

# DISCLOSURE OF DATA AND INFORMATION OF

Raiffeisen *BANK* dd Bosna i Hercegovina  
as of the reporting date 31.12.2023



**Sarajevo, May 2024**

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## 0 Executive Summary

The Bank determines and creates the data and information defined by the Banking Law (FBiH Official Gazette 27/17) ("the Law"), Article 111 (Data Disclosure) and Article 248 (Adopting and Disclosing Regulations) and by the Decision on Disclosure of Bank Data and Information (FBiH Official Gazette 39/21) ("the Decision").

According to the Banking Law (FB&H Official Gazette 27/17), Article 111, The Bank shall at least once a year inform the public about its quantitative and qualitative data significant for informing the public on its financial status and operations, but at least data on:

- a) the bank's capital and capital adequacy,
- b) the banks ownership structure, members of the supervisory board and the management,
- c) other facts as required by the FBA's regulations.

Despite the above fact that the Bank assesses the need for disclosure of data and information, the Bank is obliged to publish data and information, more often than once a year, and at least semi-annually if it meets one of the following criteria:

- a) the bank's consolidated net balance sheet sum exceeds KM two billion,
- b) the 4-year average of the net balance sheet sum exceeds 20% of the 4-year average of GDP of Bosnia and Herzegovina.

The Bank is not obliged to disclose data and information that is immaterial, or such data and information whose public disclosure could have a negative impact on the Bank's competition position in the market, or data that could have a negative impact on the security of its employees or governing bodies.

The Banking Agency ("FBA") has defined in more detail the contents of data and information as well as the conditions, the manner and deadlines for their disclosure by the Decision on Disclosure of Bank Data and Information and by the Instructions for Disclosure of Bank Data and Information.

The decision prescribes the **minimum requirements on the contents of data and information** which it has to disclose according to Law, as well as the **requirements, manners and deadlines for their disclosure**.

In case the disclosed data and information fail to reflect the bank's comprehensive risk profile, the Bank is required by the Decision to disclose additional material information and data that will provide the market participants with a comprehensive overview of the Bank's risk profile, which are nor protected or confidential. The Bank shall regularly, at least once a year, ensure the correct, adequate and timely disclosure of data and information.

In the text below, the Bank is disclosing data and information as at 31.12.2023 (in KM 000 unless stated otherwise) which is available to the public at the web site [www.raiffeisenbank.ba](http://www.raiffeisenbank.ba).

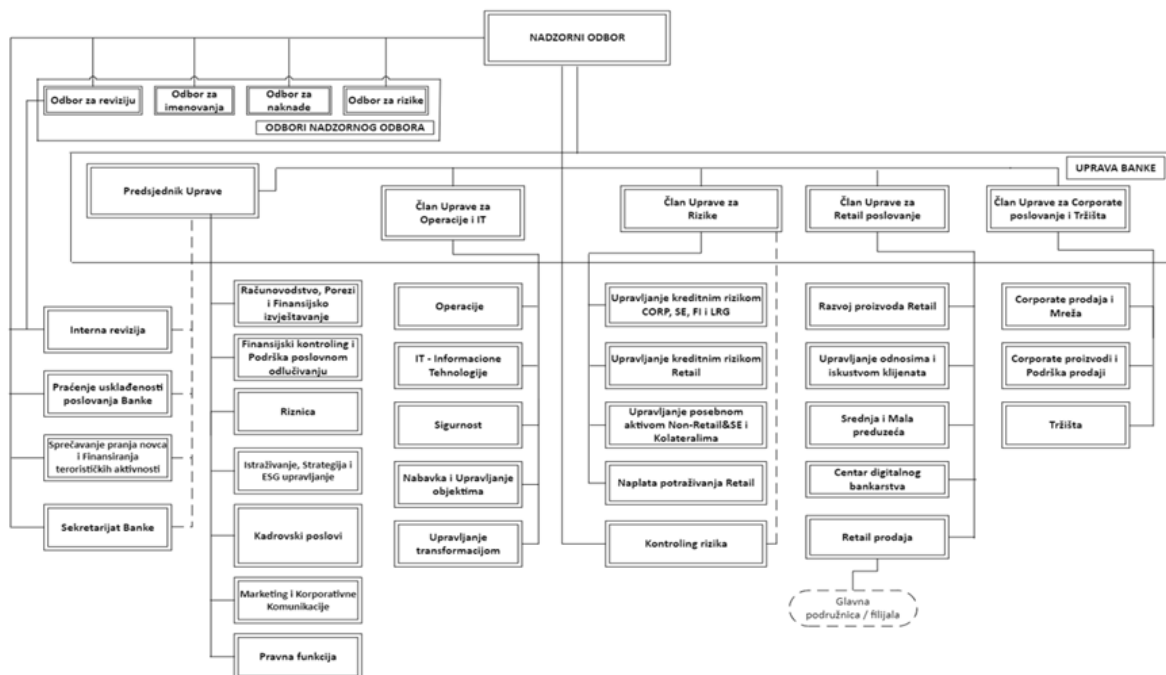
# 1 Contents of disclosed data and information

This report discloses data and information according to the minimum requirements of the Decision.

## 1.1 Name and seat, organisational structure and organisational units of the Bank

RAIFFEISEN BANK DIONIČARSKO DRUŠTVO BOSNA I HERCEGOVINA (hereinafter: the Bank) having its seat at Zmaja od Bosne bb, Sarajevo, Novo Sarajevo, is subject to the disclosure requirements and following the contents of the Management Summary hereby discloses quantitative and qualitative data that are relevant for informing the public on its financial position and business operations.

### Overview of organisational structure the Bank as at 31.12.2023



Reallocation of competencies among members of the Management Board for the units: "Markets", "Accounting, Taxes and Financial Reporting" and „Financial Controlling and Business Intelligence" is applies as at 01.02.2024.

### Overview of the Retail business network units as at 31.12.2023:

Total (FBiH, RS, BD):

Raiffeisen BANK Network	Main branches	Branches	Agencies	Total organisational units
Sarajevo	1	6	12	19
Mostar	1	6	6	13
Tuzla	1	4	11	16
Bihać	1	5	2	8
Banja Luka	1	5	13	19
Zenica	1	6	8	15
<b>Total</b>	<b>6</b>	<b>32</b>	<b>52</b>	<b>90</b>

FBiH:

Raiffeisen BANK Network	Main Branches/	Branches	Agencies	Total organisational units
Sarajevo	1	5	11	17
Mostar	1	5	6	12
Tuzla	1	2	9	12
Bihać	1	5	2	8
Zenica	1	6	7	14
<b>Total</b>	<b>5</b>	<b>23</b>	<b>35</b>	<b>63</b>

**RS:**

Raiffeisen BANK Network	Main branches	Branches	Agencies	Total organisational units
Sarajevo	0	1	1	2
Mostar	0	1	0	1
Tuzla	0	1	2	3
Banja Luka	1	5	13	19
Zenica	0	0	1	1
<b>Total</b>	<b>1</b>	<b>8</b>	<b>17</b>	<b>26</b>

**BD:**

Raiffeisen BANK Network	Main branches	Branches	Agencies	Total organisational units
MB/B TUZLA BD	0	1	0	1
<b>TOTAL</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>1</b>

**Overview of the Retail business network units as at 31.12.2023:**

No.	NETWORK	Address	Place	Entity
1	Main Branch Sarajevo	Zmaja od Bosne bb	71000 Sarajevo	F
2	Centar Branch	Zmaja od Bosne bb	71000 Sarajevo	F
3	Skenderija Branch	Valtera Perića 20	71000 Sarajevo	F
4	the Stari Grad Sub-office	Štrosmajerova 10	71000 Sarajevo	F
5	Titova Agency	Maršala Tita 11	71000 Sarajevo	F
6	Ciglane Agency	Merhemica Trg	71000 Sarajevo	F
7	Novo Sarajevo Branch	Kolodvorska 12	71000 Sarajevo	F
8	Vogošća Agency	Jošanička 27 A	71320 Vogošća	F
9	Ilijaš Agency	126 Ilijaške brigade 47	71380 Ilijaš	F
10	Novi Grad Agency	Trg međunarodnog prijateljstva bb	71000 Sarajevo	F
11	Otoka Agency	Gradačačka 1	71000 Sarajevo	F
12	Hrasno Agency	Azize Šaćirbegović bb	71000 Sarajevo	F
13	Ilidža Branch	Rustempašina bb	71210 Ilidža	F
14	Hrasnica Agency	Halid bega Hrasnice 10	71212 Hrasnica	F
15	Istočno Sarajevo Agency	Spasovdanska bb	71123 Istočno Novo Sarajevo	RS
16	Hadžići Agency	Hadželi 115	71240 Hadžići	F
17	Dobrinja Agency	Bulevar Branilaca Dobrinje 10	71000 Sarajevo	F
18	Pale Branch	4 Juni br.17	71420 Pale	RS
19	Goražde Branch	Titova bb	73000 Goražde	F

No.	NETWORK	Address	Place	Entity
20	Mostar Main Branch	Kneza Domagoja bb	88000 Mostar	F
21	Mostar Branch	Kneza Domagoja bb	88000 Mostar	F
22	Mostar Agency 2	Fejićeva bb	88000 Mostar	F
23	Konjic Branch	Suhi do bb	88400 Konjic	F
24	Čitluk Branch	Bročanski Trg 1	88260 Čitluk	F
25	Čapljina Agency	Braće Radića bb	88300 Čapljina	F
26	Široki Brijeg Branch	Ulica pobijenih franjevaca 3	88220 Široki Brijeg	F
27	Grude Agency	Mate Bobana 2 b	88340 Grude	F
28	Ljubuški Agency	Petra Barbarića 1	88320 Ljubuški	F
29	Posušje Agency	Fra Grga Martića 47	88240 Posušje	F
30	Trebinje Branch	Vuka Mićunovića bb	89101 Trebinje	RS
31	Livno Branch	Trg kralja Tomislava bb	80101 Livno	F
32	Tomislavgrad Agency	Brigade Kralja Tomislava bb	80240 Tomislavgrad	F
33	Tuzla Main Branch	15 Maja bb	75000 Tuzla	F
34	Tuzla Branch	15 Maja bb	75000 Tuzla	F
35	Živinice Sub-office	Tuzlanskih odreda bb	75270 Živinice	F
36	Lukavac Agency	Armije R BiH bb	75300 Lukavac	F
37	Tuzla 1 Agency	Prve inženjerske brigade bb	75000 Tuzla	F
38	Banovići Agency	Alije Izetbegovića 54	75290 Banovići	F
39	Tuzla 2 Branch	Univerzitetska 16	75000 Tuzla	F
40	Gračanica Agency	22 Divizije bb	75320 Gračanica	F
41	Gradačac Agency	Husein Kapetana Gradaševića bb	76250 Gradačac	F
42	Srebrenik Agency	Radnička bb	75350 Srebrenik	F
43	Bijeljina Branch	Karađorđeva bb	Bijeljina 76300	RS
44	Zvornik Agency	Svetog Save bb	75400 Zvornik	RS
45	Ugljevik Agency	Jednostanka br.20	76330 Ugljevik	RS
46	Brčko Branch	Reisa Džemaludina Čauševića 10	76100 Brčko	BD
47	Orašje Agency	III -Treća ulica 33	76270 Orašje	F
48	Odžak Agency	Titova 44	75290 Odžak	F
49	Bihać Main Branch	Pape Ivana Pavla II 4	77000 Bihać	F
50	Bihać Branch	Pape Ivana Pavla II 4	77000 Bihać	F
51	Cazin Branch	Cazinskih brigada bb	77220 Cazin	F
52	Velika Kladuša Branch	Maršala Tita bb "Diletacija" C	77230 V. Kladuša	F
53	Sanski Most Branch	Muse Čazima Ćatića 24	79260 S. Most	F
54	Ključ Agency	Branilaca BiH bb	79280 Ključ	F
55	Bosanska Krupa Branch	Alije Izetbegovića bb	77240 Bos. Krupa	F
56	Bužim Agency	Generala Izeta Nanića bb	77245 Bužim	F
57	Banja Luka Main Branch	Vase Pelagića 2	78000 Banja Luka	RS
58	Banja Luka Branch	Vase Pelagića 2	78000 Banja Luka	RS
59	Banja Luka Agency	Milana Tepića 11	78000 Banja Luka	RS
60	Derviši Agency	Branka Popovića 310	78000 Banja Luka	RS
61	Banja Luka Branch	Vojvode Stepe Stepanovića bb	78000 Banja Luka	RS

No.	NETWORK	Address	Place	Entity
62	Laktaši Sub-Office	Karadorđeva bb	78250 Laktaši	RS
63	Mrkonjic Grad Agency	Trg kralja Petra I Karadorđevića 19	70260 Mrkonjić Grad	RS
64	Kotor Varoš Agency	Cara Dušana bb	78220 Kotor Varoš	RS
65	Banja Luka Sub-Office 3	Bulevar Vojvode Stepe Stepanovića 132	78000 Banja Luka	RS
66	Prijedor Branch	Majora Milana Tepića bb	79101 Prijedor	RS
67	Kozarska Dubica Agency	Svetosavska 7	79240% Dubica	RS
68	Novi Grad Agency	Miće Šurlana 22	79220 N.Grad	RS
69	Gradiška Branch	Vidovdanska bb	78400 Gradiška	RS
70	Prnjavor Sub-Office	Svetog Save 25	78430 Prnjavor	RS
71	Doboj Branch	Svetog Save 2	74000 Doboj	RS
72	Derвента Sub-Office	Nikole Tesle 28	74400 Derвента	RS
73	Modriča Sub-Office	Cara Lazara 5	74480 Modriča	RS
74	Brod Agency	Svetog Save 27	74450 Brod	RS
75	Šamac Agency	At the corner of Njegoševa and Cara Lazara streets	76230 Šamac	RS
76	Zenica Main Branch	Maršala Tita bb	72000 Zenica	F
77	Zenica Branch	Maršala Tita bb	72000 Zenica	F
78	Zenica 1 Agency	Londža 90	72000 Zenica	F
79	Zenica 2 Agency	Kamberovića polje bb	72000 Zenica	F
80	Zavidovići Sub-office	At the corner of Dr.Pinkasa Bandta and S.Bega Bašagića streets	72220 Zavidovići	F
81	Žepče Sub-Office	Stjepana Tomaševića bb	72230 Žepče	F
82	Kakanj Branch	Alije Izetbegovića bb	72240 Kakanj	F
83	Vitez Branch	Business centre 96-2	72250 Vitez	F
84	Kiseljak Agency	Josipa Bana Jelačića bb, PC TIBRA	71250 Kiseljak	F
85	Visoko Branch	Alije Izetbegovića 1	71300 Visoko	F
86	Tešanj Branch	Titova 2	74260 Tešanj	F
87	Jelah Sub-Office	Jelah bb	74264 Jelah	F
88	Teslić Sub-Office	Karadorđeva 1	74270 Teslić	RS
89	Travnik Branch	Konatur bb	72270 Travnik	F
90	Bugojno Sub-Office	Bosanska 4	70230 Bugojno	F

## 1.2 Ownership structure and members of the Supervisory Board and Management Board

*The bank is obliged to disclose the following information:*

- a) a list of its shareholders holding a share of 5% or more in the bank's capital or voting rights;*
- b) the members of the bank's supervisory board and management, and their up-to-date CVs;*
- c) the number of directorships held by the members of the supervisory board and management board which are material considering the size, internal organization, the nature, scope and complexity of the bank's business;*
- d) the policies for election and assessment of members of the supervisory board and the management board;*
- e) members of the audit committee and their up-to-date CVs;*
- f) members of other committees established by the supervisory board according to the law (nomination committee, risk committee, remuneration committee, etc.) and the frequency of their meetings;*
- g) the manner in which the internal audit function and head of internal audit are organized,*
- h) the bank's appointed external auditor*

Ownership structure			
No.	name of shareholder with a share of 5% or more in the bank's capital (by the size of the shareholding)	Share in %	
		Common shares	Priority shares
1	Raiffeisen SEE Region Holding GmbH	100.00	/

Supervisory Board Members:		
No.	Full name	Web locations with short CVs of the Supervisory Board Members
1	Peter Jacenko	<a href="http://www.raiffeisenbank.ba">www.raiffeisenbank.ba</a>
2	Markus Kirchmair	<a href="http://www.raiffeisenbank.ba">www.raiffeisenbank.ba</a>
3	Markus Plank do 15.01.2024	<a href="http://www.raiffeisenbank.ba">www.raiffeisenbank.ba</a>
4	Matthias Dekan od 16.01.2024	<a href="http://www.raiffeisenbank.ba">www.raiffeisenbank.ba</a>
5	Elisabeth Geyer - Schall	<a href="http://www.raiffeisenbank.ba">www.raiffeisenbank.ba</a>
6	Gerda Lottersberger-Roschitz	<a href="http://www.raiffeisenbank.ba">www.raiffeisenbank.ba</a>
7	Jasmina Selimović until 21.02.2024	<a href="http://www.raiffeisenbank.ba">www.raiffeisenbank.ba</a>
8	Zinka Grbo	<a href="http://www.raiffeisenbank.ba">www.raiffeisenbank.ba</a>



<b>Management Board Members</b>		
No.	Full name	Web locations with short CVs of the Management Board Members
1	Rainer Schnabl , Chairman of the Management Board	www.raiffeisenbank.ba
2	Edin Hrnjica, Management Board Member	www.raiffeisenbank.ba
3	Andreea Achim, Management Board Member until 31.01.2024	www.raiffeisenbank.ba
3.a	Amna Gabela Interim Management Board Members from 01.02.2024 until 31.03.2024	www.raiffeisenbank.ba
3.b	Lars Frankemölle, Management Board Member from 01.04.2024	www.raiffeisenbank.ba
4	Mirha Krivdic, Management Board Member	www.raiffeisenbank.ba
5	Kreshnik Halili, Management Board Member	www.raiffeisenbank.ba

No.	Name of the member of the supervisory board or management board	Number of executive functions (absolute)	Number of non-executive functions (absolute)	Thereof number of executive functions in the group	Thereof number of non-executive functions in the group	Number of executive functions in institutions whose core business is non-profit
1	Peter Jacenko	0	3	0	3	0
2.	Markus Kirchmair	0	4	0	4	0
3.	Markus Plank	0	1	0	1	0
4.	Elisabeth Geyer - Schall	0	4	0	4	0
5.	Gerda Lottersberger-Roschitz	7	4	7	4	0
6.	Jasmina Selimović	3	1	0	1	1
7.	Zinka Grbo	2	1	0	1	0
8.	Rainer Schnabl	1	0	1	0	0
9.	Edin Hrnjica	2	1	1	1	0
10.	Andreea Achim	1	1	1	1	0
11.	Mirha Krivdić	2	1	1	1	1

No.	Name of the member of the supervisory board or management board	Number of executive functions (absolute)	Number of non-executive functions (absolute)	Thereof number of executive functions in the group	Thereof number of non-executive functions in the group	Number of executive functions in institutions whose core business is non-profit
12.	Kreshnik Halili	1	0	1	0	0

The Bank's Fit & Proper Policy and Procedure for Management Board Members and Key Function Holders define in more detail the matters of initial and continuous suitability assessment of Management Board members and key function holders aimed at successful and efficient implementation of the regulatory framework in the segment of corporate governance for the purpose of obtaining the FBA's previous consent for appointment of the Management Board members.

