predicted. The negative impacts of climate change (floods, storms, rising sea levels) represent a growing risk to the sustainable development of all countries. These risks affect macroeconomic indicators, including inflation, economic growth, and financial stability. Therefore, risk management is an important process to prevent and minimize losses or damage. Measuring and monitoring these risks is also important to protect the safety and reliability of the banking sector and the entire financial system.

Climate change risk management is an approach that seeks to predict, avoid, prevent risks and reduce the remaining impacts of extreme weather events. The goal is to encourage sustainable development by maximizing positive impacts and minimizing negative impacts in all sectors and areas that can be affected by climate.

On July 25, 2023, the FBiH Banking Agency issued the Guidelines for Managing Risks Related to Climate Change and Environmental Risks (hereinafter: the Guidelines), which aim to guide the banking sector in terms of identifying, measuring, managing and controlling climate and environmental risks and disclosing data and information related to these risks, as well as integrating the environmental sustainability segment into the Bank's business activities. Following the Guidelines, the Bank undertook activities envisaged in the Action Plan for acting in accordance with the Guidelines for Managing Risks Related to Climate Change and Environmental Risks of the FBiH Banking Agency in 2024, and submitted reports to the regulator on undertaken and planned activities within the defined deadlines.

The resilience of the Bank's business strategy to the above risks is reflected in the activities that the Bank has already undertaken in terms of preventing the realization of the above risks, by taking them into account in the risk management process, through active monitoring and mitigation, as well as the introduction of products/benefits in accordance with ESG principles.

In the coming period, the Bank will also actively work on activities aimed at harmonizing with the expectations of regulators, and integrating ESG principles into its operations, in accordance with the nature of the Bank's business model and the characteristics of the services it provides, including the specificities arising from the organizational structure, size and complexity of the Bank, risk profile and scope of risk exposure.

Environmental impact is a pillar of socially responsible business (environmental conservation). The Bank's activities are focused on acting through:

- reducing pollution, waste, consumption of natural resources
- recycling goods and materials through its processes, including promoting the practice of material reuse
- conscious use of goods and services that, by selecting methods, have the least impact on emissions and pollution.

The Bank additionally works on the placement of product/service offers in accordance with ESG principles and standards and continuously influences the education of employees of sales segments on the topic of ESG standards and principles, with the aim of adequately informing clients on the topic of business according to ESG standards in terms of the use of modern IT technologies, creating a healthy business environment, financing a sustainable green economy, direct work and participation in actions and improving a healthy environment.

The Bank is a socially responsible financial institution that has built-in care for the society in which it operates in the foundations of its corporate culture. In accordance with this strategy, the Bank uses its resources to make the country in which it operates a better place to live.

The Bank's socially responsible strategy is based on the following principles:

#### PHILANTHROPIC RESPONSIBILITY

Includes donations to charitable causes or activities aimed at supporting the improvement of quality of life, health and encouraging inclusion in the community with a special focus on support for:

- children, young people and adults and older people with disabilities and/or developmental difficulties and/or mental/intellectual disabilities or other forms of special needs/illnesses - children without parental care
- support for vulnerable social categories
- scholarships for children without one or both parents
- scholarships for children from vulnerable families
- support for sustainable return

#### FINANCIAL RESPONSIBILITY

- Support and plans for financial investments in programs, donations/sponsorships, and/or product research (research and development of new products that promote sustainability)
- Initiatives that train employees on corporate social responsibility, social awareness, or environmental care
- Ensuring transparent and timely financial reporting

#### ETHICAL RESPONSIBILITY

- Ethical responsibility is based on behaving in an honest, ethical manner. Fair treatment of all, regardless of age, race, culture.
- Transparency of procedures and honest disclosure in a lawful manner with respect

#### ENVIRONMENTAL IMPACT

Environmental impact is a pillar of socially responsible business (environmental conservation). The Bank's activities are aimed at acting through:

- reduction of pollution, waste, consumption of natural resources
- recycling of goods and materials through its processes, including promotion of the practice of material reuse
- conscious use of goods and services that, by choosing methods, have the least impact on emissions and pollution

Through the strategic initiative, the Sarajevo Business Forum, the Bank stimulates economic development in BiH and the entire region.

As part of the Sarajevo Business Forum, solutions to the energy and climate crisis, improving economic cooperation and strategies for attracting investments across the Western Balkans are discussed, as well as numerous public-private partnerships, investments in key infrastructure areas and encouraging better regional cooperation. All participants jointly explore ways to improve sustainable development, raise living standards, and reduce population migration by removing trade barriers and improving economic-regional connectivity.

The Bank strives to positively impact the environment through its activities. By integrating ESG risks into its business model and strategy, as well as its risk management strategy, the Bank has actively engaged in improving business conditions and environmental impacts. It has decided to contribute to improving the environmental and social performance of the banking market through its service offerings. Through dialogue with clients, the Bank strives to raise awareness among companies about the benefits of operating according to ESG principles, thereby creating a positive impact on its portfolio.

The Bank is committed to sustainable financing through environmental and social projects, which is a logical continuation of Islamic-ethical banking principles that promote wealth sharing and support.

### **5.2. Structure and organization of the risk management function**

Risk management function is an integral and inseparable part of the overall management of the Bank's business activities.

Risk management function is performed by four divisions:

1. Credit Risk Approval Division is responsible for development and maintenance of the sound and profitable risk portfolio of assets that would endure economic trends towards lower level by limiting NPF to minimum as well as other business in accordance with Law, bylaws, and the Bank's general enactments.
2. Risk Control Division is responsible for monitoring, control, and assessment of all significant risks the Bank is or might be exposed to.

3. The Collection and of non-performing assets management Division, whose main task is the efficient and effective management of the entire collection process at the Bank level, which includes the early and late stages of collection in the segment of legal entities and private individuals, and the management of tangible assets acquired in the collection process.
4. Division for monitoring and analysis of credit risk exposure is responsible for the development and maintenance of the early warning signal process for legal entities and private individuals, for the introduction of credit risk management standards for the legal entities and private individual segments, in the monitoring and analysis of credit risk exposure at the portfolio level, for the development and maintenance of internal rating models for legal entities and private individuals, and for the collateral management process within the Bank.

Generally, three goals are defined within the Risk management strategy:

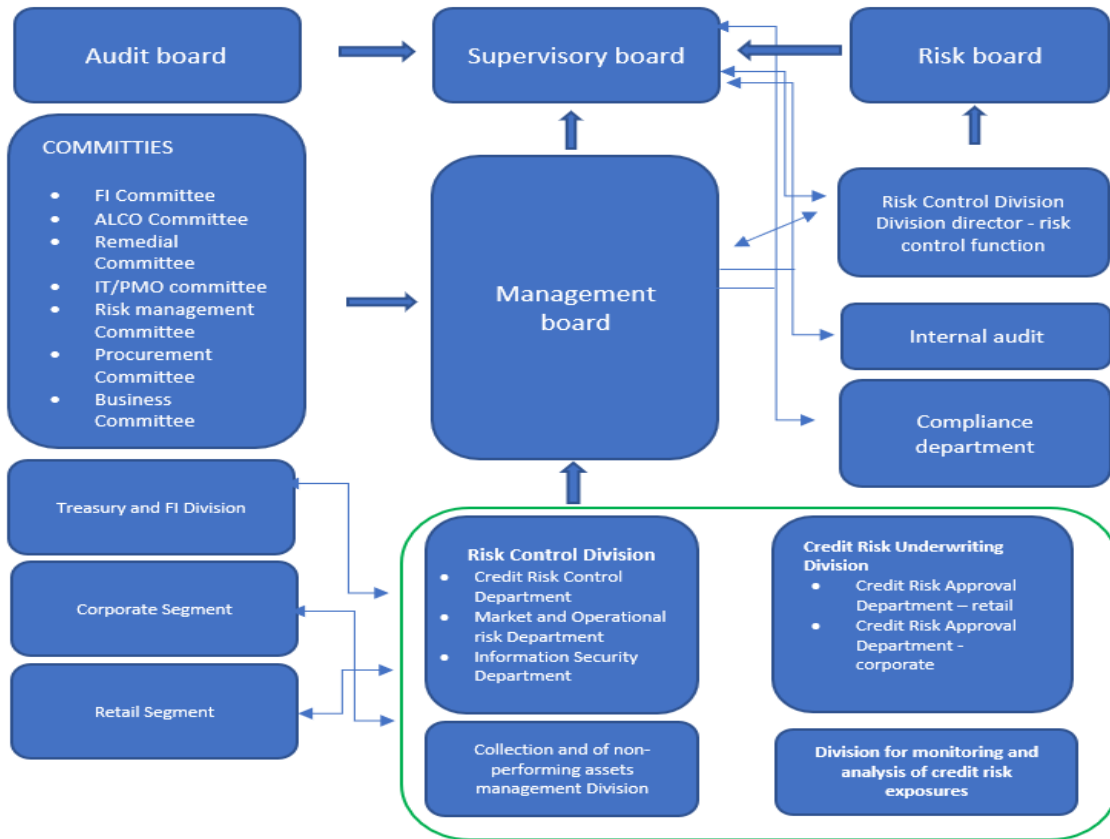
1. Risk management function provides sufficient capacity of risk undertaking and suitable capital management based on the following principles:
  - a) protection of depositors in accordance with liquidation scenario and
  - b) compliance with required capital adequacy.
2. Risk management function enables more efficient resources allocation aiming to improve ROE coefficient adjusted to risks.
3. Risk management function is significant for maintenance of the target financial risk portfolio and support risk mitigation and diversification as well as adequate approach to the profit achievement.

Risk management function aims to achieve optimal risk profile for different risk categories. Key tasks are the development and improvement of processes, methods, tools and system support for management of different risk categories arising from business activities. Also, it defines procedures that must be implemented in the process of approving i.e., undertaking the risk.

The most important duties and responsibilities of the Risk management function, regardless of the category are following:

- a) definition, introduction and implementation of the strategy, policies and goals of risk management,
- b) development and improvement of risk management processes and methods,
- c) approval of limits and new products in accordance with the authorization,
- d) ensuring the implementation of the "four eyes" principle for business decisions related to risks and
- e) active risk management in accordance with the budget.

The risk management function is the responsibility of the member of the Management Board in charge of risk management, whose competence includes organizational units for risk management that cover all risks to which the Bank is exposed to. In addition, this function is supported by the Supervisory Board and other bodies with decision-making powers. The structure of responsible functions in the risk management process is shown below:



## Committees

Within the framework of the Bank's organizational scheme, in addition to the above-mentioned functions of the Bank, the following Committees have been established that participate in risk management:

- The Assets and Liability Management Committee (ALCO) is responsible for forming, revising, analyzing and implementing the Bank's asset and liability management policy and making decisions on issues related to the Bank's liquidity and asset and liability management.
- The Risk Management Committee (RICO) monitors risk strategy, risk profile and achievement of indicators, procedures and policies related to risk, risk models and methodologies, risk management according to ICAAP and ILAAP, risk limit structure and establishment of limits.
- The Bank's Financing and Investments Committee (FI Committee) approves the Bank's exposure to risks arising from the structure of its balance sheet claims and off-balance sheet items - financing and investments within the framework established by the Bank's acts.
- The Committee for Management of NPL (Remedial Committee) makes decisions in the domain of collection of problematic claims, and sale of real estate and movable property taken over in collection procedures.
- The IT/PMO Committee was established with the aim of efficiently managing the Bank's IT processes, making decisions on capital investments, monitoring the flow of IT projects.
- The Committee for Tenders ensures compliance with internal procedures and procurement laws and ensures optimization of the Bank's budget management.
- Business committee – the committee serves as a platform for the presentation and consideration of ideas and strategic initiatives from the Bank's business segments.
- Hr Committee - the role of the HR Committee is to consider and make key decisions in the field of human resources at the Bank, including the creation and implementation of policies in the field of human resources considering the importance of the role of workers/ employees in achieving the Bank's mission, vision, strategy and goals.