The Policy and Procedure define properly, corresponding to the size, significance, nature, volume and the complexity of the Bank's business operations:

- a) Criteria and procedures for meeting requirements of suitability assessment of the proposed and selected, that is appointed Management Board members as to whether they have a good reputation and sufficient experience for performing the Management Board members' functions;
- b) Measures which the Bank applies in cases when persons from a) are not suitable for the function;
- c) methodology based on which positions which are to be considered as key functions in the Bank are defined
- d) criteria and procedures for meeting requirements of suitability assessment of key function holders in the Bank, as for whether they have a good reputation and sufficient experience for performing the function and
- e) measures which the Bank applies in cases when persons from point d) are not suitable for the function.

The Policy and Procedure defines the following:

- a) the procedure applied for the selection, appointment, reappointment and planning replacements of the Management Board members;
- b) the Nomination Committee i.e. the Supervisory Board of the Bank shall periodically, and at least annually, assess the knowledge, skills and experience of individual members of the Management Board of the Bank and of the Management Board as a whole, and report the assessments to the Supervisory Board;
- c) the internal procedure applied in the assessment and the actions taken after such assessment;
- d) internal functions responsible for providing support to the Supervisory Board of the Bank i.e. the Nomination Committee in the procedure for suitability assessment of the Management Board members;
- e) knowledge, experience, abilities, skills, independence, readiness and ability to devote sufficient time to work in the Management Board of the Bank, including other conditions necessary to perform the function of a member of the Management Board;
- f) the documentation to be provided by the Bank's Management Board for assessment purposes;

- g) the cases requiring a re-assessment, including also actions to identify such cases;
- h) the duty of members of the Bank's bodies to duly notify the Bank regarding any changes affecting their suitability for the particular position on an annual basis or immediately, in case of a material change;
- i) the terms and conditions of additional training of members of the Bank's Management Board aligned with their needs for professional development;
- j) the objectives of the Bank in the diversity of Management Board;
- k) financial and human resources for training and professional development of members of the Management Board of the Bank;
- l) persons, method and deadlines for notifying the Agency about compliance with the provisions of this Policy and Procedure i.e. all material information that might have a negative impact on the fulfilment of requirements for members of the Management Board's bodies, and
- m) the manner of documenting the assessment procedure of the members of the Management Board.

Additionally, the Bank's Fit & Proper Policy and Procedure for Supervisory Board Members define in more detail the matters of initial and continuous suitability assessment of Supervisory Board members aimed at successful and efficient implementation of the regulatory framework in the segment of corporate governance for the purpose of obtaining the FBA's previous consent for appointment of the Supervisory Board members.

The Policy and Procedure define properly, corresponding to the size, significance, nature, volume and the complexity of the Bank's business operations:

- a) the criteria and procedures for suitability assessment of the proposed and selected, that is appointed Supervisory Board members as to whether they have a good reputation and sufficient experience for performing the Supervisory Board members' functions, including independent members;
- b) Measures which the Bank applies in cases when persons from a) are not suitable for the function;

The Policy and Procedure defines the following:

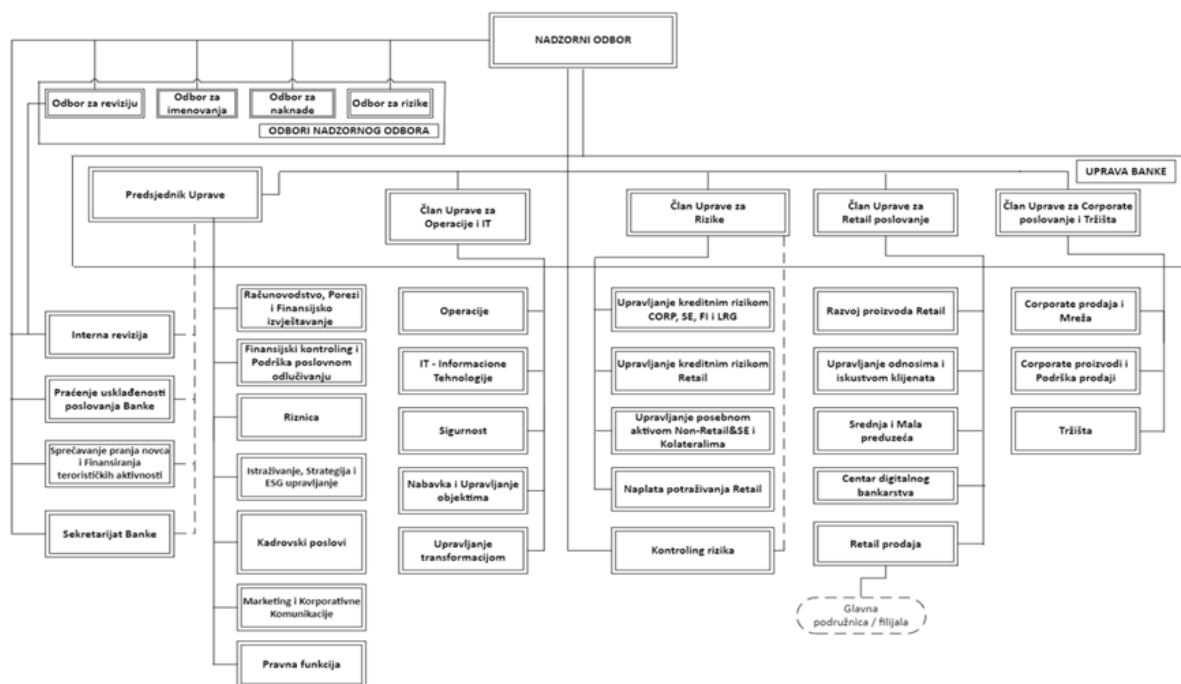
- a) the procedure applied for the selection, appointment, reappointment and planning replacements of the Supervisory Board members;
- b) the Nomination Committee i.e. the Supervisory Board shall periodically, and at least annually, assess the knowledge, skills and experience of individual members of the Supervisory Board and of the Supervisory Board as a whole, and report the assessments to that body;
- c) internal process of assessment and actions taken after such assessment;
- d) internal functions responsible for providing support to the Supervisory Board i.e. the Nomination Committee in the procedure for suitability assessment of the Bank's Management Board members;
- e) knowledge, experience, abilities, skills, independence, readiness and ability to devote sufficient time to work in the Supervisory Board of the Bank, including other conditions necessary to perform the function of a member of the Bank's Supervisory Board;
- f) documentation to be provided by the Bank's Supervisory Board member for the assessment purposes;
- g) activities to be taken regarding election of the Supervisory board members in order to notify shareholders of the position prerequisites and criteria to be met by such a person prior to any such election;
- h) the cases requiring a re-assessment, including also actions to identify such cases;

- i) the duty of members of the Supervisory Board to duly notify the bank regarding any changes affecting their suitability for the particular position on an annual basis or immediately, in case of a material change;
- j) the terms and conditions of additional training of members of the Bank's Supervisory Board aligned with their needs for professional development;
- k) the objectives of the Bank in the diversity of the Supervisory Board of the Bank;
- l) adequate financial and human resources for training and professional development of members of the Supervisory Board of the Bank;
- m) persons, methods and deadlines for notifying the Agency about compliance with the provisions of this Policy and Procedure i.e. all material information that might have a negative impact the fulfilment of requirements for members of the Supervisory Board, and
- n) the manner of documenting the assessment procedure of the members of the Supervisory Board of the Bank.

<b>Audit Board members</b>		
No.	Full name	Web locations with short CVs of the Audit Committee Members
1	Alda Shehu	www.raiffeisenbank.ba
2	Meliha Bašić	www.raiffeisenbank.ba
3	Biljana Ekinović	www.raiffeisenbank.ba

<b>Members of other committees of the Supervisory Board if they are established in the Bank</b>		
Nomination Committee		Frequency of meetings
1	Gerda Lottersberger Roschitz	Whenever it is necessary to pursue the Nomination Committee activities and competencies, but at least once a year.
2	Matthias Dekan	
3	Zinka Grbo	
Risk Committee		Risk Committee
1	Markus Kirchmair	The Risk Committee meetings are convened by the chairman whenever it is necessary to pursue the Risk Committee activities and competencies, but at least quarterly.
2	Matthias Dekan	
3	Peter Jacenko	
Remuneration Committee		Remuneration Committee
1	Zinka Grbo	Whenever it is necessary to pursue the REMCO's activities and competencies, at least annually.
2	Elisabeth Geyer-Schall	
3	Markus Kirchmair	

**Manner of organization of the internal audit function and the head of internal audit:**



**Figure 1 Organisational chart of Raiffeisen BANK dd Bosna i Hercegovina as of 31.12.2023;**

The Internal Audit function is organised as a separate organisational unit that is functionally and organisationally independent of the activities it audits and independent of other organisational units of the Bank.

The Head of Internal Audit (as an independent function of the Bank) directly reports to the Supervisory Board of the Bank and thus their hierarchical status is clearly diversified from the hierarchical status of the management (level B-1) of other functions in the Bank.

The Head of Internal Audit prepares quarterly, semi-annual and annual reports and delivers them to the Supervisory Board and the Audit Committee and at least annually participates in the meetings of the bodies they report to.

The Internal Audit Charter defines the minimum requirements for information flow between local Heads of Internal Audit and the of the Supervisory Board/ Audit Board as follows:

- ✓ bilateral meeting between the Head of Internal Audit with the Supervisory Board Chairman on annual basis;
- ✓ the Head of Internal Audit must be present in person at the Supervisory Board meeting at least once a year;
- ✓ the Head of Internal Audit must be present in person at the Audit Committee meeting at least once a year;

As at 31.12.2023, the Internal Audit Department has, in addition to the head, 10 fully qualified staff members.

#### **Appointed audit company:**

The General Meeting of Shareholders of Raiffeisen BANK dd Bosna i Hercegovina, held on 30.06.2021, with the pre-approval granted by the Federal Banking Agency, selected

- Deloitte d.o.o. for the audit of the Bank's financial statements and its AML/CTF procedures as at 31.12.2021, 31.12.2022, 31.12.2023 and 31.12.2024,
- PRICEWATERHOUSECOOPERS d.o.o. Sarajevo for the audit of the information system of the Bank as of 31.12.2021, 31.12.2022 and 31.12.2023.

## 1.3 Remuneration Policy

**The bank is discloses information relating to the remuneration policy, including the practices relating to the employees whose professional activities have a significant impact on the bank risk profile, i.e. the following information:**

### **a) remuneration policies and practices for identified staff;**

If variable compensation is paid to the employees who have been defined as RBBH Fully Affected Identified Staff, the bonus payment (and any other variable compensation) shall comply with following regulatory requirements:

- ✓ at least 50% of the allocated variable compensation will be paid in equity instruments (if applicable);
- ✓ at least 40% of the variable compensation will be subject to deferral and paid out pro rata; in case of a High Bonus Amount at least 60% of the variable compensation will be subject to deferral and paid out pro rata
- ✓ retention of Equity Instruments;
- ✓ the Bonus Cap shall not be exceeded;
- ✓ any variable compensation, including the deferred portion, is paid or vests only if the Step-in-criteria are met.

A total variable compensation amount allocated with respect to a specific year which is either exceeding EUR 175,000 (gross) or exceeding 100% of annual Base Pay shall be in general considered as "High Bonus Amount" and shall be consequently subject to the 60% Deferral scheme.

In RBBH, the High Bonus Amount of EUR 175,000 will be converted into local currency based on the official exchange rate at the time of calculation/payment of the bonus/variable compensation.

In case the total Variable Compensation amount (including Incentive, Bonus and any other Variable Compensation if any) awarded in relation to a specific performance year to an individual member of the Identified Staff of RBBH (except Board members) does not exceed the total amount for Absolute Insignificance Threshold requirement of payment in Equity Instruments (including Retention), Deferral and ex-post incorporation of risk for variable remuneration (Malus or Clawback) may be subject to Neutralization based on the Proportionality Principle

In RBBH the Absolute Insignificance Threshold of EUR 50,000 is converted into the LCY based on the official exchange rate at the moment of calculation of the Variable Compensation and the Total Variable Compensation shall not exceed such LCY amount.

Neutralization based on Insignificance Thresholds may not be applied to Variable Compensation awarded, allocated or paid to Board members.

### **b) information on the decision-making process used to determine the remuneration policy, as well as the number of meetings held by the remuneration committee or the supervisory board where no remuneration committee has been established, which supervise compensations during the financial year;**

The Remuneration Committee (REMCO) has been established for providing support to specific areas within the competence of the Supervisory Board, in order to provide application and development of good bank management practices and efficient decision-making, in line with the Decision on the Internal Governance System in Banks, Law on Banks, Articles of Association of the Bank and the relevant RBI Standard Bylaws of the REMCO.

This Committee consists of the chairman, vice chairman and one member appointed and recalled by the Supervisory Board in line with the FBiH Banking Agency's regulations. Their term of office is four

years. Re-election of the REMCO members is possible. The Supervisory Board shall ensure that the Chairman is appointed from among the members of the Supervisory Board, and not from among the members of specialized units of the Bank, that he/she is an independent member of the supervisory board and that REMCO does not have entirely the same composition as another committee of the Supervisory Board.

The terms of office of the chairman, vice chairman and the members of REMCO correspond to their terms of office in the Supervisory Board. The Chairman shall convene the REMCO meetings, chair the meetings and manage the activities at REMCO meetings. If the Chairman is absent or prevented from attending a meeting, his/her rights and responsibilities shall be transferred to the Vice Chairman.

REMCO is, inter alia, responsible for competent and independent judgement on remuneration policies and practices in respect of the proper structuring of remunerations according to the risks taken; if changes are required it submits proposals to the Supervisory Board of the Bank. REMCO shall review the Remuneration Policy at least once a year.

REMCO had 4 meetings in 2023.

***c) information on the relationship between salary and performance, including objectives, the number of employees entitled to variable compensation by the remuneration policy, and how the variable compensation reacts on changes in the bank's performance;***

As a general principle, both past and future expected performance, as well as other internal and external factors (i.e. market benchmarks, budget availability), are taken into account when it comes to decisions on compensation.

Fixed compensation (i.e. individual salary adjustment) is influenced, amongst other factors, by the expected sustainable performance over a future period based on observation of the employee's behaviour, willingness for future development, commitment and the overall individual past performance.

Variable compensation is always influenced by the past performance achievements on individual, business unit and overall company level.

Any Variable Compensation program must reward and motivate to behaviours that drive specific company success and build shareholder value. The compensation philosophy must actively reinforce the RBBH's strategy to achieve its objectives.

Variable compensation is paid to an employee for their measured performance (Group, RBBH, team or individual).

Performance means results and behaviours – "WHAT" and "HOW" – according to RBBH's / Group performance management system. All Variable Compensation schemes therefore have to be linked to performance management or a comparable target setting system.

The pay-mix (portion of variable compensation to base pay) has to be balanced and must reflect the impact on risk taking and "compliance" behaviours of the employee (how much risk is an employee exposing RBBH to, how much is he/she tempted to ignore company rules).

The pay mix will vary depending on the employee's position and role (e.g. sales functions or functions higher in the hierarchy may have a higher variable to fixed ratio than service or support functions or functions lower in the hierarchy).

Unethical or non-compliant behaviour should overrule any good financial performance generated and should diminish the staff member's variable remuneration.

The performance management process provides a differentiation of individual performance levels (low performer to high performers) and the Variable Pay-out has to correspond with it.



Performance differentiation is a necessary element of a performance culture – high performers must be differentiated from average and low performers.

On RBBH level, financial measures for Variable Compensation should cover risk-adjusted profit and cost management related measures.

The Variable Compensation systems (with respect to measurement of performance and allocation within the institution) should reflect all types of current and future risk, and takes into account the cost of the capital and the liquidity required.

The performance measures for staff engaged in control functions (e.g. risk, audit and compliance functions) have to reflect specific requirements for these functions.

As a general principle, all employees, can be eligible for Variable Compensation.

There must be a difference in the variable compensation design and level, based on functions, relative value of the job (job grades) and hierarchy (e.g. the higher in the hierarchy, the higher the respective bonus amount).

The differentiation should follow internal relativity and local market practice.

Per function or category of functions (e.g. grades) a target bonus/incentive should be defined for a 100% performance level.

Based on organisational structure (e.g. grades) and job content, different roles / job families may be defined. Eligibility does not mean entitlement to a variable compensation payment; it is only the possibility of participation in a certain Variable Pay program.

The Remuneration Policy defines the possibility of participation in one of two types of variable compensations - annual bonus or incentive (pay-out under incentive schemes).

As of 31.12.2023, 543 employees were included in the incentive schemes, while 326 employees were anticipated for the annual bonus payment.

***d) information on the key features of the compensation system (model and structure) including information on the criteria used to measure the success and adjustment to risks, deferral policy and criteria for transfer of entitlements to compensations;***

RBI Group and RBBH use a simple and transparent Compensation system which reflects the Group's and RBBH business strategy and is in line with the regulatory requirements.

Compensation principles support the business strategy and the long-term company targets, interests and values, in particular through using the RBI KPI set and key cultural competencies.

Compensation principles incorporate measures to avoid conflicts of interests.

Compensation principles & policies are consistent with and promote sound and effective risk taking management practices and avoid incentives for inappropriate risk taking that exceed the tolerated risk of RBBH, in particular through KPIs and management processes (e.g. Performance Management process, Risk committees, Bonus pool approach).

By adjusting our strategy, our vision and compensations system, we strive to optimize risk at all levels, by restructuring the compensations system and limiting variable compensations to additionally promote efficient and effective risk management that leads to more precise cost planning from a multiple year perspective.

Compensation is driven by a functional structure and is performance related. Furthermore special regulations apply to the members of staff whose professional activities have a material impact on the risk profile ("Identified Staff").



Compensation is competitive and affordable and reasonable and is defined according to the relative value of the job, market value and practices.

The pre-condition for variable compensations is a performance management system by applying the RBBH Performance Management Procedure and setting targets for clear measurement of performance and/or results. Detailed rules are also provided in the currently valid RBBH Variable Compensations System and in applicable law.

The Bank is not allowed to disburse variable compensations, or transfer rights from the financial instruments, including the deferred portion of the compensations, if they are unsustainable and unjustified. Variable compensations shall be considered sustainable if the financial position of the Bank is not impaired, i.e. no losses were incurred during the period from determination of the compensations until their final disbursement. Variable compensations shall be considered justified if they are based on the profitability indicators of the Bank, business unit or the employee concerned.

A substantial portion, and at least 40%, of the variable remuneration component is deferred over a period which is not less than three to 5 years ("Deferral") and is correctly aligned with the nature of the business, its risks and the activities of the member of staff in question.

In case of a variable remuneration component of a particularly high amount, at least 60 % of the amount shall be deferred.

The length of the deferral period shall be established in accordance with the business cycle, the nature of the business, its risks and the activities of the member of staff in question.

The requirements for deferral are described in detail in item a).

***e) information on the ratio between fixed and variable remunerations;***

In accordance with the FBA Decision on the Internal Governance System in Banks:

- a) the fixed part of the remuneration of an employee performing control functions must not be less than two thirds of the total remuneration of that employee, and the total annual remuneration of that employee must not be less than the average remuneration of employees performing tasks of comparable scope, complexity and responsibility. This restriction refers to the member of the Management Board who is responsible for risk management area (CRO);
- b) for other employees, the bank shall set the ratio between the variable and fixed components of the total remuneration in such a manner that the amount of the variable component does not exceed 100% of the fixed component of the total remuneration.

According to the Group framework, as a general principle, if for any function the target variable part is above 75% of base salary or final pay-out is above 150% of base salary, it has to be approved by the RBBH's Supervisory Board.

In any case shall the target variable compensation not exceed any mandatory legal or regulatory thresholds (e.g. shall be fully in compliance with any provisions on the maximum permissible amount of the Total Variable Compensation component) and the allocation and payment of Variable Compensation to Identified Staff shall be made in compliance with the Bonus Cap rules.

***f) Information on the criteria for performance underlying the rights to shares, options or variable remuneration components;***

RBI Group uses a phantom stock plan ("Phantom Plan") based on the RBI share price to fulfil the obligation of granting and paying out variable remuneration in Equity Instruments. Deviation from this rule is only allowed if the use of RBI phantom shares is prohibited by binding legal provisions or binding regulations of a local lawmaker and if such prohibition can be documented (e.g. in the form of an external legal opinion or official written statement of the competent regulatory authority confirming that the use of RBI phantom shares contradicts a local legal regulation). For Fully Affected Identified

Staff of RBI Group, at least 50% of the annual awarded Bonus is to be paid in form of Equity Instruments (Phantom Shares).

In principle, 60% of Phantom Shares paid out upfront and 40% are subject to Deferral.

Note: In case of a High Bonus Amount at least 60 % of the Phantom Shares should be subject to Deferral.

Therefore, the 50% part out of the total annual awarded bonus payable in form of Equity instruments (Phantom Shares) is to be split into two parts (example based on 60% up-front payment):

1. 50% (Bonus part in Equity instruments)\* 60% (up front part) = 30% of total bonus to be paid in Up front Equity Instruments (Phantom Shares).
2. 50% (Bonus part in Equity instruments)\* 40% (deferred) = 20% of total bonus to be paid in Deferred Equity Instruments (Phantom Shares).

One year Retention period (or a longer period according to local law – see section 6.7.4.) applies to both parts, up-front and the deferred part of Phantom Shares, which means that the value of the Phantom Shares can be paid only after the expiry of one year after the end of the business year the bonus is awarded for (for up-front part) and after the expiry of one year after the end of each (pro rata) period of Deferral.

Following principles are to be noticed:

- ✓ Phantom shares are based on RBI share price,
- ✓ number of Phantom Share units is calculated dividing the respective bonus amount by the average RBI share price of the business year the bonus is awarded for,
- ✓ this results in the number of Phantom Share units corresponding to the upfront and also the deferred part,
- ✓ during the Deferral and Retention period, the number of allocated Phantom Shares units stays unchanged. After each Retention period the respective part of the Phantom Shares units (e.g. for up-front payment the Phantom Shares units allocated up-front) is multiplied by the average RBI share price of the previous business year and the resulting amount is paid in cash. The resulting cash amount will be the basis for taxation at payment date.

***g) information on the criteria and explanation of variable compensations that are allocated and paid in the bank;***

The variable compensation may consist of:

- ✓ annual bonus,
- ✓ payments under the Risk-Reduction Incentive,
- ✓ other special forms of variable compensation.

The annual bonus is a variable compensation which is based on an annual performance management process.

Payments under the Risk-Reduction Incentives schemes are cash payments directly linked to team/individual performance or results. Target setting and pay-out can only be on a monthly / quarterly / semi-annually basis. Annual payments are not allowed.

The Risk-Reduction Incentive Schemes must include quantitative as well as qualitative individual targets. Setting team targets are recommended.

When it comes to special types of variable compensations, the RBBH Compensations Policy defines the following:

- ✓ A retention bonus (e.g. a bonus solely granted for staying with RBBH for a pre-defined time) which as any other type of variable compensation should meet the requirements of reasonable and efficient risk management and reward policy;
- ✓ Guaranteed variable remuneration is not consistent with sound risk management or the pay-for-performance principle and shall not be a part of prospective remuneration plans; guaranteed variable remuneration is exceptional, occurs only when hiring new staff and where RBBH has a sound and strong capital base and is limited to the first year of employment.

**h) total rewards per critical business areas;**

Total Remuneration means all forms of fixed and variable remuneration and includes payments and benefits, monetary or non-monetary, awarded directly to staff by or on behalf of RBBH in exchange for professional services rendered by staff, carried interest payments, and other payments made via methods and vehicles which, if they were not considered as remuneration, would lead to a circumvention of the remuneration requirements of CRD.

Net remunerations in RBBH in 2023 per business areas were as follows(in KM 000):

Područje poslovanja	Neto naknade
FUNKCIJE JEDINICA CORPORATE POSLOVANJA	2,476
FUNKCIJE JEDINICA FINANSIJA I RIZIKA	6,668
FUNKCIJE JEDINICA OPERACIJA I IT	9,977
FUNKCIJE JEDINICA PODRŠKE, NADZORA, RIZNICE, FINANSIJSKIH TRŽIŠTA I INVESTICIJSKOG	4,951
FUNKCIJE JEDINICA RETAIL POSLOVANJA	15,969
<b>UKUPNO</b>	<b>40,041</b>

**i) the sum of all remunerations by staff categories, remuneration broken down by the bank's supervisory board, management and other identified staff of the bank;**

Red.br.	Kategorija	01.01.-31.12.2023.		
		Neto naknade	Prosječan broj zaposlenih	Broj zaposlenih sa 31.12.2023.
1	Ukupno zaposleni sa VSS (uključujući dr i mr)	28,379	873	860
2	Ukupno zaposleni sa VŠS	1,599	59	54
3	Ukupno zaposleni sa SSS	10,018	453	466
4	Ukupno ostali zaposleni	45	2	2
	<b>UKUPNO</b>	<b>40,041</b>	<b>1,387</b>	<b>1,382</b>

Red.br.	Kategorija	01.01.-31.12.2023.				
		Neto naknade	Neto fiksne naknade	Neto varijabilne naknade	Prosječan broj zaposlenih	Broj zaposlenih sa 31.12.2023.
1	Uprava	2,077	1,978	99	5	5
2	Ostali Identifikovani zaposlenici	4,828	4,400	428	74	71
3	Nadzorni odbor	150	150	-	-	7
	<b>UKUPNO</b>	<b>7,055</b>	<b>6,528</b>	<b>527</b>	<b>79</b>	<b>83</b>

Red.br.	Kategorija	01.01.-31.12.2023.			
		Neto varijabilne naknade	Novčana sredstva	Dionice	Instrumenti povezani sa dionicama
1	Uprava	99	99	-	-
2	Ostali Identifikovani zaposlenici	428	428	-	-
3	Nadzorni odbor	-	-	-	-
<b>UKUPNO</b>		<b>527</b>	<b>527</b>	-	-

The bank does not use, nor it has allocated discretionary pension benefits during the financial year.

**j) key parameters and arguments for the variable compensations system and other non-monetary benefits;**

Variable compensation is linked to performance or the results of individuals and/or teams and (where applicable) to the Group/RBBH performance.

Management Board Members are eligible for variable compensation in the form of Annual Bonus for a particular year.

The final bonus amount is based on quantitative and qualitative Group/RBBH/team/individual goals. The target setting and pay-out have to be on an annual basis. The individual overall performance rating is used as a precondition for bonus payment, which means a minimum performance rating "on standard" has to be achieved to receive an annual bonus.

Furthermore, any bonus allocation and payment can only be done if the following set of step-in-criteria is fulfilled:

a) Regulatory step-in-criteria for variable compensation:

Variable Compensation, including any deferred portion is allocated, paid or vests only if the following criteria are met (Step-In-Criteria):

- ✓ This not prohibited on RBI Group and/or RBBH level based on a decision of the competent regulatory authority (e.g. by European Central Bank for RBI Group).
- ✓ This is sustainable according to the financial situation of the RBI Group and the financial situation of the RBBH as a whole, And justified according to the performance of the Group, the RBBH, the business unit and the individual concerned.
- ✓ The minimum requirements as applicable under local law for RBBH to allocate or pay variable compensation are achieved.
- ✓ The legally required RBI Group CET 1 ratio is achieved, all CRR and CRD capital and buffer requirements of RBI Group are fulfilled and further the allocation, pay-out or vesting is not detrimental to maintaining a sound capital base of RBI Group.
- ✓ RBBH has achieved the minimum economic and regulatory capital base required in accordance with applicable law and further the allocation, pay-out or vesting is not detrimental to maintaining a sound capital base of the RBBH.

Any bonus payment may be reduced or cancelled if any of the additional criteria and pre-conditions for any allocation and/or payment of variable compensation – as from time to time defined by the Management Board, Supervisory Board or General Meeting of Shareholders by taking into consideration all types of current and future risks, expected losses, estimated unexpected losses, stressed conditions associated with the institution's activities as well as the cost of the capital and the liquidity required, etc. are not met.

- ✓ Performance Step-in-criteria for variable compensation influenced by Group performance:  
Achieving CET 1 interim goal of RBI group defined on an annual level and 50% consolidated mid-term return on equity (ROE).

- ✓ For variable compensation influenced by individual RBBH performance:

50% RORAC Hurdle

\*If the budgeted RORAC is below 50% RORAC Hurdle than NPAT will be used as step-in criterion.

- b) Individual Step-in Criteria:

Individual performance rating "on standard" is the individual step-in criteria for bonus allocation.

All other employees other than Management Board members and who are not eligible for the risk-reduction incentive scheme may be entitled to the annual bonus.

The final bonus amount is based on quantitative and qualitative Group/RBBH/team/individual goals and the target setting and pay-out have to be on an annual basis

Variable compensation, including any deferred portion, is awarded, paid or given only in case of fulfilment of the following legally defined eliminating criteria:

- ✓ This is not prohibited on RBI Group and/or RBBH level based on a decision of the competent regulatory authority (e.g. by European Central Bank for RBI Group).
- ✓ This is sustainable according to the financial situation of the RBI Group and the financial situation of the RBBH as a whole, and justified according to the performance of the Group, the RBBH, the business unit and the individual concerned.
- ✓ The minimum requirements as applicable under local law (FBiH and BiH) for RBBH to allocate or pay variable remuneration are achieved.
- ✓ The legally required RBI Group CET 1 ratio is achieved, all CRR and CRD capital and buffer requirements of RBI Group are fulfilled and further the allocation, pay-out or vesting is not detrimental to maintaining a sound capital base of RBI Group.
- ✓ RBBH has achieved the minimum economic or regulatory capital base prescribed by the FBA, as required in accordance with applicable law. Additionally, local minimum regulatory ratio CET 1 must be generated without the capital buffer.
- ✓ The following additional local requirements are met:
  - a) RBBH shall ensure that none of the variable compensations prevent it from maintaining or increasing its capital (capital increase from profit).
  - b) In case the regulatory requirements regarding its capital or liquidity cannot be properly met, RBBH must apply a more conservative policy on variable compensations, which includes the following: (a) defining the variable compensation limit in form of a percentage (%) of the total net profit for the current fiscal year; and/or (b) recognizing the net profit and retained earnings into equity.

Payments under the Risk-Reduction Incentives schemes are cash payments directly linked to team/individual performance or results. and shall fulfil the following criteria:

- ✓ They do not provide incentive for (potential) risk assumption and have (exclusively) positive effects on RBBH's/RBI Group's risk, profit and capitalization;
- ✓ Eligible employees in Risk-Reduction Incentives are not Identified Staff and their targets are not risk-related;
- ✓ Such reward systems are market standard and equivalent level of competition should be ensured;
- ✓ The Employees who are entitled to incentives have low salaries and thus these rewards are a stable source of income for them. The incentive of reduced risk represents a significant part of the total remuneration package;
- ✓ Cancellation of these payments could potentially lead to the increase of operational and business risks.

Benefits are programmes to supplement the cash compensation and provide security for employees and/or their families. There are different categories and RBBH offers the following benefits to its employees: accident insurance while on business trips abroad, events with focus on strengthening team spirit, new-year presents for children, presents for marriage, team building etc.

***k) number of employees whose rewards in a single financial year amount to/ exceed 100,000 KM.***

8).

## 1.4 Scope of application of regulatory requirements, on solo or consolidated basis

**The Bank shall disclose information regarding the scope of application of the regulatory requirements on an individual or on a consolidated basis.**

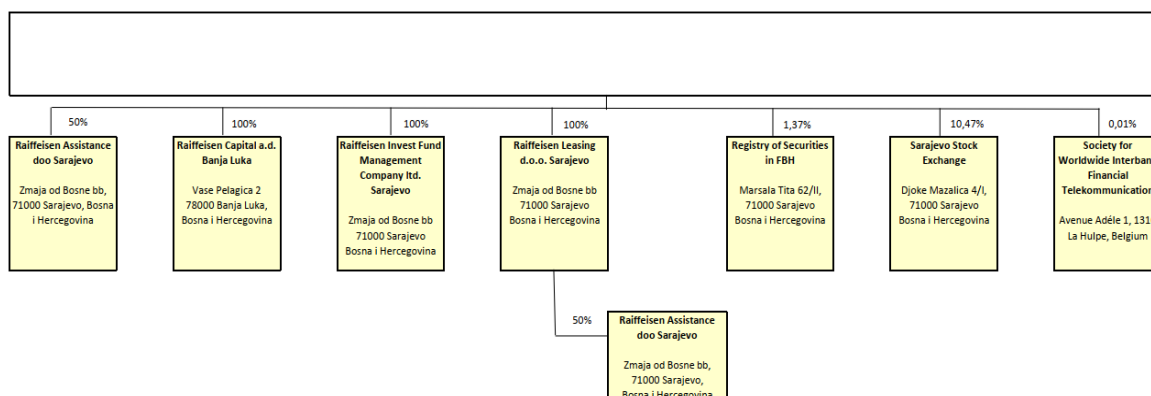
During its regular reporting process and with respect to Paragraph (2), Article 6 of the Decision on Consolidated Banking Group Requirements (hereinafter: the Decision), the Bank as the ultimate parent company of the group, is required to submit the following consolidated data to the FBA :

- (1) Consolidated audited financial statements of the banking group;
- (2) External auditor's opinion regarding consolidated financial statements;
- (3) Consolidated regulatory financial statements, balance sheet, income statement, reports on capital and capital requirements of the banking group, large exposures, liquidity, all on quarterly basis.

The Bank has identified itself as a parent company of a banking group, and relevant data regarding reports on capital and capital requirements of the banking group, large exposures, liquidity and open FC position (defined under series of new regulations) are being prepared by the Bank on unconsolidated basis.

As of the reporting date 31.12.2023, the Bank as the parent company of the banking group consisting solely or mostly of financial sector entities and where at least one bank has the status of the ultimate parent company or where several subordinate companies have the subsidiary status, and with respect to:

Pregled vlasničke strukture RBBH 31.12.2023 (u %, uključujući manjinske dioničare)



**Figure 2 The RBBH ownership structure as of 31.12.2023 (in % including minor shareholders);**

According to Article 7 of the Decision, the ultimate parent company of the banking group does not have to include an affiliate of a financial subsidiary in its consolidated financial report if the affiliate's balance sheet sum is lower than 1% than that of the parent company or subsidiary.

The Bank asked the FBA on 29.03.2019 to be exempt from creating the consolidated financial reports required by Article 6 (3) of the Decision on the Requirements for Consolidated Banking Groups. The reason for this is that Raiffeisen Leasing doo Sarajevo, as per the Leasing Law, relevant regulations, Decision on Leasing Companies Reporting Requirements and its amendments, has been reporting to the regulatory authority using prescribed forms and within defined deadlines regarding its balance sheet, income statement, list of shareholders with a holding above 5%, structure of receivables under financial and operational lease, overview of ten largest lease customers and its funding sources, as well as all other data. This is to say that it has been providing the FBA with an insight into its financial indicators. The Bank, as its 100% owner, regularly controls, oversees and monitors operations of Raiffeisen Leasing d.o.o. Sarajevo.