### 5.3. Comprehensiveness and characteristics of the risk reporting system, as well as the method of risk measurement

The significance and materiality of all risk categories are regularly assessed in a predetermined risk assessment process. The results of the risk assessment are documented in an appropriate manner and are subject to decision-making by the Management Board, the Risk Management Board, the Risk Board, the Audit Board and the Supervisory Board.

Consistent risk treatment during the control process is a prerequisite for professional risk management that:

1. enables appropriate measures to be taken if the achieved results are not in line with the budget and
2. links the set limits with the risk-adjusted return on capital.

Risk exposure measurement represents a quantitative assessment of exposure which is the basis for calculating capital costs as a counterweight to exposure and risk protection.

The method of measuring exposure for each risk is specified in the description of individual risk types.

Reporting represents an important phase in the risk management process, as follows:

- Regulatory reporting, as a continuous process, on the Bank's exposure to risks and the levels responsible for decision-making;
- Monthly monitoring of all indicators defined by the risk-taking framework;
- Periodic reporting by the bodies responsible for monitoring in situations when events occur that significantly change the Bank's risk position and profile.

#### 5.3.1. Risk identification process

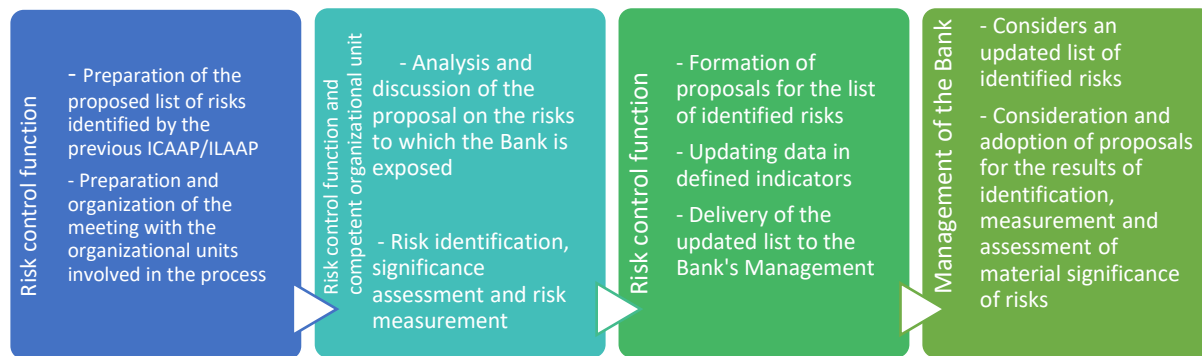
In the process of internal assessment of capital adequacy, the Bank continuously assesses possible exposure to new risks that may occur due to changes in the internal and external environment. During the analysis, external factors were considered, including the influence of the business and macroeconomic environment.

The aforementioned risk identification is carried out at least once a year, and in case of significant changes in the Bank's risk profile, more often. The goal of the process is to identify all significant risks to which the Bank is exposed or could be exposed in its operations, and to determine whether it has a sufficient amount of capital and sources of liquidity to absorb potential negative effects resulting from exposure to certain risks.

The Risk control Division coordinates the risk identification process, which is applied according to the following principle:

- Identification of the key and most significant risks by the control function of risk management and the competent member of the Bank's Management (Top-Down approach);
- Risk identification by other competent organizational units (Bottom-Up approach)





### 5.3.2. Stress testing

Stress testing is an important instrument in the risk management processes and internal determination of the Bank's capital and liquidity adequacy, as well as a key tool for active risk management within the Bank. The stress testing process specifically supports the establishment of forward-looking risk management indicators as well as strategic planning, business planning, and capital and liquidity planning.

When developing the Bank's stress testing framework and during the stress testing process itself, the Bank took into account all types of significant risks for the Bank and included significant balance sheet and off-balance sheet positions, as well as liquidity positions. In accordance with the Decision on the Internal Governance System, the Bank conducts stress testing:

- a) Scenario analysis and
- b) Sensitivity analysis.

Scenario analysis involves the simultaneous analysis of multiple risk parameters in defined stress circumstances. This type of analysis takes three scenarios defined based on the principles of the stress testing framework and tests the Bank's positions.

Sensitivity analysis interprets individual stress parameters, i.e. data that is not related to the event and its consequences in the real world. The aim of the sensitivity analysis is to test the assumptions of the scenario analysis and the impact of individual risk catalysts on the observed positions within the Bank.

The Bank also uses a reverse stress test, which starts from a known stress resistance result, and reviews the events that led to such a result for the Bank, with the aim of providing information on the vulnerability assessment, analyzing the Bank's protection strategy in terms of whether it is sufficiently robust and consistent in market stress conditions.

The Bank has prepared a document Methodological Framework for Stress Testing, which defines the stress testing framework in the context of process management, as well as the testing methodology itself. The organization, management and responsibilities section defines the key roles and responsibilities of participants in the testing process, as well as the responsibilities of parts of the Bank in the context of process management. When stress testing and selecting scenarios, all significant risks and business areas are covered.

The Bank uses the results of stress tests to identify potential weaknesses and adopt appropriate measures by the Supervisory Board and the Management Board of the Bank in terms of risk mitigation techniques, contingency plans, capital plans and other measures according to the range of possible stress conditions. The measures defined based on the results of the stress test are an integral part of the stress test management framework and an integral part of the stress test report.

The Bank performs stress testing once a year, and in the event of a significant change in the Bank's risk profile, stress testing should be performed more frequently. Given the size and risk profile, the Bank performs liquidity risk stress testing on a quarterly basis in accordance with liquidity indicators and liquidity risk exposure.

### 5.3.3. Monitoring indicators

The Risk Control Division regularly monitors and analyzes risk and business indicators, which make up the Risk Appetite Statement, including the Finance Division, Assets and Financial Institutions Division, and Marketing and Communications.

The Director of the Risk Control Division presents the indicators within the ALCO and RICO committees and the sessions of the Bank's Management Board on a monthly basis, while reporting on a quarterly basis to the Risk Board, the Audit Board and the Supervisory Board through the Risk Profile Report.

#### **Actions upon reaching the warning indicator level**

In the event of reaching the warning level, i.e. a yellow traffic light within the defined parameters, the owner of the indicator is obliged to inform the Risk Control Division immediately upon determining the breach.

Then, the Risk Control Division collects preliminary information about the specified breach, and reports it to the Member of the Management Board for the Risk and Finance Group within one working day (24 hours) of the observed exceedance.

After a detailed analysis and identification of the cause of the breach, the Risk Control Division presents the information to the Bank's Management Board as part of a monthly report with proposals for further action.

The Management Board makes a decision on further action, and whether it is necessary to initiate certain measures and make additional projections in order to return a certain parameter to the standard level.

The Supervisory Board, the Risk Board and the Audit Board are informed about this event through the Bank's Risk Profile Report, which is prepared on a quarterly basis by the Risk Control Division.

#### **Actions when threshold levels are reached or exceeded**

In the event of reaching the limit value, i.e. a red traffic light within the defined parameters, the owner of the indicator is obliged to inform the Risk Control Division immediately upon determining the breach.

Then, the Risk Control Division collects preliminary information on the specified breach and reports it to the Bank's Management Board within one working day (24 hours) of the observed exceedance.

If the Management Board's analysis concludes that the existing situation cannot be managed and that measures beyond its competence need to be taken, information is prepared and submitted to the Risk Board and the Supervisory Board within 48 hours of the moment of determining the breach. The information must contain at least:

- The event that brought the indicators to the warning level,
- The impact of the indicator level on operations,
- A list of measures already taken and their effectiveness,
- A list of proposed measures.

Information to the Supervisory Board and the Risk Board is submitted via email correspondence.

If the involvement of the Supervisory Board is not necessary in terms of managing the situation of exceeding the limit, the Supervisory Board is informed about this event through the Bank's Risk Profile Report, which is prepared on a quarterly basis by the Risk Control Division.

After a detailed analysis and identification of the causes of the breach, the Risk Control Division presents information to the Bank's Management Board, along with proposals for further action. Based on the information received from the Risk Control Division, the Management Board determines the level of seriousness of exceeding the indicator limit, and in particular the event that caused the reaching or breach. The Management Board considers the event, but also the type of indicator whose value was violated.

Based on the information received, the Management Board (or the Supervisory Board, if required by the competences) makes a decision on further action, and whether it is necessary to initiate certain measures and make additional projections in order to return a certain parameter to the standard level.

If the limit for a Statement indicator that is also part of the Bank's Recovery Plan is exceeded, in the event that the yellow limit of the Recovery Plan indicator is exceeded, the Bank is not obliged to notify the Agency.

#### **5.4. Assessment of the adequacy of the Bank's established risk management system in relation to its risk profile, business policy and strategy**

Existing banking laws and regulations, as well as generally accepted banking practices, are the basis for developing policies, procedures and strategies related to the Bank's risk management. In order to monitor and measure certain risks, it is necessary to develop certain risk management methodologies and models. The organizational parts of the Bank that are part of risk management are responsible for the independent development of these methodologies and models, and for their implementation at the Bank level. They are also responsible for checking the effectiveness/adequacy of the aforementioned methodologies and models.

The Risk Control Division, as a risk management control function, is involved in the process of harmonization when adopting new or updating existing risk management methodologies, and by giving its consent, it confirms the adequacy, i.e. provides proposals and recommendations for changes, with the aim of efficient risk management.

The Bank has established a risk management system that includes risk assessment/measurement, stress testing, risk monitoring, determining risk appetite and risk profile, capital planning and monitoring capital and liquidity adequacy. In this way, the Bank effectively manages all risks to which it is exposed or may be exposed based on its business activities and ensures that the Bank's risk profile is in line with the established risk appetite.

In order to adequately and continuously manage risks, the Bank has a defined organizational structure that supports the aforementioned risk management system.

Risk control and management in the Bank are carried out based on the Operational and Strategic Plans, as well as the Risk Management Strategy, adopted by the Supervisory Board.

Compliance of the Risk Management Strategy and the business strategy is one of the key prerequisites for performing regular activities. Management of individual risks is considered adequate in relation to the risk profile, business policy and strategy of the Bank, taking into account that for each type of risk there are established processes and methodologies, documented in relevant procedures and instructions, risk monitoring indicators are defined, and appropriate steps and measures are applied in case of possible non-compliance with the same. Also, responsible functions and tasks are clearly defined in each phase of the risk management process in the Bank.