The FBA issued a ruling on 22.05.2019 no. 04-1-3-938-3/19 granting Raiffeisen BANK dd Bosna i Hercegovina approval to exclude data on its subsidiary Raiffeisen Leasing d.o.o. Sarajevo from its consolidated financial reports, as they are not relevant for determining the financial position of the banking group, thereby the requirements of Article 126 (3) b) of the Banking Law (FBiH Official Gazette 27/17).



## 1.5 Risk Management Strategy, Objectives and Policy

***The Bank discloses data and information on the strategy and policy for management of all individual risks it had been or could have been exposed to during its business operations:***

**a) Short description of the strategy and policies for every individual risk;**

The Bank has defined a Risk-Taking and Management Strategy that puts forward binding standards and procedures of risk-taking and managing in the Bank, and established a link between risk management and business activities by setting goals for risk management based on the medium-term business goals and the established environment for making business decisions related to risks.

The risk strategy is aligned with the set business objectives, business strategy and policy and the Bank's long-term economic interests, as well as with the Agency's regulations. The risk strategy describes the planned business structure, strategic development, and growth under a process-, methodology-, and organisation- based view on risk and risk factors.

This is an important instrument for the Bank development as it establishes a connection between business orientation and orientation towards risks. The subject connection is expressed through a defined Risk Appetite Framework and specific risk goals which arise out of the medium-term business goals and thus shape future business risk-related decisions. The budgeting process, done once a year, is performed before the Strategy review (the budget is prepared for the next three business years). In line with expectation of owners and strategic planning, the strategic goals are defined (e.g. targeted CET1, ROE etc.)

The Bank has defined a Risk-Taking and Management Policy which ensures fulfilment of goals defined by the risk strategy.

Based on the adopted Risk Strategy and Risk Policy, and in accordance with the principle of proportionality, the bank ensures the establishment of formal procedures in the risk management process, ensuring that they contain sufficiently precise and detailed level of instructions for work and descriptions of work process, including rules and guidelines regarding organisational, operational and procedural requirements, an internal system for assigning tasks related to the decision hierarchy, competencies and responsibilities of staff and implementation of work procedures, rules for monitoring established restrictions for limiting risk exposure, and acting in case of identified irregularities and deviations from established procedures.

Thus, the Risk-Taking and Management Strategy and Policy are aligned with the Group's business strategy and policy of the Bank, and describes the planned business structure, strategic development, and growth under a process-, methodology-, and organisation- based view on risk and risk factors. It represents a cornerstone of recognition, measuring, mitigating, limiting, controlling and monitoring the risks inherent in the banking business, and also ensuring capital adequacy and liquidity.

The main goals of the risk-taking and risk-management strategy are:

- ✓ strengthening understanding of values and goals of the Bank, and governance of risk management;
- ✓ promoting risk awareness and assistance in their identification;
- ✓ increase of transparency by announcing goals related to risks and defining responsibility for risk management.

Another purpose of the Risk-Taking and Management Strategy and Policy is to meet the regulations of the internal capital and liquidity adequacy assessment process (Decision on ICAAP and ILAAP) by following the basic principles on ICAAP and ILAAP prescribed by the regulator. The Strategy and the Policy present a mid-term risk and capital management plan with the objective to achieve a proper quality in risk management.

The following guide the Bank in identifying, measuring, mitigating, limiting, controlling and monitoring risks:

- ✓ Preserving values and support to changes to ensure continuous long-term growth and development
- ✓ Active approach to business activities by constantly meeting the forward-looking principle;
- ✓ Valuing the deep understanding of the risks related to ESG and creating necessary tools for their mitigation for ensuring transfer of our customers to the low-carbon economy and sustainable portfolio in a long run for all stakeholders;
- ✓ We apply the most contemporary methods to optimize risk-adjusted return on equity;
- ✓ Our methods are consistent and transparent;
- ✓ Cooperation is the key to success;
- ✓ Understanding the business model and knowing where profits are generated;
- ✓ We know our stakeholders' needs and strive to excel their expectations;
- ✓ Focusing on the essential and constantly seek to improve ourselves;
- ✓ Establishing a consequent and understandable risk and performance management framework;
- ✓ Reducing non-performing assets and managing inflows to maintain the value of capital.

Based on these mission statements, we distinguish fundamental risk taking and management principles in the Bank:

- ✓ Risk Awareness;
- ✓ Prudent Risk Taking;
- ✓ Advanced Risk Management;
- ✓ Fulfilment of regulatory requirements;
- ✓ Integrated risk view;;
- ✓ Uniform risk management methods;
- ✓ Consistent risk treatment;
- ✓ Independence of Risk Management and Control Functions;
- ✓ Regular review;
- ✓ New business (new products and new markets).

In essence, we define three general objectives of risk management and controlling, whereby it is the Bank's main objective to maintain adequate level of capital and satisfactory liquidity:

- The functions of risk management and controlling ensure that the risk-taking capacity is in line with the Risk Appetite Framework, and providing support to senior management in order to ensure adequate capital and liquidity management.
- Risk management functions contribute to an efficient allocation of resources to improve the risk/return ratio adapted to risks.
- The risk management and control functions are important for maintaining the target financial risk profile and support to risk mitigation (including the development and implementation of the strategies and operational plans for handling non-performance loans and risk mitigation activities such as protection, diversification and securitisation), as well as an active approach to generating income and profit by assessing the fair value of risks.

The bodies of the Bank (Management Board and Supervisory Board) take over all responsibility for business operations of the Bank, including the responsibility for decision-making, supervision and implementation of the internal management system and risk management system, and they are

responsible for an adequate and active involvement into the risk management process in the Bank, including dedication of time and resources for discussing and managing the risks of the Bank .

All risk and capital targets, in general, are approved by the Management Board and the Supervisory Board of RBBH.

the management board proposes the strategies and policies to be adopted by the supervisory board and ensures their implementation at all decision-making levels and all business activities of the bank, and reports any non-compliance to the supervisory board ,

The supervisory board approves the strategies and policies and ensures that they are independently reviewed by internal audit..

Although the Supervisory Board delegates authorities, it retains ultimate responsibility for these activities.

The Bank performs annual assessments of all risks that it is, or might be exposed to in its business, and based on this risk assessment determines its aggregate risk profile. Furthermore, for all key risks determined by assessment the Bank determines in ICAAP the internal methodologies for calculating/assessing internal capital requirements, plans and ensures sufficient available capital to cover any losses arising from them. When determining methodology for measuring/assessment of internal capital requirements for material risks, the Bank takes into account complexity of its business activities and the political and economic environment. The Risk Appetite Framework is a tool for setting and limiting the level of overall risk which the Bank is ready and able to take when implementing its strategic and business goals, and also sets limits for risk exposure and monitors the portfolio development, according to planned capital and liquidity.

Therefore, risk assessment is an important part of Bank steering according to the ICAAP and ILAAP framework, as it gives both qualitative and quantitative risk profile of the Bank, and is thus the starting point for capital and liquidity management.

The results of the annual Risk Assessment provide an overview of the risks the Bank is or might be exposed to, classifying risks into key risks (in which event the Bank shall allocate internal capital requirements during ICAAP) and immaterial risks (while the risks which are not applicable to the Bank are not specified hereunder):

**The Annual Risk Assessment 2023/24 has determined the following material risks:**

- ✓ Sub-categories of credit risk: Interest-induced credit risk, Migration risk, Concentration risk, Residual risk
- ✓ Sub-categories of liquidity risk: Liquidity funding risk, ST liquidity risk and concentration risk of funding sources.
- ✓ Operational risk - general and sub-categories of operational risk: Outsourcing risk, cyber risk, information and communication technology risk, Internal and external frauds risk
- ✓ Interest rate risk in the banking book: Deviation risk
- ✓ Sub-categories of other risks: Macroeconomic risk (B&H), Strategic risk, Equity risk, Reputation risk,
- ✓ Mutual risk concentrations: Credit risk / Capital risk

**The Annual Risk Assessment 2023/2024 has shown that the following risks are immaterial for the Bank:**

- ✓ Sub-categories of credit risk: Currency induced credit risk, Free delivery risk (Treasury and Markets deals), Settlement Risk (Treasury and Market deals), Counterparty risk (Treasury and Market deals), Country Risk (cross-border transactions) and sub-categories of this risk, Transfer risk and Political and economic risk.
- ✓ Sub-categories of liquidity risk: Market liquidity risk and Intra-day liquidity risk (sub-category of Short-term liquidity risk)
- ✓ Sub-categories of market risk: Currency risk, CVA risk, Position risk, Credit margin risk

- ✓ Sub-categories of operational risk: Conduct risk, Employee relations and safe work environment risk, Risk of damage on material assets, Process implementation, delivery and management risk, Model risk, Compliance risk, Legal risk, Terrorism financing/ money laundering risk, Staff risk
- ✓ Interest rate risk in the banking book: Basis risk, position risk
- ✓ Sub-categories of other risks: Profitability risk (Earnings risk), Management risk, Risk of excessive leverage, Investment risk, Business risk, ESG risk, Real estate risk, System risk
- ✓ Mutual risk concentrations: General, Credit risk / Investment risk.

All risks Estimated as material are being managed actively. Also, the Bank actively manages other risk categories to minimise the risk. Risk management (as a business function) is an integral and inseparable part of overall business management in the Bank.

In addition to legal and regulatory requirements, the functions take into account the particular nature, scope and complexity of business activities and resulting risks in the risk and capital management. Recognition, measurement, mitigation, restriction, controlling and monitoring of all material risks and assessment of business activities through return on risk-adjusted capital is ensured in all management levels.

**Stress testing is an integral part of the risk management process.** With the stress testing, the Bank reviews its resistance and considers the need for improvement for more successful management of crisis and adverse business conditions during a crisis period. The Bank regularly, at least once a year, implements comprehensive stress testing for all material risks which have quantitative treatment for ICAAP and ILAAP in accordance with the obligation defined by Article 24, paragraph (1) of the Decision on Internal Governance , in Banks.

The Bank is guided by the principle of proportionality under which the stress tests should include the most important areas of the bank's operations and events that may be particularly detrimental for the Bank, including not only the events resulting in losses for the Bank but also the events which can harm its reputation.

The bank's methodology for stress testing and selection of scenarios shall cover all material risks and business areas and integrate them so as to cover all balance sheet and off-balance sheet assets of the Bank and already incurred and potential risks, taking into account their interrelationships and all relevant risk factors, i.e. correlations between them, their changes in crisis periods, and the position of the economic cycle in which the Bank is located, where the appropriate level of detail shall be used in line with the purpose and type of stress testing, i.e. risk profile, business strategy and business model of the Bank.

The selected scenarios are forward-looking, including a whole range of possible events that are quite probable, as well as the events that are less probable and present a threat for the Bank's sustainability. Sufficiently long periods have been covered depending on the characteristics of the risk, exposure portfolio, purpose of the test etc.

Special attention is focused on the following: systemic review of techniques used to reduce risks (credit protection, netting, use of collateral, etc.) and assessment thereof in situations of market stress, complex products, i.e. structured financial instruments, etc.

When defining the risk materiality, the Bank considers the following:

- The bank's business model (business areas, core business activities)
- List of key risks according to the annual risk assessment
- Baseline scenario of the budget for the period ahead , i.e. the budget for the period ahead
- Forecast of the organisational unit Research, Strategy and ESG Management for the period ahead.

- Financial results for the reference data for the stress test development (from internal reports of the organisational unit Accounting, Taxes and Financial Reporting and Risk Controlling, regulatory reports, risk assessments etc.).
- Information and discussions of the stakeholders regarding adverse events, possible unplanned expectations and deviations from the budgeted values in the forthcoming three-year period, risk trends
- The parent bank's stress testing scenarios that are analysed from the viewpoint of the mentioned input parameters, from which the scenario parts or scenarios are taken over that are appropriate for the risk profile, business model and business environment of the bank. If the bank determines that its parent bank's scenarios are not appropriate for its risk profile and business model, and the business environment, the bank shall define its own scenarios for the stress testing needs.
- Findings of internal audit in the stress testing area
- SREP Report
- Other expectations of the regulator in terms of banks' activities which will have implications regarding stress test implementation..

The Bank has an internal regulation by which it has defined the stress testing process for ICAAP and ILAAP needs. The responsibility for the stress testing process for all material risks rests with Risk Controlling.

The Bank uses stress-testing results to identify appropriate measures regarding risk-mitigation methods, contingency plans, capital and liquidity plans and, and other measures within the range of possible stress conditions. The use and integration of stress testing results are an integral part of the Bank's ICAAP and ILAAP, as the Bank is using the stress testing results in its internal capital adequacy assessment by including the test results for material risks in the calculation of overall internal capital requirements and for the assessment of liquidity requirements.

The takeover and risk management policy defines the stress-testing process that comprises the following steps:

1. Selection/defining stress scenario (including macroeconomic indicators) and approval of scenarios by the competent bodies
2. Collection of data necessary for the stress testing
3. Calculation of stress testing effects and consolidation of the results
4. Quantification of stress-test effects on regulatory capital and regulatory liquidity ratios and other indicators and proposal of measures and actions in case of unfavourable stress test results
5. Documenting results and measures and approval by the decision-making bodies
6. Implementation of potential measures and monitoring their realisation degree (follow-up)
7. Reporting to the regulator on the stress testing results, reporting to competent bodies on the regulator's findings and reporting on their implementation status

Bank's integrated stress testing methodology is primarily based on scenario assessments, where the Bank defines possible negative impacts based on a certain number of scenarios. It is also based on reverse stress testing which starts with the known stress testing results, and examines events and unfavourable circumstances which would led to such result for the Bank.

The banks also includes sensitivity assessments into the Integrated Stress Testing Report, for an overall understanding of the Bank's sensitivity to changed external factors.

According to the Stress Testing and Risk Management Policy, the stress-testing methodology is based on the following elements:

- Regulatory framework
- The scope and complexity of the bank's business
- The Bank's risk profile (risk materiality and capital requirements)
- The regulator's findings for previous tests
- Group requirements
- Appreciating possible disturbances of the financial system

During the stress testing, the bank is guided by these key assumptions:

- Static balance sheets, i.e. the assumption of constancy of balance sheet positions for credit, market, liquidity and operational risk, including existing and potential on-balance and off-balance risks
- The basis of data include regulatory reports for the reference date for preparing stress-test
- Business plan and Capital plan
- The Bank's position on the stress testing reference date and key indicators

The stress testing methodology is in the cyclic development process, which includes:

- Regular revision which is the result of risk materiality assessment and improvement of testing techniques
- Taking into consideration findings of supervisory assessment

Stress testing methodology also consists of: portfolio and environment assessment, identification of the risk factors, constructing and initiating the stress test, calculating the effects on the Bank's Balance Sheet and Profit & Loss Account, capital and liquidity positions, impact to relevant indicators of the financial position and reporting the results for the purpose of defining corrective measures and activities regarding the business vulnerability findings and reviewing the stress test. Additional methodological details for individual material risks are specified in the titles dedicated to individuals material risks.

Below is a description how individual categories of material risks and market risk is managed, although this risk type was not assessed as material in the annual risk assessment, but is covered in Pillar 1 i.e. . Minimum capital requirements in local regulations.

## **Credit risk**

Credit risk is an integral part of the banking business and one of the key risks in any of the bank's operations. According to the Risk Catalogue, which is an integral part of the Risk Taking and Management Strategy, Credit Risk is the risk of loss due to non-fulfilment of the debtor's financial obligation to the Bank. Credit risk includes the following risk sub-categories the Bank is or might be exposed to:

- Migration Risk (the risk of migration and delay) is the risk of loss due to changes in the fair value of credit exposure as a result of customer rating change.
- Concentration risk shall be understood to mean any individual, direct or indirect exposure to one person or a group of related persons or a set of exposures interconnected by common risk factors, such as the same economic sector, geographical area, same-type deals, same-type products or implementation of credit risk mitigating techniques, including in particular the risks associated with large indirect credit exposures to a single collateral provider, which may lead to losses that could threaten further operation of a bank or a materially significant change in its risk profile. Concentration risk refers to the entire credit portfolio.



- Residual risk is the risk of loss that arises if the recognized techniques of credit risk (collateral) reduction used by the bank are less efficient than it had been initially expected, or their implementation has insufficient impact on reduction of the risk to which the bank is exposed.
- Counterparty risk denotes a risk that a contracting party does not settle the transaction due to a deterioration of credit quality of another contracting party in a derivative transaction (mostly accounts for derivatives or other similar financial instruments).
- Country risk (crossborder transactions) is the risk that refers to the country of origin of the entity to which the bank is exposed, i.e. the risk of possible negative effects on financial result or capital of the bank due to inability of the bank to collect its receivables from this entity for reasons arising from social, political, economic or social situation in the country of origin of that entity. Country risk includes political and economic risk and transfer risk.
  - o Political and economic risk means a possibility that losses are generated due to the fact that the bank is prevented to collect the receivables due to limitations defined under the regulations/acts of the state bodies and other authorities from the debtor's state of origin, as well as general and system situation in the country.
  - o Transfer risk means the possibility of generating losses due to the bank being prevented from collecting its receivables denominated in a currency that is not the official currency of the country of origin of the debtor, specifically due to the restrictions of payment of liabilities towards creditors from other states in a specific currency that are imposed by the enactments of state and other authorities from the country of origin of the debtor.
- Currency-Induced Credit Risk is the risk of loss to which the bank approving FCY/currency-clause facilities is additionally exposed. The risk arises from the debtor's exposure to currency risk.
- Interest induced credit risk is the risk of loss which may be incurred by a bank which takes credit risk from exposures connected to variable interest rate.
- Free Delivery Risk is the risk of loss by the bank when the payment of securities, currency or goods is made before receipt, or the delivery was made before the payment, or if the payment or delivery were made outside expected time schedule.
- Settlement Risk is a risk of negative effects on the financial result or capital of the bank at the contracted settlement price for specific debt, foreign currency or commodity instrument and its present market value.

The Bank has implemented the credit risk management framework documented via written internal documents. It contains a reporting system, clear structure and allocation of roles in the credit risk management system, separate functions of risk assumption and management.

The Risk Taking and Management Strategy and Policy includes all sub-categories of credit risk the Bank is or might be exposed to, especially the following significant sub-categories: interest induced, migration, residual and concentration risk.

The credit risk taking and management strategy with all identified sub-categories includes the following:

- Development of a proper environment for credit risk management;
- Constant development of a strong credit culture;
- Continuity in the strategic approach in order to be sustainable in the long term and through different economic cycles;
- Adequate and efficient communication of the credit risk strategy and policy across the bank. All relevant staff has to clearly understand the bank's approach when approving and managing

- credit risk and have to be responsible for adherence to internal policies and procedures;
- Identification of target markets and total characteristics that the bank would like to achieve in its credit portfolio including different levels of diversification and tolerance of concentrations.
  - Viable and responsible investments by applying ESG (Environmental, Social and Governance) factors.
  - Applying adequate policies and procedures for securing loans to mitigate credit;
  - Minimising the negative consequences of investment with wrong credit quality that is made via:
    - lending in line with the applicable policies,.
    - continuous active and professional customer relationship management
    - early recognition and active management of increased credit risk and
    - correct credit risk classification
    - defining adequate strategies for non-performing loans
    - reasonable and sound programme for collection of non-performing loan facilities in case of evident or prospective loss for the Bank.

Credit risk management is to ensure maintenance of an adequate risk level which underlies a sustainable development considering the macroeconomic environment.

The credit risk management function is generally liable for:

- Systematic approach to credit risk management and optimisation of business, regional structure and product structure on the loan portfolio level in order to mitigate credit risk;
- Improvement of competitiveness through precise assessment of acquired risks and implementation of credit risk management measures, including maintenance and possible reduction of recognised credit risk;
- Sustainable definition and upgrade of the product catalogue (introduction of complex products) based on an adequate assessment and management of acquired risks and especially the credit risk.
- Impartial, accurate and reliable risk assessment grounded on facts and statistics.

General principles of credit risk management include:

- Risk awareness and understanding;
- Business segment liability;
- Segregation and independence of the risk functions;

Credit risk management is regulated by the applicable credit policies which are prepared annually. Credit Risk Management Retail and Credit Risk Management Corporate, SE, FI and LRG create credit policy proposals for individual business segments which are submitted for approval to the Bank's Management Board and Supervisory Board.

RBI Group network directives and credit policies provide unique guidelines and principles of credit policies for all network banks in order to form a well-diversified risk profile. Based on credit policies at the Group level which define main portfolio indicators and main principles/criteria of lending, the Bank defines the following credit policies

- Non-retail credit policy, which includes segments of Large, Medium, Small companies, Financial Institutions, Governments and Local Regional Governments, and
- Retail credit policy for segments Retail and Micro companies.

The Bank specifies the following in its credit policies:

- lending criteria / underwriting approval rules,
- portfolio and industrial indicators with quantified limits and restrictions (so-called caps) and target or limit portfolios,



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for the purpose of determining appropriate risk volume which the bank can absorb.

Credit risk management is performed through:

- implementation of the analysis, customer rating and risk assessment process when approving facilities;
- Decision-making on approval of facilities based on clearly defined criteria in the credit policies, including cross-border transactions;
- Active portfolio monitoring and asset-classification recommendation;
- Maintenance of exposure by types of deals, products, customers and industries at desired level (which is defined through the annual budgeting process, credit policy, limits, etc.);
- Maintaining probability of default (PD)/ Default rate at acceptable level;
- Maintaining security instruments;
- Implementation of credit risk mitigation techniques (security instruments are one of the key strategies and measures used to reduce exposure to credit risks);
- maintenance of portfolio coverage with acceptable collateral at satisfactory level (minimum coverage depending on customer rating is defined annually through respectable credit policy, and it is kept at the target level by controlling exceptions from the credit policy, continuous monitoring of values and collateral acceptability elements);
- Implementation of collection strategy, as well as recovery of problem facilities by applying techniques of active management of problem facilities in all stages of default, to which special attention is paid in separate organizational units Special Exposure Management Non Retail & SE and Collaterals and Collection Retail;
- Maintenance of final loss given default at satisfactory level via adequate collateralisation and provisioning.

The Bank manages credit risk at the level of individual loan and customer (the level of transaction) and at the portfolio level, which is defined through the relevant policies, programs, instructions, tools and procedures for credit risk management which ensures their implementation.

Risk management, both quantitative and qualitative approaches, is being constantly improved by developing and improving processes, methods, tool and system support. The responsibility for credit risk management rests with the Credit Risk Management Retail and Credit Risk Management Corporate, SE, FI and LRG.

The process of approving loan application is based on unified rules and principles. Credit policies define clear rules, principles, approval authorisations for making decision on credit application approval, as well as other relevant references of the loan application approval procedure. The facility approval process is supported by the IT system.

The retail credit policies define maximum indebtedness of each individual and/or a group of connected customers, maximum amount of loan covered by real estate vs. the amount of the real estate.

In the non-retail business segment, not a single application is approved without prior analysis of the loan application i.e. risk analysis. This approach is applied consequently, not only at facility approval, but also at the increase of existing limits, extension, renewal of and when changing the customer risk profile compared to the one at initial facility approval.

Furthermore, such approach is also used when setting counterparty limits in the operations of Treasury and Markets, other credit limits and participations.

During the repayment of the approved loan there may be some difficulties in repayment of the defined amount i.e. loan facilities may be transferred to the default status, which requires special attention, activities and measures by the Bank. The responsibility for the above rests on Special Exposure Management Non-Retail & SE & Collateral Management and Collection Retail. More details about the placements in the default status can be found below.

By annual adoption of the Risk Appetite Framework (RAF), the Bank sets limitations of the level of overall risk which the Bank is ready and able to take when implementing its strategic and business goals, and also sets limits and monitors the portfolio development. In this way, the Bank has established the risk management framework in a way that it owns the management, control and reporting system through a clear and structured division of roles in the risk management system. Further, interconnection between RAF and the Planned recovery plan Recovery, i.e. indicators has been established since key thresholds of the takeover of Risk Appetite Framework are harmonised with the monitoring of indicators' thresholds.

The Bank has defined the limits as the measure of the credit risk appetite in the internal document Risk Appetite Framework.

For credit risk monitoring, system limit is implemented with the primary focus on the following:

- Internal limits (at customer level, group)/Risk Limits;
- Portfolio limits;
- Statistical scorecard and behavioural rating models;
- Financing limits against available techniques of credit risk reduction.

Portfolio indicators are defined by different dimensions of exposure and risk-weighted assets volume (by industries, products, collateral coverage, rating score etc.). Also, limits and CAPs are specified by different dimensions, and defined risk limits restrict maximal exposure for , e.g. group of customers.

The relevant organisational units of the Bank have established appropriate systems of regular monitoring and reporting on credit risk to the members of the Management Board, Supervisory Board, Federal Banking Agency and other relevant bodies. Besides defined set of regulatory forms of Credit Risk Report, the Bank has also established the internal system of regular reporting about the accomplishments and projections of credit risk indicators. If necessary, the Bank prepares ad hoc reports and presentations on performance, changes and impacts on future developments of assets quality and credit risk indicators.

## **Concentration risk**

In the Annual Risk Assessment 2023/2024, the Bank has assessed concentration risk as a sub-categories of credit risk as a significant risk.

Credit risk concentration is the result of credit exposure to one legal and/or natural entity and/or group of connected entities, legal and/or natural entities and/or a group of connected entities in the same industry branch, geographic region and/or credit risk class and legal and/or natural entities and/or group of connected entities of the same or similar business, the same of similar credit risk mitigation method, including the risks associated with high indirect credit exposure to a single collateral provider that may result in such losses that could threaten the continuity of the bank's business or material changes in its risk profile.

The strategy for managing concentration risk primarily consists of limiting it by defining concentration limitations. In general, limits for credit risk concentration are set for large credit exposures as laid down in laws and regulations in both Bosnia and Herzegovina and Austria, and other valid internal regulations such as defined PI and Corporate Credit Policies. In accordance with the effective decisions of the FBA (Decision on Large Exposures, Decision on Credit Risk Management and Recognising Expected Credit Losses, Decision on Business with Closely Connected Entities of the Bank, the Decision on Temporary

Measures to Limit the Bank's Exposure) and the Law on Banks, the Bank monitors and analyses the levels of overall exposure to credit risk.

In accordance with laws and regulations of Bosnia and Herzegovina, the Bank has to monitor and analyse the level of total credit exposure to one legal or natural entity and/or group of connected entities, in a way that covers outstanding principal, interest, fees all liabilities that the Bank has assumed on behalf of and/or for account of the legal or natural entity, i.e. the sum of all incurred and potential credit exposures to one legal and/or natural person or group of connected entities.

In an effort to minimise its credit risk concentration, the Bank performs activities on loan Portfolio management and diversification. Credit policies are defined for the Retail i Non-Retail segments for Retail, Micro customers, Corporate, Small Enterprises, Financial Institutions, Public Sector/Sovereigns, and on the basis of the defined limits of internal limits, monitoring, measurement, diversification and management of credit risk concentrations are carried out at the operational level.

Within adopted credit policies for individual segments, the Bank defines following internal limits:

- risk-weighted assets limits
- industry branch exposure limits
- group of connected customers (GCC) limits
- adjusted risk limits (ARL) based on rating grade of the customer and security coverage,

For that purpose the competent organizational units of the Bank have established a system of both regular and periodical credit risk concentration reporting to the Management Board. In the course of decision-making process of the Bank's Credit Committee, each individual customer and/or GCC that are found to have actual or potential threat of exceeding a risk concentration limit as per the effective regulations is indicated, and this is immediately reported to the Credit Committee.

Investment concentration risk of the Bank with the following defined restrictions:

- substantial ownership interest in a legal entity, or indirectly in its subsidiary, must not exceed 5% of the Bank's regulatory capital,
- total net value of all ownership interests of the Bank in other legal entities and their subsidiaries must not exceed 20% of the Bank's regulatory capital,
- ownership interest in a single legal entity must not exceed 15% of its regulatory
- ownership interest in a non-financial legal entity must not exceed 10% of its regulatory capital, nor the ownership interest may exceed 49% of a non-financial legal entity ownership
- Total share of the Bank in entities which are not in the financial sector cannot be higher than 25% of recognised capital of the Bank and the total share of the Bank in financial sector entities cannot exceed 50% of its recognised capital
- Large exposure risk is defined as the Bank's exposure to a single entity or GCC in the amount which exceeds or is equal to 10% of the eligible (regulatory) capital of the Bank, with the following restrictions:
  - The Bank's exposure to a single entity or GCC after implementation of risk mitigation tools must not exceed 25% of the eligible (regulatory) capital of the Bank. This limitation also applies to exposure to all persons in special relationship with the Bank and persons related to it.
  - Sum of exposures to the Government of BiH, Government of FBiH, Government of RS and Government of Brčko District must not exceed 300% of the Bank's eligible capital.

Criteria for determining relationship of entities are defined under Article 2 of the Law on Banks and the Decision on Large Exposures.

In accordance with the Decision on Banking with Persons in a Special Relationship with the Bank, minimum limitations have been defined so the bank can:

- Carry out business transactions with a person in a special relationship with the bank if thanks to such transaction of total value of all transactions, the bank's exposure to that person (including person related to a person in a special relationship with the bank) reaches or exceeds KM 100.000 in case of private individual or KM 250.000 in case of legal entity, only with prior approval by the Supervisory Board;
- Approve transaction to private individuals in special relationship with the bank only within these limits:
  - up to 1% of the Bank's eligible capital to one PI and
  - up to 10% of the Bank's eligible capital to all PIs.

In accordance with the Decision on Temporary Measures to Limit the Bank's Exposure no. U.O.-10-02/23 (Article 3(1)), it regulated the following limitation:

- Bank's exposure to all central governments or central banks outside BiH cannot exceed 100% of the Bank's regulatory capital.

It is the Bank's policy to monitor and analyse the total credit risk exposure levels to certain industry branches and to identify any mitigants to concentrations.

The Bank manages, monitors and complies with the restrictions which refer to credit risk concentration in accordance with the laws and regulations. Besides quarterly reports prepared by the Bank for the Federal Banking Agency, on a monthly basis the Bank delivers information to ALCO which discusses credit concentration risk, and if necessary, defines activities for the purpose of risk diversification. Within capital reporting, the Report on Credit Risk Concentrations is delivered to the relevant management bodies prepared in accordance with the Law on Banks and other relevant regulations.

## **Migration risk**

Migration Risk is the loss risk due to changes in the fair value of credit exposures as a result of rating transitions of borrowers.

In accordance with the Decision on Internal Governance System in Banks, the Bank has defined management, mitigation, measurement and monitoring of migration risk through the Non-retail and Retail Credit policies, valid Instructions for Monitoring, EWS and Risk Prevention for Non-Retail customers and the Credit Risk and Risk Concentration Management Programme as well as the PI Early Warning System (EWS) document for the Retail segment.

The Credit Policies incorporate the principles that ensure approving exposures with acceptable credit ratings (e.g. Cut-off for new and existing customers), as well as lending limits on individual and portfolio level according to the credit rating aimed at reaching adequate credit portfolio to avoid negative consequences for the bank's profitability and capital adequacy.

For Non Retail customers with CRS - WO statuses being assigned by EWS unit upon identification of problem exposure through the EWS system, credit risk management process is done within Special Exposure Non Retail & SE and Collateral Management. The collection process is performed in SEM NRT & SE, in two separate units: SEM Early stage and SEM Late stage. Customers allocated to SEM Early Stage in status can have performing and non-performing (default). Details of the manner of managing and conducting the business relationship with the relevant group of customers are defined by the relevant procedures and directives that define the manner of classifying customers in the assessment of expected credit losses, assigning a status to customers that defines the inability to settle liabilities, the method of approval as well as the operational daily activities undertaken in relation to these customers.

## Residual risk

Residual risk is the risk of loss that arises if the recognised techniques of credit risk reduction used by the bank are less efficient than it had been initially expected, or their implementation has insufficient impact on reduction of the risk to which the bank is exposed.

This type of risk does not occur because of the borrower's worsened credit capacity, but rather because of insufficient ability to realise the collateral taken, and this may occur when the legal mechanisms under which the collateral was pledged/transferred does not guarantee that the bank has the right to take over or liquidate the collateral or that the collateral will not be as worth as expected.

To ensure meeting the residual risk strategy, the Bank has defined the credit policies for individual business segments, the Credit Policy Non-Retail and Credit Policy Retail, the Program for Management of Credit Risk and Risk Concentrations, as well as the Policy and Manual for Collateral Management and the Policy and Procedure for Collateral Management that take into account residual risk by setting the financing limits in relation to available risk mitigation techniques, analyses and facility approval, the criteria for collateral receipt, the collateral revaluation process, correction factors/discount rates and setting sufficient impairments as the Bank's protection against possible losses in a one-year period or the lifetime of the receivables.

Residual risk appetite and management policy is in accordance with the general credit risk appetite framework.

The units participating in the risk management:

- Credit Risk Management Corporate, SE, FI and LRG
- Credit Risk Management Retail
- Special Exposures Non-Retail & SE and Collateral Management
- Collection Retail.

## Interest-induced credit risk

Pursuant to Article 7 of the Decision on Credit Risk Management and Determination of Expected Credit Losses, the Bank has to assess the borrower's exposure to interest-induced credit risk under the receivables with variable interest rate. The Bank also assess the credit risk from perspective of possible change of the borrower's financial position due to change of interest rate, i.e. assesses the borrower's capacity to settle liabilities towards the Bank in line with agreed conditions in case of potential interest rate change.

For Retail segment (PIs), the underwriting policy and interest-induced credit risk mitigation measures are defined through the Credit Policy, and are elaborated in more detail through other internal regulations, such as the valid Instructions for PI Lending. In the Non-retail segment, when analysing customers during the regular credit process and assessment of credit quality, an analysis of repayment possibilities and cash flows of customers is performed, and the possibility of debt servicing in case of interest rates' increase is assessed. The treatment of interest-induced credit risk in the credit process is defined in the Non-retail segment through the document Operating Instructions for Lending Process and Documentation Flow, and a detailed description of the management and monitoring of interest-induced credit risk is defined in the Instructions for Managing Non-retail Interest-induced Credit Risk.

When assessing credit worthiness of a customer, the Bank estimates the effects of interest-induced credit risk based on the receivables with variable interest rate. The Bank assesses the credit risk i.e. whether the debtor is capable to settle its liabilities to the Bank as agreed in case of interest rate change.

In accordance with the requirements of the local regulator referring to the Decision on Temporary Measures to Mitigate Interest Rates Rise Risk (FBiH Official Gazette 79/22, 26/23 and 85/23), the Bank has created the Interest-induced Credit Risk Management Plan by which it defined minimum requirements of the Decision, as follows: comparison of the current level of interest rates in relation to the levels of interest rates on the reference date, projections of interest rate growth and the effects of that increase on credit risk, as well as the measures that the bank takes to reduce credit risk and the consequences for loan beneficiaries. The said Decision will be in effect until 30.06.2024 or until it is revoked by the regulator.

## **Methodology of Stress Testing for Interest Induced, Migration Risk, Residual Risk and Concentration Risk as Significant Subcategories of Credit Risk**

Credit risk exposure arises from all types of credit exposure, i.e. facilities. The risk may materialise in case the debtor is unable to settle its obligations and/or due to specificities of the debtor and/or an event in the country / region and/or globally due to events caused by pandemics such as COVID -19.

Based on defined scenarios for the integrated stress testing, the Bank defines individual impacts on the local market and how local market trends affect materialisation of credit risk at the expense of the Bank.

The stress testing includes the following positions:

- measuring, , i.e. assessing the impact on risk weighted assets under the Standardised approach (RWA STA)
- measuring the impact on value adjustments
- measuring the effect on the Bank's capital position
- measuring effects on the bank's liquidity position due to the issue of debtors in their repayment of liabilities with the Bank, i.e. transfer of debtors to the default status, and other risks being generated out of credit risk in accordance with assumptions of hypothetical or experiential stress-testing scenario.