The Bank takes measures to reduce risk by maximizing process automation, improving procedures and processes in terms of defining specific, clear and unambiguous work instructions. Depending on the significance of a particular risk for the Bank, this is a wider range of guidelines that treat that risk (policy, methodology, rulebook, work instructions, manuals). The Risk Management Strategy and the Risk Appetite Statement, as well as the Risk Appetite Framework, represent umbrella, comprehensive documents that are relevant to all types of risks that affect the Bank's operations. By consulting the aforementioned acts and respecting the principles and regulations stated therein, policies and methodologies are created for individual types of risks. When drafting or updating an existing internal act, a defined coordination process is followed in which all relevant organizational units must be included. Only upon receipt of consent from the aforementioned organizational units, can it be submitted for approval by the Management Board, the boards of Supervisory Board, and then the Supervisory Board or the Bank's Assembly, if applicable. In this way, the compliance and completeness of all internal acts of the Bank, as well as acts related to the risk management process, is ensured.

The Bank, through its internal acts, policies and procedures, provides an adequate risk management system that reduces them to an acceptable level.

By regularly updating its acts, the Bank strives to maintain their quality, and review the importance of existing acts or the possible need to create additional acts that will better define and explain the processes in more detail, and thus facilitate the adequate implementation of the process for all participants.

**5.5. Risk protection policies and risk reduction policies (information on applied credit risk reduction techniques), as well as the methods used by the bank to ensure and monitor the effectiveness of risk reduction**

The Bank's business policy requires and envisages maximum protection against exposure to credit risk, given that it represents the most significant risk in the Bank's operations.

In the process of approving the placement, the bank takes various insurance instruments (collaterals) as protection in order to limit potential losses in case of default by the debtor.

When calculating the capital requirement for credit risk, only insurance instruments that meet the eligibility requirements are used, which is defined by the internal acts of the Bank and the Decisions of the FBiH Banking Agency.

For the purposes of calculating the capital requirement for credit risk according to the standardized approach, the bank uses material credit protection in the form of a cash deposit that meets the following conditions:

- the credit quality of the debtor and the value of the collateral must not be significantly interdependent;
- that the collateral contract is duly documented and that it has clear and efficient procedures for the timely realization of the collateral;
- the remaining term until the maturity of the protection must be at least equal to the remaining term until the maturity of the exposure.

**5.6. A brief description of the connection between the bank's risk profile and its business strategy, a brief presentation of the key indicators of the bank's operations in relation to risk management and their values, as well as the way in which risk tolerance is included in the risk management system**

Connections between the Bank's risk profile and its business strategy, as well as a summary of the key indicators of the Bank's operations related to risk management and their values, on the basis of which the Bank's risk management can be evaluated, as well as the way in which risk tolerance is included in the risk management system are given in the explanation that follows.

In accordance with the Risk Management Strategy, and considering the Bank's business strategy and risk profile, the goals/limits set by the plan or regulatory requirements within the risk appetite are defined. Risk appetite is the level of risk that the Bank considers acceptable for undertaking in the achievement of business strategy and goals in the existing business environment.

A key objective of risk appetite is:

- o Ensure that the Bank has sufficient funds to support operations at all times;
- o Mitigation of potential stressful conditions as a consequence of certain market conditions;
- o Determining risk-taking limits while ensuring an adequate level of return; and
- o Preservation and promotion of the perception of the Bank's financial stability in the market.

In order to ensure that a certain risk appetite is operationally effective, the indicators are grouped as target values, limits or principles, with the main differences being the mechanisms that are triggered in case of exceeding a certain level. The list of indicators is grouped as follows:

- Capital indicators
- Liquidity indicators
- Profitability indicators
- Asset quality indicators
- Concentration indicators
- Profit/ interest rate risk indicators
- Operational risks
- Macroeconomic indicators
- Other indicators
- Qualitative indicators.

The Bank monitors quantitative indicators using the "traffic light approach" indicating the target amounts of the coefficients and the risk tolerance threshold. The target value (green zone) is the optimal accepted level of risk with the aim of achieving the Bank's strategic and operational goals. Exceeding the established level leads to the escalation of the process and taking measures to mitigate the risk. For all internal indicators, the Bank has defined the method of calculation, while the method of calculation of regulatory indicators is based on publicly announced decisions and guidelines of the regulator.

A clear process has been established for compliance with key indicators, namely monitoring, reporting and escalation, which enables timely escalation to a certain level of management and action on unfavourable developments. The risk control sector reports on the achievement of indicators on a monthly basis to the ALCO and RICO Committees and the Bank's Management, and quarterly to the Risk Board, the Audit Board, and the Supervisory Board.

On 31.12.2024, the achievement of the Bank's key indicators is as follows:

Risk	Indicators	31-Dec-2024	Marker
Capital indicators	Capital adequacy ratio	17.57%	●
	CET 1 ratio	17.57%	●
	Financial leverage rate	10.68%	●
Liquidity indicators	Liquidity coverage ratio (LCR)	168.00%	●
	Net stable funding ratio (NSFR)	135.00%	●
Asset quality indicators	Share of non-performing financings/loans in total financings/loans	2.67%	●
	Growth rate of non-performing financings/loans	-20.45%	●
	Coverage of non-performing financings/loans by impairments	82.61%	●

Key business indicators, as well as quantitative data on risk management in business, are stated in the Bank's Financial Report for 2024, which was published on the Bank's website.

#### 5.7. Description of the manner in which reporting to the supervisory board and the bank's management on risks is ensured, in particular the frequency, scope, and manner of involvement of the supervisory board and the bank's management in determining the content of reporting

The Management Board and the Supervisory Board of the Bank represent the highest level of control in the risk management process through the review and approval of all relevant risk management policies and procedures.

The Management Board of the Bank carries out the function of managing business processes and risks to which the Bank is exposed or could be exposed, and adopts key management decisions. Control and risk management in the Bank are carried out based on the Strategic and Operational Plan, and the Risk Management Strategy adopted by the Supervisory Board, as well as on other internal acts relevant to risk management. The Management Board of the Bank and the Supervisory Board, as well as their committees and subcommittees, are timely informed about business indicators, risk management, as well as the findings of the control functions through individual reports or through appropriate materials for reporting to various committees of the Bank.

The Management Board of the Bank allocates sufficient time for all items relevant to the risk management process, reviews the Reports of the risk management control function, provides additional suggestions, and participates in meetings with organizational units during the determination of the status of implementation of the recommendations given by the risk control function.

The Management Board regularly reports on all risks to which the Bank is exposed within the meetings of the Supervisory Board. The Director of the Risk Control Division reports on all risks to which the Bank is exposed, within the relevant agenda items, and the Sector's activities within the Risk Committee meetings. Also, in addition to the Chief Internal Auditor, the Director of the Risk Control Division and the Head of the Compliance Department are present at the Audit Committee meetings, where they report within the relevant agenda items.

The Bank establishes an efficient method of control at the monthly, weekly, daily and intraday level through systems for monitoring capital, risk (credit, market, interest/profit risk, operational, liquidity risk) and profitability indicators on a monthly, weekly, daily and intraday basis.

Liquidity indicators are monitored and analysed on an intraday and daily basis, and data on them is submitted daily to the members of the Liquidity Commission, ALCO Committee and the Bank's Management Board.

Regular monthly monitoring and reporting of indicators of the Risk Appetite Statement and the Recovery Plan is integrated into the Bank's internal reporting system. The role of the Risk Management Committee (RICO) is key within the framework of regular reporting, since the movement of risks and key indicators is presented at regular monthly meetings, and the members of the Committee are regularly informed about the activities that the Bank undertakes in order to improve the risk management process.

In addition, the report on key indicators of the Risk Appetite Statement and the Recovery Plan is submitted to the Management Board and the Supervisory Board on a monthly basis through the BBI management report. Capital indicators, as well as indicators for market and liquidity risk are presented at the meetings of the Asset and Liability Committee (ALCO) on a monthly basis.

Through the Risk Profile Report, the Risk Management Control Function Report, and the Liquidity Risk Management Report, which are prepared on a quarterly basis, the Risk Control Division presents the most important data and information relevant to risk management at the meetings of the Audit Board, the Risk Board, and the Supervisory Board of the Bank.

Also, through semi-annual and annual reports, the aforementioned committees are presented with a comprehensive picture of risk management, as well as individual risks (such as currency, operational, outsourcing risks, information security, etc.), which additionally contributes to an adequate decision-making system.

#### **5.8. General framework of the internal control system and the manner of organization of control functions, including their managers**

The Bank has implemented the documents "Policy for the process of implementing the internal control system" and "Procedure for the internal control system" which treat the key methods and processes of the internal control system, roles, and responsibilities. Establishing an efficient internal control system involves assessing the risks that the Bank faces internally and externally. A prerequisite for risk assessment is the definition of all processes, key controls in each process, and potential risks that arise or may arise in the implementation of tasks.

The internal control system helps achieve the Bank's goals, i.e. contributes to the Bank's compliance with the Law and regulations, as well as internal rules and procedures, and reduces the risk of unexpected losses or damage to the Bank's reputation. Directors of departments and/or managers of organizational units should ensure an appropriate internal control structure, as well as a method of checking and improving it, to make it as efficient as possible. Control activities are carried out in all organizational units of the Bank, through tools for systematic monitoring and analysis of the implementation of processes in different phases and environments. The basic parameters for establishing internal process control are:

- record the process/subprocess,
- process/subprocess owners,
- record key control when controlling business processes/subprocesses,
- assign controllers, and
- define the control period.

Based on the defined control period, the system informs controllers that it is necessary to perform control for the assigned processes, and based on the performed process controls, the process will be monitored and monitored. The controller's responsibility is to perform controls in a timely manner in accordance with the requirement to inform the head of the organizational unit of any irregularities or deficiencies in processes and work tasks, and to provide suggestions to eliminate deficiencies or improve performance in processes.

When performing mandatory controls, in order to verify them, the controller is obliged to determine the probability of risk in the process it controls, and whether there was a potential financial, reputational and non-compliance risk during the control period. Based on the recorded answers to the questions, a report with a defined risk matrix will be created.

The internal control system represents a continuous monitoring and separate assessment of internal control in order to determine whether internal control is effective, properly defined and properly implemented.

In order to have a continuous and adequate management system, the Bank has defined an appropriate organizational structure, which is proportional to the size and internal organization of the Bank, the type, scope and complexity of its operations, as well as the business model and risk profile of the Bank. In this way, a transparent and clear organization of work is ensured, with defined and consistently applied lines of responsibility and authority, while respecting the policy for managing conflicts of interest.

In accordance with Article 83, paragraph 4 of the Law on Banks and Decision on the banks internal Governance System (which repealed the Decision on Control Functions as of December 31, 2021), the Bank establishes the following control functions:

- Risk management function
- Compliance monitoring function
- Internal audit function

The Bank has established control functions independent of the business processes and activities in which the risk occurs. The control functions are established in such a way as to ensure enough employees with appropriate professional knowledge and experience, as well as their regular training and professional education, in proportion to the size of the Bank, its internal organization, type, scope and complexity of the tasks performed by the control functions. Heads of control functions report on their work to the Audit Committee and the Supervisory Board and participate at least once a year in the sessions of the bodies they report. If an individual control function in its work finds illegalities in operations or violations of risk management rules and regulations, which may jeopardize the liquidity, solvency or security of the Bank's operations, the control functions are obliged to immediately inform the Management Board, the Audit Committee, the Supervisory Board and the Banking Agency of the FBiH.