The subject of testing stress-resistance involves all balance and off-balance sheet positions. The main stress-testing assumptions are the constancy of the portfolio, which in the case of credit risk stress testing means assuming that the exposures which are given the default status according to the scenario remain in the portfolio, i.e. the Bank does not assume any actions to sell or collect them.

The risk factors are:

- Risk weighted assets under the standardised approach (RWA STA)
- Value adjustments

According to defined stress testing scenario, due to the increase of credit risk i.e. its parameters, the Bank simulates the growth of value adjustments by segments and the effect on the risk weighted assets and their impact on capital indicators.

## **Operational Risk**

Defined as risk of losses arising from inadequate or unsuccessful internal processes, people and systems or external events, including legal risk.

Within the operational risk management, the bank manages internal risk drivers such as unauthorized activities, fraud and theft, errors in the procedure or execution as well as system interruptions. External drivers of risk such as tangible assets' damage and fraud are also managed within this type of risk.

With the aim of effective operational risk management, guidelines were adopted at the Bank level based on the regulations of the FBiH Banking Agency, EU standards and regulations, Basel Committee documents, RBI group directives, etc.



The main goal of operational risk management is to increase the transparency of operational risks, which enables appropriate management i.e. mitigation of exposure to operational risk and full compliance with regulatory requirements.

The Bank promotes an open risk-awareness environment/culture that supports: identification, measurement, management and monitoring of operational risks.

All employees of the Bank, based on their individual roles and responsibilities, contribute to the maintenance of an efficient framework for operational risk management. Also, each individual employee understands his/her role in the risk management process.

The Bank uses the operating model with three lines of defence, which determines the relevant responsibilities for operational risk management.

*The first line of defence* are the organisational units whose business activities generate risk and thus they are the owners of the operational risk which they actively manage.

*The second line of defense* provides an independent risk assessment, monitoring and questions the first line of defense (FO).

*The third line of defence* is Internal Audit, it reviews effectiveness and suitability of the basic risk management processes.

Strategy referring to the operational risk management strategy includes the following:

- a clear internal organisation with clearly separated operational risk management functions (DORS and ORM functions) and well as operational risk control functions - so-called ORC, CRO, ORMCC), and finally, internal audit which monitors the overall system of operational risk management/control.
- clearly defined, transparent and consistent lines of competency,
- raising awareness of operational risk,
- consistent observance of internal documents and external regulatory requirements defining the subject area.

The operational risk management strategy:

- Monitoring of loss maintenance in line with the "shadow budget".
- Organising implementation of individual activities (collection of operational risk events, risk assessment, scenario analyses, risk treatment plans, GL analyses, early warning indicator review) in accordance with the Group plan
- Organisation of training for new employees with respect to minimum standards for operational risk management.
- Organisation of training for ORM/DORS functions.
- Focus on additional raising of awareness on importance of operational risk management.

Below is the management of significant operational risk sub-categories:

## Cyber risk

Cyber risk is the risk of loss due to breach of confidentiality, failure of integrity of systems or data, inappropriateness or unavailability of systems and data or inability to change information technology within a reasonable time and with reasonable costs when the environment or business requirements changes. It includes all security risks arising from inadequate or unsuccessfully internal procedures and external events, including cyber attacks and inadequate physical security.

The Bank's Strategy in managing the Cyber risk is establishment of protection measures of information system from attack through an Internet network or other external networks to ensure:

- fulfilment of regulatory requirements,
- possibility of timely reaction to current threats and vulnerabilities,
- constant development of capabilities to face challenges arising from the Bank's business strategies and development strategies such as digital strategy.

Measures which the bank implements are measures defined under the law, i.e. relevant decisions by FBA, measures being the result of the analysis and risk assessment and those measures that the Bank must implement as the RBI group member.

The goals of successful information and cyber security management include identification of threats and vulnerabilities, assess potential effect of their materialisation, and mitigate risk effect with protective measures to an acceptable level, that is, to actively manage information, that is, cyber security risks.

The Bank uses two-layer access to manage cyber risk:

- strategic level
- operational risk management level.

#### **Strategic level of cyber risk management**

Strategic risk management, that is, strategic risk view, combines information collected through security control assessment (SCA) and Security Maturity Assessment (SMA) and provides an overview of exposure to risk in each threat category.

Security control assessment is an ongoing assessment of status of implementation of the controls defined in advance. A treatment plan will be defined for each control which is not completely implemented, which will ensure timely implementation of control.

Security maturity assessment is regular assessment of maturity level of processes in each entity. Based on the latest threat trends (CTI reports), recommendations by supervisory bodies and other sources, RBI information and cyber security present an expected level of maturity of process within the defined domain. Results are maturity level and proposal for improvements in order to reach the set maturity level.

#### **Operational level of cyber risk management**

Operational level of risk view combines findings on certain assets collected manually, through checks of compliance, project analysis, penetration testing or checks on spot as findings or through automated assets (for instance VMS, SAST, CASB, ZeroDay etc.).

The findings are rated as per their seriousness against system security. The request for protection is defined for the respective asset based on possible effects, which jeopardise trust, integrity and availability of data for the respective asset.

The collected information are, then, used for the analysis and risk assessment by asset. This analysis is used for preparing treatment plans for risk mitigation/elimination.

Implementation of the cyber risk management policy is ensured through:

- ✓ Introduction of a consistent approach to information and cyber security which enables all employees to fully understand their responsibilities
- ✓ Creating and maintaining awareness level about the need for information and cyber security as an integral part of the strategic and everyday activities of the Bank
- ✓ Protection of information assets which are controlled by the Bank



- ✓ Describing principles of information and cyber security and explanation in which way they have to be implemented in the Bank
- ✓ Making all employees aware of the relevant laws and regulations and being fully compliant with them, as described in this policy and accompanying documents.

The Security unit and the Information Security unit are responsible for managing cyber risk.

## **Information and communication technology risks**

IT and communication technology risk means the risk of loss due to inadequate performance of failure of hardware and software components of the technical infrastructure, that may harm the availability, integrity, access and security of such infrastructure and data, i.e. IT risk is a threat which will use vulnerability(-ies) of the information system and thus harm the organisation. It is measured by observing the probability of some event to occur and its possible impact on the Bank's information system. In other words, IT risk denotes the potential occurrence of an event or activity that may through impact on the Bank's information system, adversely affect the achievement of an organisation's goals.

IT Risk Management includes:

- identification
- quantification (risk level assessment)
- Response to risk by risk owner (defining response and measures for risk treatment)
- Monitoring (monitoring implementation status of risk treatment measures) and reporting on it

IT risk management treats risks related to strategy, projects, technology, resources and IT processes considering principles of confidentiality, integrity and availability of information systems. The IT risk management includes the risk identification, assessment and mitigation as well as a coordinated and cost-effective fund spending to reduce and efficiently control the probability or impact of adverse events on the IT system of the Bank

Establishment of adequate IT controls is an organisation's response to IT risk.

The Bank has established and implemented an information system management process, and regularly monitors, maintains, reviews and improves it in order to reduce risk exposure, ensure confidentiality, integrity and availability of information and the entire information system, in accordance with the size, complexity and scope of the Bank's information system.

The Bank has established the system which includes identification, measurement/assessment, monitoring and control of risk management arising from the information system use. Information system risk management process is an integral part of the risk management system at the bank's level, in line with the FBA's regulations defining the risk management are in banks.

When managing IT risks in the Bank, the entire information system is encompassed.

The Bank owns internal documents Work Framework IT Risk Management and IT Risk Management Instructions which describe in detail the manner of managing IT risks.

## **Outsourcing risk**

Outsourcing is a process of contracting the Bank's activities to service providers, instead of doing these activities on its own.

Outsourcing Risk is a common name for all risks arising from contractual relationship with another party (service-provider) for outsourced activities that would otherwise be performed by the bank.

During outsourcing management, the Bank considers the principle that outsourcing risk management should be comprehensive and in line with the type, scope and complexity of the outsourced activities.

The bank's strategy for managing outsourcing risk is based on cautious taking of outsourcing risk and mitigation risks connected with outsourcing through corrective measures arising from identification, monitoring and assessment of outsourcing risk. When initiating and preparing new outsourced activities, and during the monitoring of the existing, the sets of measures and responsibilities have been defined which are included in the Outsourcing Management Program, whose goal is to manage outsourcing, to master and minimise the risks recognised in the process.

The outsourcing risk management process is established under the "Outsourcing Management Program, which includes Policies and Procedures for monitoring, measurement, management and control of outsourcing risk". This Program defines policies and procedures for monitoring, measurement, management and control of outsourcing risk, as well as roles and responsibilities of the involved stakeholders in the outsourcing process. The process of initiating and managing outsourced activities is fully aligned with the FBA Decision on Outsourcing Management in, as well as the Bank's internal regulation Outsourcing Management Programme.

### **Internal and external frauds**

Program and work methodology of the Bank's Compliance regulates, *inter alia*, that the Bank's Compliance is the department responsible for financial crime management. Financial Crime Management (FCM), apart from Fiscal Reporting Compliance (FACTA), also includes the following:

- functions of fraud management (including credit and non-credit fraud),
- Anti-Bribery & Corruption (including Conflict of Interest and Whistleblowing Management), as well as
- Complaints Management through controls.

In this respect, FCM has zero-tolerance to all aspects of financial crime by conducting on-going financial crime prevention, detection and investigation activities and mitigates financial crime risks based on a cost-benefit approach.

Biennially, the Compliance proposes, and the Fraud Management Committee approves of the Fraud Management Strategy, which regulates the strategic goals in combating financial crime, as well as the action plan for the implementation of the Strategy, with assignments and scheduled deadlines.

Special focus of the Compliance in this context is the definition and implementation of respective training and education, and the establishment of an appropriate control framework in order to examine preventive measures, detect areas for improvement and correct observed irregularities that may generate the risk of internal and external fraud.

### **Stress testing methodology for operational risk**

In its business operations the Bank is also exposed to operational risk, which is inherent in any organisation, especially in view of the Bank's size, scope of activities, the number and structure of established business processes and products, as well as the possibility of impact of various internal and external factors on the Bank's business.

Stress testing involves the following:

- measuring the impact on the Bank's profit & loss, through operational risk losses (assessment, i.e. measuring changes in net income).

The risk factors are:

- operational risk events

The amount of loss that will be presumed in the scenario is determined based on the following:

- historical events criteria

- forward looking criteria.

#### historical events criteria

The Bank has a long-term history of operational risk incidents and the amounts of related losses, and on the basis of the same, losses are analyzed by events of operational risk in the last n years, which are then taken into account in determining the amount of losses in the scenario, thus meeting the criteria of historical events.

The historical criterion includes legal risk, conduct risk and compliance risk i.e. data on possible losses which are the result of improper providing of financial services and related court expenses.

#### Forward looking criterion

The forward looking criterion is taken into account by including the results of the scenario analysis. Operational risk scenarios are a description of events or a series of actions and events with extreme potential to generate a certain risk. Scenario analysis is an annual process in which the Bank observes the impact of extreme, but possible events on its business operations, and assigns the assessment of the probability and strength to the possible results. The scenario analyses may provide prospective model for capturing "tail events" that may not have occurred in the Bank's own loss history, creating a significant connection between the measures and operational risk management, as well as raising awareness and educating management by providing the perspective on different types of risk, driving risk mitigation actions and investment plans.

The Bank has the internal document Scenario Analysis Procedure which describes in detail the process of scenarios' analysis.

By applying the above criteria in determining the amount of loss to be assumed in the scenario, the Bank, in addition to the historical component, includes the loss under stress conditions, by taking into account the results of the scenario analyses.

## Market Risk

Market risk is a risk of losses on balance sheet and off-balance sheet positions due to changed in market prices.

According to the Guidelines on the Amendments to the Reporting Guidelines of the Banking Agency of the Federation of Bosnia and Herzegovina on the Application of ICAAP and ILAAP in the Bank, Appendix 4 (Risk Identification Map to which the Bank is exposed or could be exposed) and in accordance with the annual risk assessment, the Bank is exposed or could be exposed to the following subcategories of market risk:

- a. Currency Risk is the risk of loss arising from changes in the currency exchange rates and/or changes in prices of gold.
- b. Position risk is the risk of losses that arises from a change in price of a financial instrument, or with derivatives, a change in price of the relevant variable.
- c. Credit spread risk is the risk of loss due to a change in the market value of debt financial instruments, caused by changes in the credit range, liquidity premium and other factors that can affect the change in market value.
- d. Credit valuation adjustment risk (CVA risk) is the risk of loss based on OTC derivatives that may arise due to the deterioration of 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.

The strategy for market risk management is restricting exposure to them and keeping the level of risk taken within the planned appetite and planned risk profile for market risks taking into account regulatory constraints. In order to maintain a proper level of market risk exposure, limits have been defined as so-called internal limits, but the priority is adhering to the regulatory limits.

The processes of managing and taking market risk and its controlling are clearly organisationally separated, which means that managing and taking market risk are primarily carried out in the organizational unit Market/Market and Sale, while control is carried out in Risk Controlling i.e. Market Risk. A detailed description of all individual duties and responsibilities of the organizational units involved in the process of managing, assuming and controlling is an integral part of the said documents. Rulebook with a special part for managing market risks, as well as documents FX Risk Management Program.

Market Risk Management Policy is based on clearly defined roles and responsibilities, work procedures and processes, the manner of identification, measuring, monitoring, controlling, reporting and escalation procedures.

ALCO discusses at its regular monthly meetings the market risk reports, as part of the regular quarterly Operating report of Risk Controlling to the Management Board and the Supervisory Board and at Risk Committee meetings the reports, parameters and status of market risk are presented.

Market risks are limited in compliance with the regulatory requirements stipulated by the Law and Decisions of the Banking Agency of the Federation BiH for market risks.

Regulatory limitations for FX risk are as follows:

- for an individual overnight FX position, other than EUR, up to 20% of regulatory capital
- for an individual overnight FX position in EUR up to 40% of regulatory capital
- for FX position maximum 40% of regulatory eligible capital.

Market risks are restricted by the limits defined by RBI Group and the following ratios must be met:

- The daily VaR All shall not exceed 25% of the yearly budget.
- The stop loss limits shall not exceed 25% of the relevant yearly budget.
- the most unfavorable economic loss calculated by applying six regulatory scenarios of interest rate shock for the banking book applied to the total portfolio of the bank (trading and banking book) must not exceed 15% of capital (according to IFRS definition of capital).

## **Stress testing methodology for market risk**

The stress testing for market risk is based on the testing of all market risk subtypes, which the bank has defined as material. Therefore, depending on their importance, the following risks will be tested:

- Currency risk
- Position risk is the risk of losses that arises from a change in price of a financial instrument, or with derivatives, a change in price of the relevant variable extended valued through P&L
- Credit spread risk - the risk of loss due change in the market value of debt financial instruments, caused by changes in the credit range, liquidity premium and other factors that can affect the change in market value.
- Credit valuation adjustment risk (CVA risk) is the risk of loss based on OTC derivatives that may arise due to the deterioration of 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.

The Bank is not exposed to the commodity risk, and this risk is not included in the market risk stress testing.

When the Bank has a significant volume of financial derivatives in its portfolio, it shall be the subject of stress testing and will include information on the underlying assets, their dependence on market conditions etc.

**Currency risk methodology:** Effects of currency risk may materialize in the event of a change in the exchange rate/exchange rates in relation to the domestic currency, bearing in mind the structure of the portfolio, i.e. the Bank's position in different currencies.

For FX exposures, the Bank applies, in addition to scenario assessments, a **sensitivity assessment** to check the bank's resistance to various levels of exchange rate fluctuations.

**Position risk methodology:**

Position risk is tested for a portfolio of securities that are valued at fair price through P&L or for a portfolio of derivatives, if the said portfolios exist on the reference date of stress testing.

Stress testing includes the following positions:

- assessing, i.e. measuring amounts of the changes on net income (due to changes in the evaluation result)

Risk factor is the interest rate for debt securities/the price for equity securities or the related derivative price variable.

Stress testing for debt securities is measured by testing sensitivity to changes in interest rates using the modified duration method with the application of an interest rate shock, while stress resistance for equity securities and derivatives is measured by sensitivity to price changes.

## **Interest rate risk in the banking book**

Interest Rate Risk in the banking book is the risk of possible negative effects on the financial result and capital of the bank based on positions from the banking book due to changes in interest rates.

Interest rate risk management strategy in the banking book includes all subcategories of interest rate risk in the banking book, and especially the risk of deviation, which is determined by the annual risk assessment as a significant risk. Strategy is primarily based on determining the risk appetite framework taking into account current and future business plans and activities as well as the ability to take on interest rate risk in the banking book that respects regulatory restrictions. To fulfil this strategy, the Bank sets indicators and targeted values, that is, limits.

The Bank tries to hedge against interest rate risk by adjusting the type of interest rate, currency, related interest rate and the date of interest rate change for all products for which it concludes contracts (which are sensitive to changes in interest rates). Any mismatch between the above elements leads to the Bank's exposure to interest rate risk.

In interest rate risk management, special attention is paid to sight deposits, deposits with no specific amount defined (free depo and similar products), loans with agreed prepayment deals, options of automatic extension of deposit, options of preliminary termination of the term deposit agreement, as well as loan rescheduling options.

The goal of interest rate risk management in accordance with the Risk Taking and Management Strategy and Policy is to preserve the economic value of the bank's capital and optimize income while minimizing the negative effects of interest rate changes for interest rate sensitive products from both trading book and banking book. IRR management in the banking book is in accordance with the currently valid documents: Rulebook with a special part for market risk management, which is revised on an annual basis with the approval of the Bank's Management Board and the Bank's Supervisory Board, and the Program for Interest Rate Risk Management in the Banking Book Process of managing

and assuming the interest rate risk in the banking book and the process of controlling this risk are clearly defined organizationally, which means that the assumption and management of the interest rate risk in the banking book is primarily carried out in the Treasury organizational unit, and its control is carried out within the Risk Controlling unit or Market Risk Management. A detailed description of all duties and responsibilities of the organizational units involved in the process of managing, assuming and controlling is an integral part of the above-stated documents.