Each control function is obliged to submit the signed report with the Decision on its adoption by the Supervisory Board within 60 days after the end of the quarter, i.e. by March 31 of the current year for the previous year, to the FBiH Banking Agency. The Control Function of Risk Management and the Compliance Function shall submit the annual activity report for the fourth quarter to the Banking Agency of FBiH, instead of 60 days from the end of the reporting quarter, no later than March 31 of the current year.

In 2024, there were no significant changes in the tasks performed by the control functions, or any significant changes are currently planned.

#### **Control function of risk management**

The primary objective of the risk management control function is to cover all material risks to which the Company is or may be exposed. The control function of risk management is established in such a way as to avoid conflict of interest, and it is functionally independent, i.e. functionally separate from business processes and activities in which risk occurs.

The work of the Risk Management Control Function is organized in such a way as to monitor, control and assess all material risks to which the Bank is or may be exposed and has established a direct reporting line to the Bank's Supervisory Board.

The risk management control function participates in the development and review of risk management strategies and policies, risk management methods and procedures, and provides proposals and recommendations for effective risk management.

The risk management control function is required to compile quarterly, semi-annual and annual reports on its work. The control function of risk management reports directly to the Supervisory Board, the Risk Board and the Audit Board, and participates at least once a year in the meetings of the reporting body.

The control function of risk management is obliged to submit reports to the Risk Board, the Audit Board and the Supervisory Board of the Bank for consideration as competent authorities, informing the Management Board of the Bank for timely and efficient implementation of the recommendations for the elimination of illegalities, irregularities, deficiencies and weaknesses identified during previous inspections.

If, in the course of performing its tasks, the Risk Management Control Function finds an illegality in operations or a violation of the rules and regulations on risk management, which endangers the liquidity, solvency or security of the Bank's operations, it is obliged to immediately notify the Management Board, the Supervisory Board of the Bank and the Agency.

#### **Compliance monitoring control function**

The compliance function is responsible for managing changes in the regulatory environment, which also performs preventive mitigation of compliance risks. Compliance monitoring functions are established with the aim of monitoring and mitigating compliance risks - the risk of imposing possible measures and penalties and the risk of significant financial loss that the bank may suffer due to non-compliance with regulations, standards, codes and internal acts.

The function of monitoring compliance in BBI Bank is performed by the Compliance Department based on the principle of proportionality and in proportion to the size, type and complexity of the Bank's operations and the risk profile of the Bank.

The Bank is obliged to ensure, as part of the compliance function, the minimum performance of the following tasks:

- ✓ monitoring the compliance of the bank's operations with the Law, regulations of the Agency and other regulations and standards of prudent banking operations, procedures on the prevention of money laundering and financing of terrorist activities, as well as other acts governing the bank's operations
- ✓ identification of omissions and risk assessment because of non-compliance of the bank's operations with the law and other regulations, in particular the risk of implementation of supervisory measures and sanctions of the Agency and other competent authorities, financial losses, as well as reputational risk,
- ✓ advising the Management Board of the Bank and other responsible persons on the manner of application of relevant laws, standards, and rules, including information on current affairs in these areas
- ✓ an assessment of the effects that the change in relevant regulations will have on the bank's operations.

The Compliance Department, as a control function, has functional independence in relation to the affairs, processes, and activities of other organizational units, with the aim of separating from the processes that the control function monitors, controls and evaluates. The Manager and employees of the Compliance Control Function perform tasks in accordance with the Law on Banks of FBiH, relevant bylaws and the Program and Methodology of the Compliance Function of BBI Bank, avoiding potential conflicts of interest and participation in activities that could later be subject to the control of the Department.

The Head of the Compliance Control Function reports directly to the Bank's Supervisory Board

The Bank shall ensure enough employees in the function of monitoring compliance with appropriate professional knowledge and experience, as well as their regular training and professional education.

The Head of the Compliance Function, as the person responsible for the work of the control function, shall be appointed by the Supervisory Board of the Bank and Supervisory Board also inform the Agency of his/her appointment.

The competencies of the Department as a control function for monitoring compliance are defined in accordance with the Law on Banks of FBiH through internal acts of BBI Bank.

### **Control function of internal audit**

Internal audit control function is an independent organizational unit, completely independent from the Bank's Management Board, and directly responsible to the Audit Board and the Bank's Supervisory Board. The internal audit control function contributes to improving the efficiency of risk management, improving the efficiency of the internal control system, and improving the Bank's corporate management. Evaluations of the quality and effectiveness of internal controls, including the assessment of the risk management system and processes, are submitted to the Bank's Management, the Audit Board and the Supervisory Board, as well as audited organizational units of the Bank in the form of audit reports.

All control functions have a direct line of reporting to the Bank's Boards.

During 2024, there were changes in the management positions of the control functions. Ms. Jasmina Šabanović-Bajrović, Head of the Compliance Department, was appointed as the head of in September 2024.

## **6. Capital and regulatory capital adequacy**

The Bank's regulatory capital represents the amount of sources of funds that the Bank is required to maintain for the sake of safe and stable operations, i.e. the fulfilment of liabilities to its creditors. Regulatory capital represents the sum of basic and supplementary capital after regulatory adjustment.

Regulatory capital of the Bank on 31.12.2024 amounts to 182,776 thousand BAM and consists mostly of paid-in capital, retained earnings and reserves.

The bank publishes data, that is, information related to regulatory capital, capital adequacy requirements of regulatory capital, protective layers of capital and financial leverage. According to the regulatory framework for banks in FBiH, harmonized with European

Union regulations and Basel II and Basel III requirements, which entered into force in 2017, the Bank is obliged to maintain the following minimum capital rates:

- Regulatory capital rate of not less than 12% (increased by capital protective layer of 1.5%)
- The rate of share capital (Tier 1) not less than 9% (increased for the protective layer of capital of 1.5%)
- The rate of regular core capital (CET 1) not less than 6.75% (increased by the capital protective layer of 1.5%).

The Bank's capital adequacy ratio as of December 31, 2024, is 17.57%, which is above the rate prescribed by the Law on Banks of the FBiH and the Decision on the Calculation of the Bank's Capital.

As of December 31, 2024, the bank fulfilled the minimum requirements regarding the amount of paid-in founding capital. The minimum amount of paid-in founding capital of the Bank and the amount of capital that the Bank must maintain as a minimum cannot be below 15 million BAM.

## 6.1 Capital form

Capital		
No.	Item	Amount in 000 BAM
<b>1.</b>	<b>REGULATORY CAPITAL</b>	<b>182,776</b>
<b>1.1</b>	<b>CORE CAPITAL</b>	<b>182,776</b>
<b>1.1.1</b>	<b>ORDINARY SHARE CAPITAL</b>	182,776
<b>1.1.1.1</b>	<b>Equity instruments that are recognized as regular core capital</b>	110,059
<b>1.1.1.2</b>	<b>Retained earnings</b>	57,114
<b>1.1.1.3</b>	<b>Other overall score</b>	-
1.1.1.4	Other reserves	19,552
1.1.1.5	(-) Other intangible assets	(1,123)
1.1.1.6	(-) Deferred tax assets that depend on future profitability and do not arise from temporary differences less related tax liabilities	-
1.1.1.7	(-) Deductions from additional core capital items that exceed additional core capital	-
1.1.1.8	(-) A deductible deferred tax asset that depends on future profitability and arises from temporary differences	(2,826)
1.1.1.9	Elements or deductions from the regular core capital - other	-
<b>1.1.2.</b>	<b>ADDITIONAL SHARE CAPITAL</b>	-
1.1.2.1	Equity instruments recognized as additional core capital	-
1.1.2.2	(-) Deductions from supplementary capital items that exceed supplementary capital	-
1.1.2.3	Deduction from additional core capital items that exceed additional core capital (deducted from regular core capital)	-
<b>1.2</b>	<b>SUPPLEMENTARY CAPITAL</b>	-
1.2.1	Equity instruments and subordinated loans recognized as supplementary capital	-
1.2.2	General allowances for credit risk in accordance with the standardized approach	-
1.2.3	Deduction from supplementary capital items that exceed supplementary capital (deducted in additional core capital)	-

Below is a detailed description of the basic characteristics of the Bank's share capital as a financial instrument included in the calculation of regular core and regulatory capital:

Description of the basic characteristics of financial instruments	
No.	Item
1.	<b>Issuer</b> Bosna Bank International d.d. Sarajevo
1.1	<b>Code</b> BABBISRK2008
<b>Treatment in accordance with the regulatory framework</b>	
2.	<b>Recognized on an individual/consolidated basis</b> On an individual basis
3.	<b>Type of instrument</b> Ordinary shares
4.	<b>The amount recognized for the purposes of calculating the regulatory capital in thousands of BAM, with the balance as of the last reporting date</b> 110,059 BAM
5.	<b>The nominal amount of the instrument</b> 110,059 BAM
5.1.	<b>Issue price</b> Different
5.2.	<b>Purchase price</b> n/p
6.	<b>Accounting classification</b> Share capital
7.	<b>Date of instrument issue</b> 19.10.2000; 12.01.2006; 07.08.2013.; 12.05.2016.
8.	<b>An instrument with a maturity date or an instrument without a maturity date</b> No maturity
8.1.	<b>Initial maturity date</b> No maturity
9.	<b>Purchase option by the issuer with the prior approval of the competent authority.</b> There is no such option
9.1.	<b>The first activation date of the purchase option, the conditional activation date of the purchase option and value redemption</b> Not applicable
9.2.	<b>Subsequent purchase option activation date (if applicable)</b> Not applicable
<b>Coupons/Dividends</b>	
10.	<b>Fixed or variable dividend/coupon</b> <b>Changeable</b> Not applicable
11.	<b>Coupon rate and related indices</b> Not applicable
12.	<b>Existence of a mandatory dividend cancellation mechanism</b> None, except for the application of legal restrictions
13.1.	<b>Full discretion, partial discretion, or no discretion as to the timing of dividend/coupon payments</b> Partial discretion (dividend payment will be cancelled if capital adequacy falls below a certain percentage)
13.2.	<b>Full discretion, partial discretion, or no discretion regarding the amount of dividends/coupons</b> Partial discretion
14.	<b>The possibility of increasing yields or other incentives for redemption</b> There is no such possibility
15.	<b>Non-cumulative or cumulative dividends/coupons</b> Not applicable

Description of the basic characteristics of financial instruments	
No.	Item
16.	<b>Convertible or non-convertible instrument</b> Non-convertible
17.	<b>If convertible, the conditions under which conversion may occur</b> Not applicable
18.	<b>If it is partially or fully convertible</b> Not applicable
19.	<b>If convertible, the conversion rate</b> Not applicable
20.	<b>If convertible, mandatory, or voluntary conversion</b> Not applicable
21.	<b>If convertible, the instrument into which it is converted</b> Not applicable
22.	<b>If convertible, the issuer of the convertible instrument</b> Not applicable
23.	<b>Possibility of reduction in value</b> Not applicable
24.	<b>If impairment exists, the conditions under which impairment may occur</b> Not applicable
25.	<b>If there is a possibility of a reduction in value, partially or fully</b> Due to possible loss coverage, the procedure is initiated by the Supervisory Board. Contractual and legal approach
26.	<b>If there is a possibility of permanent or temporary reduction in value</b> Always partially
27.	<b>If the reduction in value is temporary, a description of the mechanisms of the increase in value</b> Capital increase from the basis of payment by shareholders or from the reserve fund (if applicable)
28.	<b>The type of instruments that will be paid immediately before the said instrument in case of liquidation or bankruptcy</b> There is no such instrument
29.	<b>Mismatched features of convertible instruments</b> There are no mismatched features of convertible instruments
30.	<b>If any, list the non-compliant features</b> Not applicable

The regulatory capital is in accordance with the Decision on the calculation of the bank's capital reduced by regulatory adjustments as follows:

- intangible assets (licenses, software, etc.), less the fair value of the software
- deferred tax assets that can be deducted and that depend on future profitability and accruals from temporary differences.