At its regular monthly meetings, the ALCO Committee reviews reports on interest rate risk in the banking book, and as part of the regular quarterly Operational Report of the Risk Controlling Unit to the Management Board and Supervisory Board of the Bank, and as part of the meetings of the Risk Committee, reports, parameters and statuses of interest rate risk in the banking book are presented.

IRR management in the banking book is based on the following principles:

- Management of the balance in refinancing assets in terms of maturity, currencies and IR types to minimise the risk of the IR changes and impact on operating result;
- Defining limit of exposure to the IRR by analysing interest-sensitive assets and liabilities that are sensitive to IR changes in terms of maturity and amount
- Contracting IR as defined under the Bank's Fee Schedule;
- Defining components of reference interest rates
- Stress testing
- Monitoring profitability ratios.

The strategy related to interest rate risk management in the banking book is based on a clear internal organization of management and control of this risk, and the implementation of regular controls of limits defined by the local regulator, as well as limits and indicators established by the Group. Detailed descriptions and activities of management, control and undertaking activities in case of violation of limits and internal indicators are defined, which enables timely response and mitigation of this risk. The controls of this risk are organised on a daily basis, in order to enable timely verification of the status of limit utilisation and internal indicators, and in order to adequately take all corrective risk mitigation measures, and in case of violation of limits, take all necessary actions within defined limits. In order to improve the control process, control of the regulatory limit was established at a higher frequency, i.e. on a monthly basis. Regular annual activities of revising interest rate risk limits are carried out to adapt them to the current and future business profile, along with regular activities of simulations and the effects of taking new positions on the comprehensive structure of the limits, which are carried out in cooperation with business lines, the Treasury unit and the Risk Controlling unit.

Interest rate risk is limited, from the point of view of local regulations, in a way that ensures compliance with regulatory requirements, which are defined by the Decision on interest rate risk in the banking book. Regulatory limitations for interest risk are as follows:

- Sensitivity of the economic value to interest rate risk exposure in the banking book amounts to a maximum of 20% of the regulatory capital. The percentage is calculated as a relation between the present-time value of expected asset trends and the liabilities resulting from a hypothetical change of the interest rate levels by 200 basis points, according to the methodology defined by the Decision on Interest Rate Risk in the Banking Book.

Interest rate risk in the banking book, from the RBI Group point of view, is limited as follows:

- BPV (basis point value) limits that are structured at the level of individual currencies, segments (ALM and CM) and the corresponding buckets
- the economic value's sensitivity to interest rate risk in the banking book according to the regulatory method of the Austrian regulator is up to 20% of equity (ZIRI reporting process);

- The change in net interest income obtained as a result of an ISI analysis (Interest Sensitive Income Analysis) that is higher than 15% of the Bank's own funds should be reported to the local ALCO to analyse the short-term impact of changes in interest rates on the Bank's revenues and subsequently the capital
- Exceeding the warning level will mean that the local ALCO analyses the current and future positioning of the interest rate and the definition of countermeasures in accordance with the Treasury and Risk units in the RBI Group.
- Group ALCO will be informed of exceeds of the warning level, as well as of local ALCO decisions and countermeasures.

## Stress testing methodology for interest rate risk

The stress test has a time horizon of 2 (two) years.

Basic assumptions of the testing are: Assumption is that the continuance of the Bank's portfolio, i.e. the projection of net interest income

- Net interest income – NII) is based on the assumption of a static balance. Assets and liabilities (both in the banking book and in the trading book for positions used to hedge positions in the banking book, if any) which are remodelled in the test's time horizon should be replaced by similar financial instruments in terms of the loan type, currency and quality at the time of the price change and the original repricing time (both reference interest rate and margin) of the instrument. As regards the portfolio of loans and receivables, the static balance sheet assumption relates to the portfolio as a whole; where both non-performing assets and the sound portfolio are considered. It is expected that under stress, the total volume of the sound portfolio will decrease, while the non-performing volume will increase.
- Under the static balance sheet assumption, the sum of existing, due and new positions should remain constant over time.
- Banks' interest income and expenses are developed during the stress testing period, as a result of the repeated repricing of due assets/liabilities.

The stress testing includes the following positions:

- measuring, i.e. assessing the change in the banking book's economic value
- assessing i.e. measuring the change in the net interest income.

The risk factors are:

- interest rate curves.

For the interest rate risk, the bank applies, in addition to the scenario assessment, a **sensitivity assessment** to check the Bank's resistance to various changes of interest rate levels:

The sensitivity assessment includes:

- parallel movement of the interest rate curve by x basis points (x changes are determined in the stage of scenario definition, and may be positive or negative, expressed in basis points)
- gradual growth/fall of interest rates by x basis points (x changes are determined in the stage of scenario definition, linearly or proportionally along the time component of the interest rate curve.

Based on the defined stress-testing scenario, the Bank calculates the amount of change in economic value of banking book and/or change of net interest income for positions of interest risk in banking book (i.e. positions of assets and liabilities which were qualified regulatory as interest-sensitive in accordance with the reference Decision and the Instructions of the Agency for interest rate risk in the banking book).



## Liquidity risk

**Liquidity risk** is the risk of loss arising from the existing or expected inability of a bank to meet its due monetary liabilities and arises due to mismatches in the maturity of assets and liabilities, and includes the risk of inability to finance funds at maturity at appropriate rates.

Adequate liquidity management is in regular, and especially in contingent and/or disturbed liquidity situations in the financial system, one of the most important tasks of the Bank's Management Board.

Liquidity risk management strategy means liquidity maintenance in the form of owning liquid assets (cash, funds at the Central Bank of BiH, marketable securities). Borrowed liquidity management strategy (liabilities), means borrowing of sufficient amount of readily available funds to cover all foreseen liquidity demands to cover all anticipated liquidity demands. This affords the bank with the opportunity to keep its assets portfolio unchanged, with the interest rate on borrowed funds. The short-term liquidity management process includes the intra-day liquidity management and the day-to-day management of cash and near-cash and short-term liabilities influencing the gap positions up to six months; Which of the mentioned strategies will be applied depends on such factors as the market environment and the bank's position in the market, the bank's short-term and mid-term development plans, as well as appropriate assessment of income statement positions.

In assessing which of the strategy to apply, the Bank gives due consideration to the following: defining the assets structure, liabilities structure management, diversification of funding sources and generating revenues from maturity transformation within limitations in maintaining an acceptable liquidity risk profile at any time.

The strategic framework for liquidity management includes harmonised liquidity management, asset liquidity management and borrowed liquidity (liabilities) management, respecting the key principles of liquidity management as well as ILAAP principles in planning liquidity and funding sources (accountability, proportionality, continuity, risk significance, comprehensiveness and the "forward-looking" principle).

In defining and maintaining an adequate level of liquidity, the Bank pays special attention to providing sufficient capacity of liquidity reserves that will be used for short-term intervention in a liquidity shock situation. The Bank creates the amount of required and reserve liquidity based on current and projected liquidity position and liquidity ratios, taking into account the general goals set by the Bank's annual budget. In this way, an appropriate portfolio of liquid assets is planned, which can always:

- (1) meet current and expected liquidity needs,
- (2) meet regulatory requirements regarding liquid funds.

The Bank aligns its business with legal regulations that define liquidity risk, as well as group and internal documents prescribing maintenance of liquidity reserves.

Liquidity risk is limited, from the point of view of local regulations, in a way that ensures compliance with regulatory requirements, which are defined by the Decision on liquidity risk management and internal limits.

## Stress testing methodology for liquidity risk

Liquidity risk presents a danger that assets could not be transferred into cash without losses and that a bank will not be able to meet its obligations upon maturity, while bank's liquidity is a process of undisturbed transfer of cash into credit and non-credit facilities, that is, transfer of bank's receivables under any grounds (principal, interest, fee) and in all forms (loan, securities) in cash funds under the planned dynamics.

The stress testing methodology should take into account interrelations of factors relating to financial markets and financial assets, as well as the impact of market liquidity reduction in terms of risk exposure valuation (price shocks of specific asset categories, connection between liquidity of certain asset categories, increased need for liquidity, reduced and/or aggravated access to financial markets, etc.), which is reflected in the stress-testing assumptions.

In forming the scenario for liquidity stress testing, the Bank considers its business model, risk profile and external circumstances it faces. The Bank continuously monitors and determined new threats, weaknesses and changes in the environment, to assess applicability of scenario for stress test, and to adjust those to new circumstances. When determining a sequence of internal stress scenarios and sensitivity, the Bank uses a wide range of information about past and hypothetical stress events.

The stress testing for liquidity risk includes assumptions about:

- Inflow rates (assumptions about collection of loans, interest, fees, maturity and settlement of transactions with currencies, equity and debt securities)
- deposit outflow rates and the impact of concentration funding risk for significant depositors of the Bank
- price disruptions for the bank's assets which are measured at market prices and on assets liquidity in a stress environment
- difficult or restricted access to financial markets
- Early repayment of credit lines required by the Bank's creditors or increase in prices of funds (i.e. interest rate increase) for those cases agreed with the clause on early repayment or change of price in extraordinary situation and crisis.
- The interchangeability and liquidity of various convertible currencies and their availability on the foreign exchange markets, whereby KM is assumed to be convertible into EUR by referring to the Law on the Central Bank of BiH (Article 33 and other related articles of this Law)
- price disturbances and other disturbances affecting the value of assets and liabilities related to Margin Call (repo, securities lending, etc.)
- increased liquidity needs in the market

The implication of liquidity is considered through:

- effects of materialisation of previously stated stress assumptions (increased outflows and decreased inflows, etc.).
- the effects of all other risks in stress

Applying assumptions to the expected / contracted inflow and outflow amounts, by different categories (legal and natural persons, creditors, types of deposits: term, avista, etc.), the Bank makes stress-testing of liquidity risk through the following liquidity risk indicators:

- LCR/Liquidity coverage ratio
- NSFR/ Net Stable Funding Ratio.

Additionally, stress test results for the liquidity risk are subjected to quantitative and qualitative analysis against the following elements:

- Profile of funding sources
- Risk Appetite Framework (RAF)
- Liquid assets.

Within stress testing, the Bank also analyses mutual convertibility and liquidity of different convertible currencies and their availability in foreign exchange markets.

Reputation risk is often manifested in liquidity risk, where because of the Bank's compromised reputation, depositors and creditors withdraw deposits (either by raising or transferring avista funds or seeking termination and early payment of term deposits or repayment of credit limit funds, etc.).

The reputation risk, i.e. the spill over of reputation risk into liquidity risk, is tested by incorporating assumptions of an adverse reputation risk event into the assumptions on inflow and outflow rates.

## Other risks

In the text below, the strategy for taking or managing significant risks from the category Other Risks (Macroeconomic Risk (BiH), Strategic Risk, Capital Risk, Reputational Risk) as well as Environmental, Social and Governance Risk (ESG risk) is stated.

### Macroeconomic risk (BiH)

The Bank's strategy for managing macroeconomic risk is continuous reviewing of macroeconomic and market environment and changes and their effect on business plans, strategies and policies and adjustments of those to changes.

The Bank monitors changes in the macroeconomic environment on a regular basis and based on forecasts and expectations of the implementation of certain economic indicators and at the level of changes in their values in relation to the values used in the development of business strategies and plans (so-called Baseline scenario), the Bank's Management Board and ALCO make proposals to the Supervisory Board for strategic business decisions in terms of managing macroeconomic risk, strategic risk, i.e. business risk in their entirety but also in terms of other risks to which the Bank is exposed or could be exposed, which are related to macroeconomic risk and the overall balance of the Bank.

## Reputation Risk

Reputation risk is the risk of losing trust in the Bank's integrity as a result of unfavourable public opinion of the bank's practice, arising from the activities of the Bank, business connections with individual customers or activities of the members of the bank bodies, regardless of whether there is a basis for such public opinion, or not.

Loss of reputation in terms of e.g. competitiveness, integrity and reliability in the eyes of the counterparties (customers, shareholders/creditors, employees, supervisors and the public) has a negative (direct or indirect impact on the Bank's value).

Reputational risk management includes, *inter alia*, the following: assessment of reputational risk on an annual basis; advising the Bank's authorities and other relevant functions on the Bank's potential exposure to reputational risk within the framework of regular business activities; targeted control of areas of business exposed to reputational risk based on the annual assessment and the implementation of corrective measures to eliminate identified deficiencies resulting from such controls.

All allegations related to fraud, bribery and corruption, money laundering or those that may represent a reputational risk for RBI or one of the members of this Group, must be recorded and included as critical complaints.

As part of the assessment of compliance with the relevant regulations, an assessment of reputational risk is also carried out.

The criteria used in the assessment of reputational risk concern media, international and government disapproval, a significant attrition of customers and problems with acquiring new customers, the possible departure or exodus of members of the Bank's Management Board, senior management, employees, which contributes to long-term difficulties in recruiting new employees, and customer complaints.

The strategy for managing reputation risk that is generated from compliance risk is, as for other risks related to the reputation risk, avoiding or minimizing and preventing the deepening of risk levels through the corrective measures.

## **Capital risk**

The Bank's strategy for managing capital risk is ensuring certain capital structure and size, which supports the volume and nature of business activities of the bank and proper planning of needs for capital, especially additional capital in unfavourable conditions.

The Bank's Strategy for capital risk management includes:

- Capital adequacy perspective by structure and by size aligned with the business plan and the strategy
- Regulatory capital adequacy perspective with respect to regulatory requirements in the area of capital
- Respecting possible additional capital needs in planning capital which are the result of implemented stress testing
- Respecting possible regulatory changes which can lead to increased needs, i.e. Stricter requests with respect to regulatory capital during capital planning and during regular process of monitoring implementation of Capital plan and capital adequacy assessment

For the purpose of implementation of the Bank's capital risk management strategy:

- preparing Capital Plans for three-year period that is in accordance with the business plan
- implementing a continuous internal capital adequacy process by including all significant risks to which it is exposed to or could be exposed to and possible capital needs arising out of it
- determining the amount of capital and adequacy of regulatory capital and capital requirements (minimum regulatory and internal requirements) on a regular basis and determines capital adequacy by monitoring the implementation of business plans and the capital plan, and reports them to the bank's bodies (Management Board and Supervisory Board)
- performs regular analyses of the value of qualitative and quantitative capital indicators
- undertakes measures and activities in case of capital erosion by revising business plans and capital plans, and accordingly, the need to revise risk management strategies and reviews, and determines the need and initiates activities to increase capital (e.g. by obtaining new sources of capital, changing dividend payment plans, contracting subordinated debt and other capital instruments) especially in cases where there is an urgent need to increase capital or in unfavourable circumstances.

Capital risk management is the responsibility of the Accounting, Taxes and Financial Reporting and Financial Controlling and Business Intelligence units, which are capital management coordinators for all organizational units that manage risks or organizational units which, through the achievement of business goals, influence the financial result and consequently the Bank's capital. Accounting, Taxes and Financial Reporting and Financial Controlling and Business Intelligence units monitor and report to the Bank's authorities on the implementation of business plans, the capital plan and propose measures and activities to the Management Board and the Supervisory Board of the Bank to ensure the appropriate structure and level of capital requirement to achieve business goals and ensure compliance with the regulatory requirements.

## Environmental, social and governance (ESG) risks

Environmental, social and governance (ESG) risks mean the probability of losses or additional costs, or the loss of planned income, or the loss of the financial institution's reputation due to the negative financial impact of the current or future ESG factors on counterparties and their assets.

Environmental, social and governance (ESG) risks are seen as risks that affect all areas of risk governance, including climate change-related risks and environmental risks, since they are an integral part of ESG risks. As such, considerations of ESG risk factors are continuously incorporated into the existing key risk management framework (e.g. within credit, market, operational and liquidity risks).

The Bank's strategy in managing ESG risks is to manage the Bank's ESG risks through support and business cooperation with customers and suppliers in their management of business activities in a way to mitigate or avoid ESG risks to which the customers and suppliers are exposed and thus mitigate the spillover effect of ESG risks from customers/suppliers to the Bank.

The identification of exposure to ESG risks and the estimated level of exposure are taken into account in the definition of the Bank's Business Strategy and Risk Appetite Framework, while roles and responsibilities in governance of these risks, which are drivers of the existing categories of risk are incorporated into the existing governance framework (e.g. within the framework of credit, market, operational and liquidity risks) i.e. through all three lines of defense according to the following principle: the identified exposure to ESG risks and their management is the responsibility of the lines of defense as defined for traditional risks (credit, operational, liquidity risk, etc.), the level of which is also influenced by ESG risk factors.

The bank has already adopted the Manuals that represent the basis for defining ESG principles and concepts of ESG business and acceptable ESG credit transactions and customers, in business with private individuals and legal entities. The valid internal ESG-relevant documents of the Bank are as follows: "ESG Standards Implementation Manual", "RBBH ESG Manual for Legal Entities (LE)" and "RBBH ESG Manual for Private Individuals".

The Bank's internal regulation RBBH ESG Standards Implementation Manual defines the main ESG principles, key key strategic activities as well as the basics of the Bank's business strategy for ESG, which the Bank described in the internal regulation Business Model, Business Policy and Strategy for the period 2024-2026 (chapter ESG Strategy) with key KPI's and KRI's.

The internal regulations "RBBH ESG Manual for Legal Entities (LE)" and "RBBH ESG Manual for Private Individuals" define the key categories of acceptable green loans in accordance with the EU taxonomy and transactions for business with legal entities and private individuals, as well as social loans in terms of the ICMA principles which are adapted to the local context of the B&H market and level of economic and social development.

ESG risk management activities are/will cover the following areas:

- a) The bank's business model and strategy, as already stated above
- b) Internal management system and bank's tendency to take risks,
- c) An integral framework for risk management, including ICAAP and ILAAP, and

d) Policies, procedures and content of announcements on risks related to climate change and environmental risks.

The Bank's exposure to ESG risks and monitoring of its compliance with the Risk Appetite Framework are defined in the internal regulation Risk Appetite Framework, while in the coming period, reporting will be defined within the framework of reporting on traditional risks in other relevant internal regulations of the Bank.