## 6.2 Capital requirements and capital rates

The table below shows risk-weighted assets as of 12/31/2024 and capital requirements, broken down by exposures for credit risk, settlement and free delivery risk, market risk, and operational risk. Operational risk is calculated according to a simple approach.

Capital adequacy			
No.	Item	Risk-weighted assets (000 BAM)	Minimum capital requirement (000 BAM)
1.	Exposures to central governments or central banks	0	0
2.	Exposures to regional governments or local authorities	31,326	3,759
3.	Exposures to public sector entities	-	-
4.	Exposures to multilateral development banks	-	-
5.	Exposures to international organizations	-	-
6.	Exposures to institutions	34,354	4,122
7.	Exposures to temporary companies	261,804	31,417
8.	Exposures by population	277,873	33,345
9.	Exposures secured by real estate	304,195	36,504
10.	Exposures in default status	5,193	623
11.	High-risk exposures	24,675	2,961
12.	Exposures in the form of covered bonds	-	-
13.	Exposures to institutions and companies with a short-term credit rating	-	-
14.	Exposures in the form of shares or shares in investment funds	-	-
15.	Exposures based on equity investments	153	18
16.	Other exposures	34,784	4,174
17.	Total capital requirement for credit risk	974,357	116,923
18.	Capital requirements for settlement/delivery amount	-	-
19.	Capital requirements for market risks	-	-
19.1.	Capital requirements for specific and general position risk based on debt and equity instruments	-	-
19.2.	Capital requirements for large exposures that exceed the limits defined by the Decision on large exposures	-	-
19.3.	Capital requirements for currency risk	-	-
19.4.	Capital requirements for commodity risk	-	-
20.	<b>Capital requirements for operational risk</b>	66,015	7,922
21.	<b>Rate of regular share capital</b>	<b>17.57%</b>	
22.	<b>Share capital rate</b>	<b>17.57%</b>	
23.	Regulatory capital rate	<b>17.57%</b>	

### **6.3 Exposure to market risk**

In its operations, the Bank is exposed to foreign exchange risk based on the positions maintained in the banking book, which represents the possibility of negative effects on the Bank's financial result and capital as a result of changes in the currency/ exchange rate. When calculating capital requirements for market risk, a standardized approach is applied.

### **6.4 Exposure to operational risk**

The Bank uses a simple approach to calculate the amount of operational risk exposure. According to the simple approach, the capital requirement for operational risk is 15% of the three-year average of the relevant indicator. The bank calculates the three-year average based on data for the last three twelve-month periods at the end of the financial year.

The total amount of operational risk exposure is calculated by multiplying the capital requirement by 8.33.

When calculating the relevant indicator, the Bank does not include:

- Costs of impairments and reserves for the coverage of expected credit losses for off-balance sheet items, as well as income based on their reduction, and operational costs of business
- Net profit/loss from financial assets held to maturity and available for sale
- Extraordinary income
- Income from insurance.

### **6.5 The Bank's exposure to credit risk**

The bank continuously monitors clients' placements and operations on a monthly basis in order to adequately and timely classify clients and identify potential losses.

The bank defines overdue unpaid receivables as all receivables that have not been collected within the due date (on the basis of principal, profit margin, fees, paid guarantees, and other due liabilities).

Default status is determined at the client level for all exposures. The status of default exists when the debtor is in arrears for more than 90 days in a materially significant amount or, based on an analysis of the financial situation, it is estimated that the debtor will not be able to pay off his liabilities in full without the realization of security funds, regardless of whether the debtor pays off his liabilities timely or not. Operationally, the Bank identifies default status as follows:

- The debtor is in arrears for more than 90 days in a materially significant amount,
- The debtor's account is blocked for a period longer than 60 days, or
- The Bank considers it certain that the debtor will not fully settle his liabilities to the Bank.

The counting of the days of delay begins on the day when the total amount of all due unpaid liabilities of the debtor, in terms of all contractual amounts, has become materially significant.

#### **6.5.1. Value adjustments for credit losses in accordance with the Credit Risk Management Program and determination of expected credit losses**

The Bank measures impairment in the manner defined by the Program for Credit Risk Management and Determination of Expected Credit Losses and covers financial assets valued using the method of amortization cost and fair value through other comprehensive income (if any), and related off-balance sheet exposures.

The calculation of allowances and provisions for loan losses covers the following:

- Exposure to natural persons
- Exposure to legal entities (including SME clients)
- Exposure to banks and other financial institutions
- Exposure to the state, state institutions, municipalities, etc.

- Other claims.

On each reporting date, the Bank measures impairment provisions for a financial instrument in an amount equal to the expected credit losses during the lifetime of the instrument, if after initial recognition the credit risk of that financial instrument has significantly increased.

Value adjustments are calculated on a group basis at the portfolio level and on an individual basis. Significant individual placements are subject to a value adjustment assessment at the individual level if they meet the default status, while the rest of the portfolio is assessed at the group level.

Impairment on a group basis Bank applies to:

- Exposures that do not meet the default status
- Exposures that meet the default status, but are not individually significant.

Based on the default status and the individual significance of the exposure, the Bank differentiates between different approaches to measuring impairment (individual or group assessment), which result in one of the following three types of provisions/impairment:

- The exposure is in default status, and is individually significant (credit risk level 3) - provisions for credit losses on an individual basis. The measurement of impairment is based on an individual assessment of a particular exposure, taking into account the expected future cash flows through individually defined scenarios by the Division for collection and management of NPL.
- The exposure is in default status, but not individually significant (credit risk level 3) - provisions for credit losses on a group basis. Impairment measurement is for individually insignificant exposures where a loss event has been identified, considering the impairment assessment of a portfolio of assets with similar characteristics, based on a formula, rather than through individual cash flow projections.
- The exposure is not in default status (credit risk level 2 and credit risk level 1) - provisions for expected credit losses on a group basis. Value adjustments for expected losses differ for exposures depending on whether the loss assessment is at a twelve-month level (credit risk level 1) or at a lifetime level (credit risk level 2).

In 2024, the Bank developed an internal rating model for legal entities. It is an in-house solution with a precisely defined methodology. The model is based on a combination of variables that include financial indicators, as well as behavioral, or exclusively financial indicators for new clients of the Bank ("new-to-Bank"). Applied statistical procedures, including logistic regression, enabled the identification of key factors influencing the probability of default. This model will serve as a basic tool for assessing the credit risk of legal entities, providing the Bank with reliable information for making decisions on approving financing, monitoring portfolio risk, and defining the necessary corrective measures.

The bank divides exposure/clients into credit risk levels as follows:

**Credit risk level 1** - all new exposures/clients have their origin in stage 1, except for POCI assets, which includes all exposures/clients not included in the criteria for Stage 2, Stage 3 and POCI. The bank recognizes provisions for these claims based on 12m ECL (Calculation of expected losses at the twelve-month level). In the event that the calculated ECL per individual exposure is lower than the minimum percentages defined by the Program for Credit Risk Management and Determination of Expected Credit Losses and the Internal Impairment Methodology according to IFRS 9, the minimum percentages are applied (exposures with low risk - 0.1% of exposure, exposures per basis of financing - 1% of exposure, and for all other exposures - 0.5% of exposure).

**Credit risk level 2** - exposures/clients for which a significant increase in credit risk was recorded compared to the moment of approval, and there is no objective evidence of impairment. The bank recognizes provisions for these claims based on LEL (calculation of expected losses at the lifetime level). From 1/1/2021 in the event that the calculated ECL per individual exposure is less than the minimum percentage defined by the Program for Credit Risk Management and Determination of Expected Credit Losses and the Internal Impairment Methodology according to IFRS 9, the minimum percentage is applied as follows for exposures based on financing - 8% of the exposure, and for all other exposures - 5% exposure.

**Credit risk level 3** - exposures/clients for which there is objective evidence of impairment, exposures marked as default, i.e. those clients who are unable to repay their liabilities, in accordance with the previously defined default status. In the event that the calculated ECL per individual exposure is lower than the minimum percentage defined by the Program for credit risk management and determination of expected credit losses, the minimum percentage defined by the Program is applied.

**POCI** - Financial assets that are purchased or arise as credit-impaired assets are a special class of financial assets in terms of the standards and treatment of impairment calculations. For these assets, the assessment of expected credit losses is always done on a lifetime level (either in phase 2 or phase 3), and the credit-adjusted effective profit margin is used to discount the expected cash flows.

When assessing ECL, the Bank, in accordance with the Program for Credit Risk Management and Determination of Expected Credit Losses, considers different scenarios, namely one scenario for credit risk level 1 and credit risk level 2, while individually defined scenarios are used for credit risk level 3 and POCI client-level probabilities.

Impaired financial assets are classified into categories, depending on the level of collectability, which is determined based on the number of days overdue, the assessment of the debtor's financial position and the quality of collection security instruments.

#### 6.5.2. Total average exposure of the Bank

(000 BAM )		
<i>Exposure category</i>	<i>Net exposure value at the end of the period</i>	<i>Average net value of the exposure during the period</i>
Exposures to central governments or central banks	418,459	374,030
Exposures to regional governments or local authorities	31,824	24,498
Exposures to public sector entities	-	-
Exposures to multilateral development banks	-	22,541
Exposures to international organizations	-	-
Exposures to institutions	111,783	152,259
Exposures to companies	564,711	496,509
Exposures to natural persons	384,501	360,369
Exposures secured by real estate	504,615	537,942
Exposures in default status	5,207	5,278
High-risk exposures	18,713	12,703
Exposures in the form of covered bonds	-	-
Exposures to institutions and companies with a short-term credit rating	-	-
Exposures in the form of shares or shares in investment funds	-	-
Exposures based on equity investments	153	274
Other items	72,690	67,926
<b>Total</b>	<b>2,112,656</b>	<b>2,054,327</b>

### 6.5.3. Geographical distribution of exposure according to significant areas

Exposure category	BiH	Croatia	UAE	Germany	Turkey	Europe Region	Other countries	TOTAL
Exposures to central governments or central banks	193,528	-	-	-	-	-	224,930	418,459
Exposures to regional governments or local authorities	31,824	-	-	-	-	-	-	31,824
Exposures to public sector entities	-	-	-	-	-	-	-	-
Exposures to multilateral development banks	-	-	-	-	-	-	-	-
Exposures to international organizations	-	-	-	-	-	-	-	-
Exposures to institutions	30,143	8,654	-	943	40,043	-	32,001	111,783
Exposures to companies	564,319	16	88	-	-	-	288	564,711
Exposures to natural persons	379,689	85	296	1,894	13	460	2,058	384,501
Exposures secured by real estate	492,960	540	-	3,474	-	2,687	4,954	504,615
Exposures in default status	5,207	-	-	-	-	-	-	5,207
High-risk exposures	18,713	-	-	-	-	-	-	18,713
Exposures in the form of covered bonds	-	-	-	-	-	-	-	-
Exposures to institutions and companies with a short-term credit rating	-	-	-	-	-	-	-	-
Exposures in the form of shares or shares in investment funds	-	-	-	-	-	-	-	-
Exposures based on equity investments	106	-	-	-	-	-	47	153
Other items	9,062	-	-	-	-	-	63,628	72,690
<b>In total</b>	<b>1,725,552</b>	<b>9,294</b>	<b>384</b>	<b>6,311</b>	<b>40,056</b>	<b>3,147</b>	<b>327,912</b>	<b>2,112,656</b>

In the Other countries position, the bank presented exposures to clients whose headquarters are in the following countries: United States of America, Saudi Arabia, Bahrain, Iraq, etc.

#### 6.5.4. Distribution of exposure by type of activity

Exposure category	Agriculture, forestry and fishing	Extraction of ores and stone	Manufacturing industry	Production and supply of electricity, gas, steam and air conditioning	Water supply, sewage, waste management and environmental sanitation activities	Construction	Transport and storage	The activity of providing accommodation, preparing and serving food, hotel and catering	Real estate business
Exposures to central governments or central banks	-	-	-	-	-	-	-	-	-
Exposures to regional governments or local authorities	-	-	-	-	-	-	-	-	-
Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-
Exposures to institutions	-	-	-	-	-	-	-	-	-
Exposures to companies	15,844	2,989	134,781	13,561	2,666	75,936	34,720	15,093	7,976
Exposures to natural persons	2,211	121	6,086	76	1,106	7,013	4,490	528	333
Exposures secured by real estate	6,307	423	81,159	2,879	627	30,636	10,050	13,884	2,873
Exposures in default status	-	-	3,809	-	-	3	-	2	-
High-risk exposures	-	-	-	-	-	6,785	-	-	11,336
Exposures based on equity investments	-	-	-	87	-	-	-	-	-
Other items	-	-	6	-	-	1	2	16	653

#### 6.5.4. Breakdown of exposure by type of activity – continued

Exposure category	Professional, scientific and technical activities	Administrative and auxiliary service activities	Public administration and defense, mandatory social insurance	Education	Health care and social work activity	Arts, entertainment and recreation	Other service activities	Financial institutions and banks	Retail clients	Information and communications	Wholesale and retail trade, repair of motor vehicles and motorcycles	Total
Exposures to central governments or central banks	-	-	-	-	-	-	-	387,459	-	-	-	<b>387,459</b>
Exposures to regional governments or local authorities	-	-	31,824	-	-	-	-	-	-	-	-	<b>31,824</b>
Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-
Exposures to institutions	-	-	-	-	-	-	-	111,783	-	-	-	<b>161,490</b>
Exposures to companies	15,353	3,448	-	504	8,693	1,012	5,173	16,487	-	13,527	178,953	<b>564,711</b>
Exposures by population	2,256	1,001	1	244	452	134	438	424	349,203	725	7,654	<b>384,501</b>
Exposures secured by real estate	16,255	4,936	-	465	9,021	991	3,118	-	216,130	2,405	102,456	<b>504,615</b>
Exposures in default status	3	-	-	14	-	-	-	-	397	79	902	<b>5,207</b>
Exposures based on equity investments	-	-	-	-	-	-	-	20	-	46	-	<b>153</b>
Other items	7	-	451	-	-	-	316	68,192	1,540	112	1,394	<b>72,690</b>

#### 6.5.5. The remaining maturity of the counterparty's exposure

(000 BAM)

No	Exposure category	≤ 1 y	> 1 y ≤ 5 y	> 5 y	No maturity specified	Total
1	Exposures to central governments or central banks	-	-	-	418,459	<b>418,459</b>
2	Exposures to regional governments or local authorities	297	7,449	21,203	2,875	<b>31,824</b>
3	Exposures to multilateral development banks	-	-	-	-	-
4	Exposures to institutions	63,203	-	-	48,580	<b>111,783</b>
5	Exposures to companies	128,444	232,656	149,821	53,791	<b>564,711</b>
6	Exposures by population	27,418	78,049	257,053	21,982	<b>384,501</b>
7	Exposures secured by real estate	94,227	146,516	241,577	22,295	<b>504,615</b>
8	Exposures in default status	97	40,010	1,053	47	<b>5,207</b>
9	High-risk exposures	4,935	13,778	-	-	<b>18,713</b>
10	Exposures based on equity investments	-	-	-	153	<b>153</b>
11	Other items	-	-	-	72,690	<b>72,690</b>

#### 6.5.6. Gross exposure by groups and significant economic branches

The bank defined that overdue unpaid claims are all claims that have not been collected within the due date (on the basis of principal, profit margin, fees, paid guarantees and other due liabilities).

Below is a tabular overview of exposures that have been impaired, unpaid receivables due by groups of exposures and activities.

(000 BAM)

No.	Exposure category	Exposure in default	Impairment for exposures in default status	Amount of overdue unpaid claims - principal	Impairments of overdue receivables	Exposure that is not in the default	Impairments of non-default status
1	Exposures to central governments or central banks	-	-	-	-	387,841	388
2	Exposures to regional governments or local authorities	-	-	-	-	14,480	306
3	Exposures to multilateral development banks	-	-	-	-	18,893	19
4	Exposures to institutions	-	-	8	-	162,205	715
5	Exposures to companies	-	-	835	27	448,874	5,570
6	Exposures by population	-	-	1,233	73	324,169	4,780
7	Exposures secured by real estate	-	-	841	37	501,630	11,130
8	Exposures in default status	38,505	31,759	23,079	21,643	-	-
9	Exposures based on equity investments	-	-	-	-	387	-
10	Other items	-	-	-	-	66,394	22

#### 6.5.7. Gross exposure by significant economic branches (000 BAM)

No	Exposure category	Exposure in default	Impairments to exposure values in default	Amount of overdue unpaid claims - principal	Impairments to the value of overdue receivables	Exposure that is not in default	Impairments of exposures that are not in default
1	Agriculture, forestry and fishing	1,279	1,279	1,193	1,193	25,018	636
2	Extraction of ores and stone	1	1	-	-	3,768	135
3	Manufacturing industry	11,158	7,350	3,430	3,318	226,016	3,497
4	Production and supply of electricity, gas, steam and air conditioning	-	-	-	-	33,739	517
5	Water supply, sewage, waste management and environmental sanitation activities	2,562	2,562	2,543	2,543	4,455	36
6	Construction	2,081	2,078	1,992	1,992	121,700	1,420
7	Transport and storage	431	431	422	422	50,396	905
8	Accommodation, preparation and serving of food, hotels and catering	19	17	-	-	30,238	718
9	Real estate business	3	2	-	-	24,448	1,274
10	Professional, scientific and technical activities	106	103	28	28	36,055	1,347
11	Administrative and side service activities	1	1	-	-	9,624	237
12	Public administration and defense, mandatory social insurance	-	-	-	-	33,151	875
13	Education	69	54	64	51	1,222	8
14	Health care and social work activity	-	-	-	-	18,390	210
15	Arts, entertainment and recreation	-	-	-	-	2,163	14
16	Other service activities	1	1	-	-	9,101	55
17	Financial institutions and banks	-	-	-	-	616,332	963
18	Individual persons	8,829	8,434	4,755	4,728	574,842	8,162
19	Remaining unallocated	-	-	-	-	-	-
20	Information and communications	503	424	-	-	17,620	240
21	Wholesale and retail trade, repair of motor vehicles and motorcycles	3,607	2,706	2,410	2,191	294,587	4,165
22	<b>In total</b>	<b>30,650</b>	<b>25,443</b>	<b>16,837</b>	<b>16,466</b>	<b>2,132,865</b>	<b>25,416</b>

### 6.5.8. Changes in allowances during the period

The table below shows changes in allowances and provisions for loan losses during the year:

(in 000 BAM)

		Value adjustments for exposures in default status	Value adjustments for non-defaulted exposures
1	Initial balance 31.12.2024.	31,787	22,967
2	New value adjustments during the period	28,107	34,959
3	The amount of the reduction in value adjustments	(26,116)	(35,672)
4	Accounting and permanent write-off during the year	(9,124)	-
5	<b>Final balance</b>	<b>24,654</b>	<b>22,254</b>

### 6.5.9. Exposures before and after using credit protection

The bank uses a standardized approach in assessing credit risk. Below is information on exposure to credit risk and the effects of reducing it:

(in 000 BAM)

Exposure category	The value of the net exposure before the use of credit protection		Value of net exposure after using credit protection		Risk-weighted assets	
	Balance sheet exposures	Off-balance sheet exposures	Balance sheet exposures	Off-balance sheet exposures	Balance sheet exposures	Off-balance sheet exposures
Exposures to central governments or central banks	418,459	-	418,459	-	-	-
Exposures to regional governments or local authorities	31,814	10	39,822	10	31,326	-
Exposures to public sector entities	-	-	-	-	-	-
Exposures to multilateral development banks	-	-	-	-	-	-
Exposures to international organizations	-	-	-	-	-	-
Exposures to institutions	83,374	28,409	83,374	28,409	28,672	5,682
Exposure to companies	246,178	318,533	183,964	317,443	239,812	21,992
Exposures by population	304,446	80,055	303,081	80,005	271,137	6,736
Exposures secured by real estate	472,376	32,239	467,530	32,147	467,530	10,371
Exposures in default status	5,186	21	5,185	21	5,185	8
High-risk exposures	14,188	4,525	14,188	4,525	21,282	3,393
Exposures in the form of covered bonds	-	-	-	-	-	-
Exposures to institutions and companies with a short-term credit rating	-	-	-	-	-	-
Exposures in the form of shares or shares in investment funds	-	-	-	-	-	-

Exposure category	The value of the net exposure before the use of credit protection		Value of net exposure after using credit protection		Risk-weighted assets	
	Balance sheet exposures	Off-balance sheet exposures	Balance sheet exposures	Off-balance sheet exposures	Balance sheet exposures	Off-balance sheet exposures
Exposures based on equity investments	153	-	153	-	153	-
Other items	71,233	1,457	75,759	2,689	34,784	-
<b>In total</b>	<b>1,647,407</b>	<b>465,249</b>	<b>1,647,407</b>	<b>465,249</b>	<b>936,546</b>	<b>37,811</b>

#### 6.5.10. Using external institutions to assess credit risk

For the purposes of calculating credit risk-weighted assets, the Bank uses the credit ratings of following external institutions to assess credit risk:

- a) Moody's
- b) Fitch
- c) Standard & Poor 's

The connection of the external credit rating with the degrees of credit quality and associated weights is defined by the Bank in accordance with the decision of the FBA.

The Bank uses external credit ratings for categories of exposure to institutions.

Exposures to institutions assigned a credit quality level, in accordance with the Decision on credit risk management and determination of expected credit losses, are assigned to credit risk level 1.

Below is a breakdown of exposure values before and after credit risk mitigation associated with each quality step:

(in 000 BAM)

Degree of quality	The value of the net exposure before the use of credit protection	Value of net exposure after using credit protection
1	-	-
2	-	-
3	7,615	7,615
4	-	-
5	19,945	19,945
6	-	-

#### 7. Data on financial leverage

The leverage ratio was introduced as a non-risk-based capital requirement in addition to risk-based capital requirements. The decision on the calculation of bank capital defines that banks calculate and publish a financial leverage ratio that is based on accounting values as a relevant measure of exposure to assets. Special regulatory exposure measures refer to off-balance sheet exposures that must be added to determine the total exposure to financial leverage.

The data on the financial leverage rate, calculated in accordance with Article 41 of the Decision on the calculation of bank capital, are presented below.

(000 BAM)

Exposure values	Amount
Off-balance sheet items with a 10% conversion factor	30,063
Off-balance sheet items with a 20% conversion factor	21,669
Off-balance sheet items with a 50% conversion factor	28,137
Off-balance sheet items with a conversion factor of 100%	-
Other assets	1,651,356
(-) Amount of deductible asset items - share capital in accordance with Article 37 of the Decision on capital calculation	(3,949)
Leverage rate exposures	<b>1,727,276</b>
<b>Capital</b>	
Share Capital	<b>182,776</b>
<b>Financial leverage ratio</b>	<b>10.58%</b>

As of December 31, 2024, the Bank reported a leverage ratio of 10.58%, which is 86 bp less than on December 31, 2023, when the leverage rate was 11.44%, which is the result of increase in the Bank's exposure.

The Bank plans capital plans (the capital plan for the current year and the next four-year period) to plan the exposure of leverage and the leverage rate. The Bank measures the exposure and leverage rate at least quarterly as part of the regulatory reports according to the Banking Agency of the FBiH.

Exposure to leverage and leverage rates, as well as regulatory limits for fulfilment are defined by the Decision on capital calculation, as well as in the Bank's Capital Management Program and policies. The bank plans the leverage rate, as mentioned above, through capital plans, and quarterly monitors the fulfilment of regulatory limits and deviations of realized rates from the plan. The basis for the planning of the rate and exposure of financial leverage are the Operational and Strategic Plan of the Bank and the values of balance sheets and off-balance sheets and their growth. Quarterly, the Management Board reports on the achieved leverage rate to the Supervisory Board through the Risk Profile Report. The risk appetite statement defines an internal minimum leverage rate.

The bank assesses the risk of leverage as low. In 2024, the leverage rate ranged within regulatory and internally defined limits, and the same is expected in 2025, given that the Bank has a significantly higher leverage rate than regulatory requirements.

The annual probability of occurrence of negative events was assessed as low since the indicator itself is subject to regulatory assessment, and given that the Bank has achieved rather higher rates than regulatory-defined rates in the past. The risk of realization can arise at any time, but, given that significant changes in the balance/off-balance sheet exposure or the level of common capital are needed to impair the leverage rate, the Bank estimates that quarterly monitoring of this indicator is quite sufficient. In addition, in recent years, the Bank has planned moderate growth of balance sheet and off-balance sheet exposures with adequate profitability, which is in favor of stability in terms of expected leverage rate/ exposure.

The Bank rates the risk of leverage as low.

It is important to note that this risk is constantly monitored so that appropriate and timely measures can be taken, if necessary.

## 8. Liquidity risk exposure

Liquidity risks are the risks of loss arising from the Bank's existing or expected inability to settle its cash deposits when due.

Liquidity risks are considered:

- liquidity financing risk and
- intraday liquidity risk
- funding source concentration risk and
- market liquidity risk

The objectives, policies and responsibilities of liquidity risk management are described in the Risk Management Strategy and Policy chapter.

The table shows the liquidity coverage indicator as of 12/31/2024.

FORM - Liquidity coverage - LCR calculation		
No.	Item	Amount (000 BAM)
1	Buffer layer of liquidity	319,420
2	Net liquidity outflows	190,416
3	Liquidity coverage ratio (%)	168%
<b>Calculating numerator</b>		
4	Liquidity protection layer in the form of level 1 assets, excluding covered bonds of extremely high quality (in accordance with Article 24 of the Decision): unadjusted	319,420
5	Outflows from collateral in the form of Level 1 assets, excluding extremely high-quality covered bonds maturing within 30 days	-
6	Collateralized inflows in the form of Tier 1 assets, excluding extremely high-quality covered bonds maturing within 30 days	-
7	Guaranteed cash outflows	-
8	Secured cash flows	-
9	Adjusted amount of Tier 1 assets excluding extremely high-quality covered bonds "before application of the cap"	319,420
10	Value of level 1 assets in the form of covered bonds of extremely high quality in accordance with Article 24 of the Decision.: unadjusted	-
11	Collateralized outflows in Tier 1 assets in the form of extremely high-quality covered bonds maturing within 30 days	-
12	Inflows based on collateral in Tier 1 assets in the form of extremely high-quality covered bonds maturing within 30 days	-
13	Adjusted amount of Tier 1 assets in the form of extremely high-quality covered bonds "before application of the cap"	-
14	Adjusted amount of Tier 1 assets in the form of extremely high-quality covered bonds "after application of the cap"	-
15	Level 1 "Amount of Excess Liquid Assets" in the form of extremely high-quality covered bonds	-
16	Property value of level 2a in accordance with Article 24 of the Decision: unadjusted	-
17	Collateral outflows in Level 2a assets maturing within 30 days	-
18	Inflows based on collateral in level 2a assets maturing within 30 days	-
19	Adjusted Amount of Tier 2a Assets "Before Cap"	-
20	Adjusted Amount of Level 2a Assets "After Application of the Cap"	-
21	"Amount of excess liquid assets" level 2a	-
22	Property value of level 2b in accordance with Article 24 of the Decision: unadjusted	-
23	Collateral outflows in level 2b assets maturing within 30 days	-
24	Inflows based on collateral in level 2b assets maturing within 30 days	-
25	Adjusted Amount of Level 2b Assets "Before Cap"	-
26	Adjusted Amount of Level 2b Assets "After Application of the Cap"	-
27	"Amount of excess liquid assets" level 2b	-
28	Amount of excess liquid assets	-
29	A protective layer of liquidity	319,420

FORM - Liquidity coverage - LCR calculation		
No.	Item	Amount (000 BAM)
<b>Calculating denominator</b>		
30	Total outflows	287,255
31	Totally exempt inflows	-
32	Inflows subject to the 75% cap	96,839
33	Reduction for "fully exempted inflows"	-
34	Reduction for inflows subject to the 75% cap	96,839
35	Net liquidity outflow	190,416

## 9. Exposures to equity investments in the trading book

On 31.12.2024 the Bank had a portfolio of equity investments with a total value of 153 thousand BAM. The portfolio of equity investments is divided into the following categories:

- Equity investments available for sale,
- Investments not held for trading.

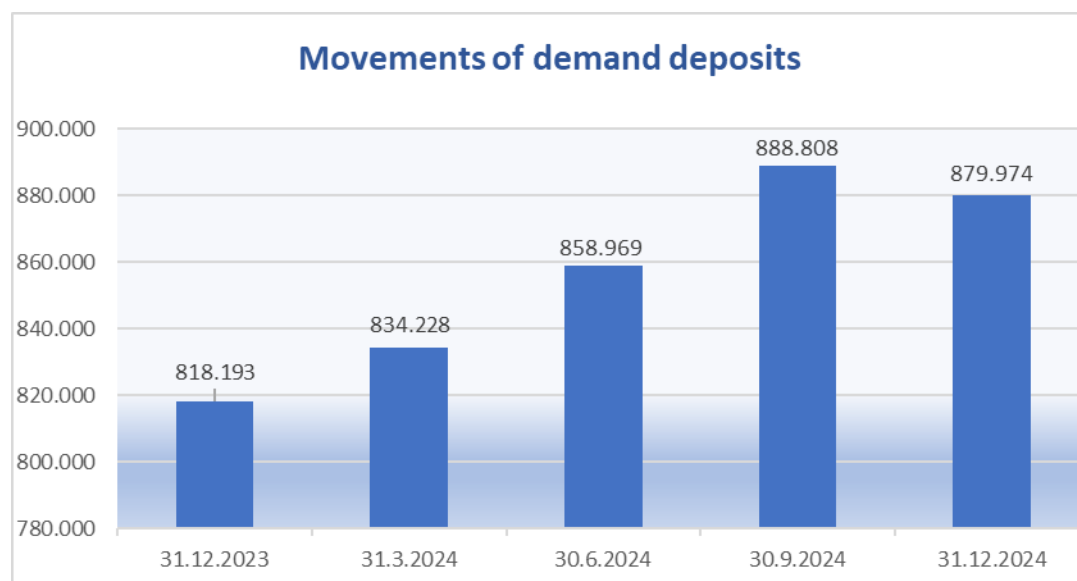
Equity investments available for sale are listed on the Sarajevo Stock Exchange and the method of their valuation is through the profit and loss account, daily at market prices.

Investments that are not held for trading and are not listed on the stock exchange are recorded at acquisition cost.

Investment type	Portfolio	Listed on the stock exchange	Valuation method	Value 31.12.2024. (in 000 BAM)	Realized dividend profit/ loss (in 000 BAM)	Realized profit/ loss market value (in 000 BAM)
Public enterprises	Available for sale	Yes	Market value	88	11	(1)
Private companies	Investments not held for trading	No	Acquisition cost	65,4	-	-

## 10. Exposure to interest rate risk/profit rate risk

The bank calculates interest rate risk/profit rate risk on a monthly basis. Exposure to interest/profit risk is measured based on the sensitivity of the Bank's financial results and capital to possible negative movements in interest/profit rates. The effect of negative interest/profit rate movements on the financial result and capital is calculated by multiplying the GAPS by assumed changes in interest/profit rates (weights are based on an estimated standard interest rate shock of 200 basis points over time and an estimated modified duration for each time zone).



During 2024, the impact of changes in the economic value of the banking book had an increasing trend compared to the previous year due to the impact of an increase in the volume of financing with a fixed profit rate.

The table shows the change in the economic value of the banking book as of December 31, 2024.

000 BAM	+200 basic points	-200 basic points
Impact of interest rate changes on net income	19,115	(19,115)

## 11. Internal capital adequacy assessment – ICAAP

The Bank has established a process of internal capital adequacy assessment in accordance with its size and risk profile as well as risk tolerance.

The ICAAP is a documented process that is carried out on an ongoing basis and is in accordance with the Risk Management Strategy as well as the capital plan. The goal of the ICAAP is to clearly determine the level of capital that is sufficient to cover all the risks to which the Bank is exposed or may be exposed in its operations.

### 10.1 ICAAP measurement and assessment

The key components (steps) of the ICAAP process in the Bank are:

- *Identification and assessment of the significance of risks* - All material risks, to which the Bank is exposed or could be exposed, were identified during the process of identification and assessment of the significance of risks, starting with the taxonomy of risks. Considering that it represents the starting point in the ICAAP process, on which the further risk treatment of the Bank is based, we can say that it represents one of the most important steps of the entire process.
- *Quantification and pooling of risks* - The bank monthly assesses the amount of capital needed to cover each material risk. Risk quantification is an integral part of the individual risk management process. Then it is necessary to determine how much capital the Bank has available to cover the internal capital requirements. Capital for risk coverage is equal to the amount of the total regulatory capital of the Bank.
- *Stress testing* - these are carried out in order to assess the Bank's resistance to negative developments in its business environment. The effects of testing are included in the capital planning process. The results of stress resistance testing are taken into account when making strategic decisions.

- *Utilization of risk bearing capacity* - This phase includes the allocation of available capital to specific risks, business segments and to excess capital. After that, the ratio of the total internal capital requirement and the capital for risk coverage is calculated, in order to obtain the amount of utilization of the risk bearing capacity.
- *Limit setting process* - ICAAP limits are based on the current budget and include a forward-looking approach based on budget forecasts, taking into account the provisions of the Funding Policy. In case of budget changes, the ICAAP limit system must also be adjusted accordingly. In this way, the Bank applies a proactive approach to monitoring capital adequacy under Pillar II, which enables it to act in a timely manner.
- *Budgeting and forecasting* - The budgeting process connects significant risks, which were assessed as such in the risk identification process, and capital and business activity planning for the observed period of the next 4 years.
- *Reporting and management* - The goal of reporting and management is to provide management bodies with timely, complete and accurate information on the level of risk, enabling conscientious decision-making.

For the purpose of regulatory reporting, the Bank prepares a comprehensive report on the application of the internal capital adequacy assessment process and its results. The report on the application of the ICAAP contains the results of the calculation and assessment of the required internal capital. The report is submitted to the FBiH Banking Agency within the legally defined deadlines.

The calculation and method of calculation of the internal capital requirement is performed for risks as follows:

- **Credit risk** - To calculate capital requirements for credit risk, the bank applies a standardized approach in accordance with the Decision on the calculation of bank capital and the Decision on amendments to the decision on the calculation of bank capital, in which predefined weights are used for different categories of exposure.
- **Concentration risk** - for the purposes of calculating the capital requirement for concentration risk in the process of internal assessment of capital adequacy, the Herfindahl-Hirschman index is used as a measure of concentration.
- **Interest risk/ profit rate risk in the banking book** - For the purposes of calculating the internal capital requirement for profit rate risk/ interest rate risk, the Bank simulates what would be the impact on the Bank's profit if the profit rates on profit-sensitive assets were to decrease by 1% and if profit rates on profit-sensitive liabilities decreased by 1%. The period of observation of the impact of profit rates is 12 months.
- **FX risk** - The bank applies a standardized approach for calculating the internal capital requirement for market risks in accordance with the Decision on the calculation of capital in the bank.
- **Operational risk** - to calculate the capital requirement, the Bank applies a simple principle. According to the simple approach, the capital requirement for operational risk is equal to 15% of the three-year average of the relevant indicator as prescribed by Decision on the calculation of capital in the bank.
- **Other risks** - when calculating the internal capital requirement for other significant risks, the Bank complied with the Decision on the internal capital adequacy assessment process and the internal liquidity adequacy assessment process in the bank, whereby a percentage of the total capital requirements according to Pillar I is allocated.

## 12. Internal assessment of liquidity adequacy - ILAAP

The bank has established a process of internal assessment of liquidity adequacy in accordance with legal regulations, its size and its risk profile. ILAAP is a documented process that is carried out on a continuous basis and is in accordance with the Risk Management Strategy and the Liquidity Plan.

Given that the ILAAP is a comprehensive review and assessment of the Bank's internal liquidity management, it primarily covered the entire picture and activities that take place during liquidity risk management, as well as other influences (internal and external) on the Bank's liquidity.

As part of the ILAAP, the Bank described in a comprehensive and detailed manner the Bank's information and practice in managing liquidity risk in the following areas:

- Framework for liquidity risk management and funding source risk
- Strategies and three-year plan of funding sources
- The Bank's strategy regarding internal liquidity requirements and collateral management
- Liquidity cost distribution mechanism

- Intraday liquidity risk management
- Stress Testing of liquidity
- Liquidity contingency plan.

When defining internal liquidity requirements, the Bank defined two types of internal liquidity requirements in accordance with legal provisions:

- Internal liquidity requirements subject to legal liquidity requirements
- Internal liquidity requirements that the Bank has decided to follow and which are not subject to legal liquidity requirements

Liquidity planning is based on the determination, measurement and monitoring of financing and cash positions, which includes current and future cash flows (materially significant) arising from the bank's assets, liabilities, and off-balance sheets. Liquidity plans are made for a period of 3 years (but plans are also made for shorter time intervals).

The result of the stress test is an integral part of the liquidity planning process. The scenarios that are defined within the testing methodology represent a tool for testing the adequacy of the liquidity position. Stress scenarios serve to verify the regulatory requirements in the form of liquidity through the application of sufficiently unfavourable scenarios. If the results of stress resistance testing indicate liquidity inadequacies, the Bank adopts and implements an adequate set of measures to maintain an adequate liquidity position.

The measures that the Bank plans to take in order to ensure adequate liquidity are elaborated in detail in the internal acts, depending on the movement of the Bank's financial indicators as well as the movement of the local and international financial market, that is, the part that affects the movement of the Bank's financial indicators.

### 13. Unencumbered (unpledged) property and encumbered (pledged) property

Type of property	Gross book value of encumbered assets	Gross book value of unencumbered assets
Credits given	-	1,117,351
Investments in debt instruments	-	-
Investments in equity instruments	-	153
Other	-	589,223

### 14. Low-quality and restructured exposures and collateral acquired through takeover and implementation of enforcement proceedings

The process of classifying the Bank's assets and determining the level of credit risk is harmonized with the Decision on credit risk management and determination of expected credit losses.

The table below shows the credit quality of financing classified into credit risk levels, and classified by sector according to the NACE code. Also, the same table shows the quality of restructured exposures by credit risk levels.

Furthermore, below is a tabular presentation of the state of non-performing financing and their changes during the reporting period. In all the above-mentioned data, the Bank reports the financing capital.

		Stage 1			Stage 2			Stage 3			Total gross loans at all levels of credit risk	Expected credit losses for stage 1			Expected credit losses for stage 2			Expected credit losses for stage 3			Total expected credit losses
		Of which: Low credit risk Items	Of which: Restructured financing		Of which: POCI assets	Of which: Restructured financing		Of which: POCI assets	Of which: Restructured financing	Of which: Low credit risk Items		Of which: Restructured financing	Of which: POCI assets	Of which: Restructured financing	Of which: Low credit risk Items	Of which: Restructured financing	Of which: POCI assets	Of which: Restructured financing			
		010	020	025	030	040	045	050	060	065	070	080	090	095	100	110	115	120	130	135	140
010	1. Total Corporate portfolio (1.1. do 1.21.)	451.238	0	46	61.498	0	780	29.838	0	12.551	542.574	8.208	0	1	5.683	0	330	24.519	0	8.735	38.410
020	1.1. A Agriculture, forestry and fishing	9.723		0	1.845		0	1.453		99	13.021	181		0	148		0	1.019		99	1.348
030	1.2. B Mining and quarrying	4.847		0	2.144		414				6.991	72		0	172		33			0	244
040	1.3. C Manufacturing	100.917		46	27.593		0	6.866		5.582	135.376	1.798		1	2.551		0	4.396		3.375	8.745
050	1.4. D Electricity, gas, steam and air conditioning supply	8.434		0	785		0	8			9.227	168		0	65		0	3			236
060	1.5. E Water supply; sewerage; waste management and remediation activities	2.448		0			0	2544			4.992	48		0			0	2035			2.083
070	1.6. F Construction	58.291		0	2.028		0	4.971		0	65.290	1.066		0	162		0	4.936			6.164
080	1.7. G Wholesale and retail trade; repair of motor vehicles and motorcycles	155.148		0	6.482		53	8.804		3.554	170.434	2.800		0	537		4	8.327		3.273	11.664
090	1.8. H Transporting and storage	28.457		0	2.927		291	1.661		1.417	33.045	523		0	507		291	1.661		1.417	2.691
100	1.9. I Accommodation and food service activities	3.913		0	4.161		0	1.485		1.439	9.559	70		0	437		0	255		239	762
110	1.10. J Information and communication	6.040		0	558		0	401		401	6.999	113		0	65		0	288		288	466
120	1.11. K Financial and insurance activities	11042		0							11.042	232		0							232
130	1.12. L Real estate activities	11.290		0	59						11.349	223		0	5					0	228
140	1.13. M Professional, scientific and technical activities	18.208		0	9.580		0	1.261		59	29.049	331		0	766		0	1.240		44	2.337
150	1.14. N Administrative and support service activities	3.473		0	2.853		22	60			6.386	52		0	228		2	60			340
160	1.15. O Public administration and defence; compulsory social security	14.344		0							14.344	301		0							301
170	1.16. P Education	963		0	429		0	89			1.481	16		0	36		0	64		0	116
180	1.17. Q Human health and social work activities	10.731		0	54		0	235			11.020	171		0	4		0	235		0	410
190	1.18. R Arts, entertainment and recreation	223		0							223	5		0							5
200	1.19. S Other services activities	2.746		0							2.746	38		0							38
210	1.20. T Household activities as an employer; activities of households that produce di										0										0
220	1.21. U Activities of extraterritorial organizations										0										0
230	2.1. Total Retail portfolio (2.1 + 2.2 + 2.3)	425.418	0	522	12.134	0	189	7.680	0	642	445.232	4.793	0	4	1.522	0	91	6.320	0	151	12.635
240	2.1. Other	291.266		423	10.479		185	6.987		610	308.732	3.303		4	1.369		91	5.749		125	10.421
250	2.2. Housing financings	124.036		99	1.456			329			125.821	1.311			123		0	261		0	1.695
260	2.3. Entrepreneurs	10.116		0	199		4	364		32	10.679	179			30		0	310		26	519
270	3. Total (1. + 2.)	876.656	0	568	73.632	0	969	37.518	0	13.193	987.806	13.001	0	5	7.205	0	421	30.839	0	8.886	51.045

Credit quality of financing classified into levels of credit risk with corresponding amounts of expected credit losses, sectoral structure of loans and quality of restructured financing.

Changes in the state of NPF/ NPL and associated expected credit losses:

Changes in the state of non-performing exposures	(in 000 BAM)		
	Retail	Corporate	Total
Initial state	7,680	29,838	37,518
Impairments (-)	6,320	24,519	30,839
Opening balance (net)	1,360	5,319	6,679
New NPF(+)	3,772	9,042	12,814
Recovery of low-quality financing (-)	766	5,576	6,342
Collection and other reductions of NPL (-)	1,141	5,861	7,002
Accounting write-off (-)	870	6,276	7,146
Closing balance (gross)	8,675	21,167	29,842
Impairments (-)	8,296	16,357	24,653
Closing balance (net)	379	4,810	5,189
Percentage reduction	96%	77%	83%

Acquired assets represent financial and non-financial assets that the Bank acquires in the process of settling the financing of clients in arrears. The table below shows data on the total amount of collateral acquired by taking over and implementing the enforcement procedure.

Acquired property taken over by the implementation of enforcement proceedings (u 000 BAM)	
Initial balance (12/31/2023)	3,575
Impairment of value	(3,456)
Opening balance (net)	119
Registered acquired property	886
Sale of acquired property	1,558
Investments in repossessed assets	-
Final balance (31.12.2024)	2,953
Impairment of value	(2,788)
Closing balance (net)	165