The need for data necessary for the process of including risks associated with climate change and environmental risks in the Bank's strategy and risk management framework, as well as determining the quality and potential deficiencies of existing data, and defining a plan to overcome and eliminate them, the Bank will carry out in the upcoming period in accordance with the relevant Guidelines.

### **Strategic Risk**

Strategic Risk is the risk of loss that comes as a result of lack of a long-term bank development strategy, making bad business decisions, non-adaptation to changes in the economic environment, etc.

The Bank's strategy for strategic risk management is ensuring long-term development strategy of the bank, whose goals are clear and transparent. Also, strategic risk management strategy includes regular assessment of needs for adjusting to unexpected changes in economic and political environment to prevent taking wrong business decisions through the analysis process and assessment of strategy and policy success and the needs to changes which occurred out of them.

The Bank prepares its business strategy, policy on a regular basis and defines business models in which the strategy and business plan will be implemented in order to manage strategic risk, it monitors the implementation level of the planned activities regularly and monitors changes in environment in which it operates and adjusts its plans to it.

The Bank's financial assets are grouped in business models which mark the manner of joint management of a group of financial assets as a whole for the purpose of reaching a business goal and define way in which it is expected that the financial assets will generate cash flows.

The responsibility for monitoring the processes on the market and in the economic environment rests with Research and Advisory.

The management techniques for significant sub-categories of business risk have historically proven to be proper, as implemented processes, the management system and internal controls have helped the Bank to reach its strategic objectives.

Based on the analysis of the achieved financial results, which rank the Bank among the market leaders in the field of profitability, the Bank ensures that exposure to this risk, even in a situation of deteriorating macroeconomic conditions, does not exceed the allocated internal capital requirement for coverage in the period of a year.

In addition to the above business risk management system in standard circumstances, the Bank performs stress testing on an annual basis within the ICAAP process and within the process of the Bank's Recovery Plan. In this process, the Bank considers changes in the external environment, and includes them in the assumptions of stress tests through certain macroeconomic scenarios, which consequently affects the final result of stress testing, and accordingly the internal capital requirement. The stress test results, in terms of weakness or vulnerability of different areas of business, are used in regular strategic and business planning processes, as well as in defining the framework of risk appetite.

## Other material risks - stress testing methodology

For other material risks, according to the currently valid risk catalogue, the Bank makes stress-testing by considering qualitative and/or quantitative factors and/or an expert assessment, which is a part of the Stress Testing Report for a reference date.

If reputation risk is assessed to be material risk, stress testing for this risk is carried out by analysing scenario, i.e. a special scenario is being defined triggered by the Bank-related reputation risk event, or an event that will spill over into a reputation risk event related to the Bank (idiosyncratic scenario), and then reputation risk testing is included that arose from other related entities.

Regardless of the result of assessment of materiality of reputation risk, the Bank:

- Includes the effect of increased insecurity and uncertainty as part of the liquidity testing scenario, to which the customers respond through withdrawal of deposits, which may be interpreted by loss of confidence into the financial system, i.e. reputation risk.
- Estimates the impact of the reputation risk to other types of risk, and especially credit, market, operating and related risks (e.g. legal risk and conduct risk).

### **b) structure, that is organisation of the risk management function, including its position, role and status in the organisational structure of the bank;**

The bank shall establish and implement comprehensive, reliable and efficient internal risk management system, which is proportional to the size and internal organisation of the Bank, and the type, scope and complexity of its operations, i.e. business model, risk profile and established risk appetite.

The Bank's risk management system, among others, include a clear, efficient and robust organisational structure with well-defined, transparent and consistent lines of responsibility. Organisational units which take and manage risks are strictly separated from the control function of risk management. This functional and organisational separation of risk-taking and risk-managing units from the control function of risk management has been ensured to avoid possible conflicts of interest.

In the risk management process, the Bank shall adhere to the principle of clear segregation of responsibilities for the functions and units that actively participate in the risk-taking and the units that identify, measure, monitor control and assess and report on those risks. The Bank has established control functions where they are independent from the business processes and activities in which risk occurs i.e. which are monitored and supervised by the control functions. This provides independence in the management and control of risks.

Risk management (as a business function) is an integral and inseparable part of overall business management in the Bank. In addition to legal and regulatory requirements, the above functions take into account the particular nature, scale, and complexity of business activities and resulting risks in risk and capital management. The risk management function has the objective to optimise the risk profile of various risk categories. It develops and improves processes, methods, tools and system support used to manage various risk categories related to business activities. Also, it defines procedures to be followed in the process of approving and underwriting risk.

Risk Controlling, as well as risk management control function, ensure an integral framework for control and supervision of all risk types. The primary goal of Risk Controlling is to coordinate implementation of instruments, methods, parameters and standards, to measure and supervise risk to avoid threatening situations and improve the risk rate/return within risk limits. It includes:



- a. Defining risk measurement methodologies and parameters (closely with risk management functions)
- b. Implementation of risk measurement and risk control
- c. Implementation of scenario analyses and stress test in order to examine the impact of extreme and strong crisis to the position of the bank
- d. Reporting on risks on aggregate level.

Risk Controlling independently controls the efficiency of risk management processes which has to include regular and timely identification, measurement, assessment, coping, monitoring and control of risks including assessment and reporting on the risks the bank is or might be exposed to in its business. Risk Controlling informs the Audit Committee, the Risk Committee and the Supervisory Board, with notification to the Management Board for timely and efficient implementation of received recommendations for eliminating legal breaches, irregularities, shortcomings and weaknesses revealed in controls.

Credit risk management is primarily implemented in organisational units Credit Risk Management CORP., SE, FI & LRG, Retail Credit Risk Management, Special assets management Non-Retail & SE and Collaterals and Retail Collection and Risk Controlling performs the control.

Taking and direct responsibility for liquidity market risk and interest rate risk in the banking book management on an operating level is implemented in the organisational unit Treasury, while control is carried out within Risk Controlling.

The Risk Controlling unit also provides guidelines for the management of operational risks, and controls them by checking the implementation and efficiency of the risk management methods and processes.

**The Bank makes self-assessment of the individual risk management system by:**

- a) Controlling the limit utilisation:
- b) Controlling the objectives that are continuously being monitored and reviewed.

Namely, their fulfilment, and maintenance of limits within legally defined parameters is a direct indicator of adequacy of policies, management, methodology, evaluation/measurement and appropriate internal control system procedures. All these limits and objectives impact the overall business operations and financial results of the Bank.

The principles, policies, procedures and responsibilities for individual risk management are defined in the internal documents that are integral part of the risk management process and are evaluated as adequate. Namely, they have appropriate volume compared to the current level of assumed risks, as well as future assessments.

Also, through the established methodology of monitoring implementation of individual key control activities described in the Bank's documents, the Bank makes self-assessment of the implementation. The internal control system comprises all activities that are being taken within the Bank which have been designed for the purpose of achieving the following goals:

- Adequacy, compliance and (where needed) adjustment of the strategy (strategic goals)
- Efficiency and effectiveness of business operations (business goals)
- Reliability of the financial reporting (financial objectives)
- Compliance with the applicable laws and regulations (goals related to implementation of the compliance in work)

The internal control system comprises 5 stages:

- Phase 1: Prioritisation of key documents describing key control activities, the implementation of which will be subject to examination for the current year;
- Phase 2: Documenting the process - performed by document owners and control;
- Phase 3: Defining the manner of testing the implementation of key control activities;
- Phase 4: Implementation and documenting of key control activities - made by control owners;

- Phase 5: Testing the implementation of key control activities - performed by the control owners and the Organisation and ICS Unit.

### **c) Scope and characteristics of the risk reporting system and risk measurement methods;**

Aimed at an adequate management of the Bank's capital position and structure and liquidity, monitoring and alignment of the capital and liquidity balance with the prescribed standards and goals set in the business strategy, capital plan, the risk appetite framework and the risk strategy, the Bank established the system of regular reporting on performance, projections and future needs for capital and liquidity. In addition to regular monthly reports, Capital report, ALCO report and Financial and Economic Outlook, the Bank's Management Board is also being reported on monthly level on status of the Bank's Risk Appetite Framework and the statuses of the Bank's Recovery Plan. ALCO is informed on a monthly basis about the statuses of the indicators of the Recovery Plan.

At the quarterly level, the Risk Committee, the Bank's Management and the Supervisory Board are reported on the results of the ICAAP, the trend of RWA according to local standards and the key determinants of the Risk Appetite Framework. If necessary, the Bank prepares ad hoc reports and presentations on performance, changes and impacts of the macroeconomic environment on the Bank's operations, future asset movements, level of capital adequacy, level of liquidity adequacy, liquidity indicators, maturity and currency adjustment of the Bank's assets and liabilities.

Also, on an annual basis, the Bank assesses the significant risks to which it is exposed or could be exposed in its operations, and based on its risk profile, it includes them in the calculation of the internal capital requirement, taking into account the complexity of the business activities it performs and the state of the political and economic environment in which it operates. By adopting the Risk Appetite Framework, the Bank sets limitations of the level of overall risk which the Bank is ready and able to take when implementing its strategic and business goals. The Bank has established the risk management framework in a way that it owns the management, control and reporting system through a clear and structured division of roles in the risk management system.

The Bank has established an appropriate system of regular monitoring and reporting to members of the Bank's Management Board, Supervisory Board, Supervisory Board committee (Audit Committee, Risk Committee, Remuneration Committee and Nomination Committee), FBiH Banking Agency and other relevant bodies on the Bank's exposure to certain types of risks, compliance with the established system of limits, policies, plans and strategies, measures for their control and mitigation, as well as their impact on the planned operations of the Bank.

Reporting lines comply with the regulatory and internal requirements, the defined timelines and the data in the report provide clear insight to senior management of the Bank in the risk profile of the Bank as well as key financials and the Bank's portfolio quality. At the meetings of the Management Board and the Supervisory Board and their relevant Boards, reports are actively discussed and a detailed overview of the portfolio at a certain reporting date, the level of realisation of set goals, risk exposure, and planned activities to be undertaken by the Bank are shown. Also, at the meetings of the aforementioned management functions, identification, risk assessment and measurement reports, stress testing, internal capital calculation, capital Planned, as well as reports of control functions on a monthly, quarterly and annual level are presented and discussed, depending on the issues addressed in the report. These reports are the basis for making strategic and business decisions of the competent managing bodies.

Reports are prepared on a daily, monthly, quarterly, semi-annual and annual basis depending on the type, purpose and end user of the report.

The tables below provide an overview of the key internal and regulatory reports that the Bank prepares in the process of risk reporting systems within the ICAAP and ILAAP processes, as well as the frequency of preparation and their end users.

**Key ICAAP reports:**

No.	Key report's name	Frequency	Banking Agency of the Federation of Bosnia and Herzegovina	Republika Srpska Banking Agency	Supervisory Board	Management Board	Audit Committee	Risk Committee	Outsourcing Management Board	Operational Risk Management & Controls Committee	Assets and Liabilities Committee - ALCO	RBI
1	ICAAP and ILAAP implementation report	annually	x		x	x		x				
2	Risk Controlling Activity Report	quarterly	x		x	x	x					
3	Risk Controlling Activity Report	annually	x		x	x	x					
4	Annual Risk Controlling Activity Plan	annually	x		x	x	x					
5	Risk assessment	annually			x	x		x				
6	Risk assessment report	annually			x	x						
7	Recovery Plan	annually	x		x	x						

No.	Key report's name	Frequency	Banking Agency of the Federation of Bosnia and Herzegovina	Republika Srpska Banking Agency	Supervisory Board	Management Board	Audit Committee	Risk Committee	Outsourcing Management Board	Operational Risk Management & Controls Committee	Assets and Liabilities Committee - ALCO	RBI
8	Information on the Status of Recovery Plan Indicators of Raiffeisen Bank d.d. Bosnia and Herzegovina	Monthly				x						
9	Monthly Risk Results	Monthly				x						
10	Monthly Bank Results	Monthly				x						
11	Report on Stress Test Results	annually	x		x	x		x <sup>1</sup>				
12	Operating report by Risk Controlling (covers market risks, operational risks, credit fraud risk, integrated risk management and among others, RAF reporting)	quarterly			x	x						

<sup>1</sup> Informs on the implementation status and stress test results

No.	Key report's name	Frequency	Banking Agency of the Federation of Bosnia and Herzegovina	Republika Srpska Banking Agency	Supervisory Board	Management Board	Audit Committee	Risk Committee	Outsourcing Management Board	Operational Risk Management & Controls Committee	Assets and Liabilities Committee - ALCO	RBI
13	Information on the value of indicators of the Risk Appetite Framework Risk Appetite Framework)	Monthly				x						
14	Report NPA Action Plan - achievement	quarterly	x		x	x						
15	Report to the Risk Committee (materials for the meeting)	quarterly			x			x				
16	ALCO report (materials for the meeting)	Monthly									x	
17	Monitoring of the Non-Retail Credit Policy	monthly/ internally to B-1 functions										
18	Reposessed assets	annually			x	x						
19	Collateral portfolio report	quarterly				x						

No.	Key report's name	Frequency	Banking Agency of the Federation of Bosnia and Herzegovina	Republika Srpska Banking Agency	Supervisory Board	Management Board	Audit Committee	Risk Committee	Outsourcing Management Board	Operational Risk Management & Controls Committee	Assets and Liabilities Committee - ALCO	RBI
20	Collateral portfolio report	annually			x							
21	Analysis of realised collaterals - backtesting of discount rates	annually				x						
22	Form BA 90 /BA 48 Acceptable and unacceptable collaterals	quarterly	x		x							
23	Report on the interest risk in the banking book	quarterly	x		x	x					x	
24	Reports on interest rates	Monthly	x									
25	Operational risk assessment	annually				x				x		x
26	Scenario Analyses	annually				x				x		x
27	Risk treatment plans	annually				x				x		x

No.	Key report's name	Frequency	Banking Agency of the Federation of Bosnia and Herzegovina	Republika Srpska Banking Agency	Supervisory Board	Management Board	Audit Committee	Risk Committee	Outsourcing Management Board	Operational Risk Management & Controls Committee	Assets and Liabilities Committee - ALCO	RBI
28	Operational Risk Report (C 17.00a, C 17.00b)	quarterly	x		x	x						
29	Capital Adequacy Report (C 01.00, C 02.00, C 03.00, C 04.00)	quarterly	x		x	x						
30	Credit risk reports (C 07.00.a, C 07.00.b, C 07.00.c, C 07.00.d)	quarterly	x		x	x						
31	Capital requirement for Operational Risk (C 16.00),	quarterly	x		x	x						
32	Market Risk Capital Requirements (C18.00, C 21.00, C 22.00, C 23.00)	quarterly	x		x	x						
33	Large Exposures Reporting Set (C 26.00, C 27.00, C 28.00, C 29.00)	quarterly	x		x	x						



No.	Key report's name	Frequency	Banking Agency of the Federation of Bosnia and Herzegovina	Republika Srpska Banking Agency	Supervisory Board	Management Board	Audit Committee	Risk Committee	Outsourcing Management Board	Operational Risk Management & Controls Committee	Assets and Liabilities Committee - ALCO	RBI
34	The Registry of Outsourced Activities Report, consisting of two forms: BA 40.01 and BA 40.02;  Outsourcing risk reports, as required by the form BA 41.00	annually	x		x	x			x			
35	BA 100.00 - Credit risk staging of loans with approved special measures <sup>2</sup>	Monthly	x									
36	BA 101 - Overview of special measures <sup>3</sup>	Monthly	x									
37	IFC Asset quality report	quarterly										x

<sup>2</sup>It was prepared until the reporting date 31.12.2022. After this data, there is no reporting obligation any more

<sup>3</sup>It was prepared until the reporting date 31.12.2022. After this data, there is no reporting obligation any more

No.	Key report's name	Frequency	Banking Agency of the Federation of Bosnia and Herzegovina	Republika Srpska Banking Agency	Supervisory Board	Management Board	Audit Committee	Risk Committee	Outsourcing Management Board	Operational Risk Management & Controls Committee	Assets and Liabilities Committee - ALCO	RBI
38	IFC/ MIGA (Multilateral Investment Guarantee Agency) Report	annually										x
39	MinAPR monitoring	quarterly										x
40	PQR (Portfolio Quality Report Micro and PI)	Monthly				x						x
41	Test Limit monitoring	Monthly										x
42	CTM - Credit Trigger Monitoring	Monthly										x
43	Overrule Report PI and Micro	Monthly										x
44	CRO Call	quarterly										x
45	BA 84 - Financial assets	quarterly	x		x	x						
46	BA 85 - Off-balance sheet items	quarterly	x		x	x						

No.	Key report's name	Frequency	Banking Agency of the Federation of Bosnia and Herzegovina	Republika Srpska Banking Agency	Supervisory Board	Management Board	Audit Committee	Risk Committee	Outsourcing Management Board	Operational Risk Management & Controls Committee	Assets and Liabilities Committee - ALCO	RBI
47	BA 86 - Sector structure of loans based on NACE activity code	quarterly	x		x	x						
48	BA 87.00 Loan trends in credit risk stage 3	quarterly	x		x	x						
49	BA 88.00 a) Trend of accounting write-off BA 88.00 b) Permanent write-off	quarterly	x		x	x						
50	BA 89.00 Balance and trends of expected loan losses for the financial assets per amortized costs	quarterly	x		x	x						
51	Non-Retail Portfolio report	Monthly				x						
52	RBBH Portfolio - SE & SMB Report	Monthly										x

No.	Key report's name	Frequency	Banking Agency of the Federation of Bosnia and Herzegovina	Republika Srpska Banking Agency	Supervisory Board	Management Board	Audit Committee	Risk Committee	Outsourcing Management Board	Operational Risk Management & Controls Committee	Assets and Liabilities Committee - ALCO	RBI
53	Risk concentration	Monthly									x	
54	Related entities and entities in special relationship with RBBH	quarterly			x	x						
55	Agreements with Persons in a Special Relationship with the Bank	annually			x	x	x					
56	Supervisory stress testing	biennial	x									
57	Annual Activity Plan and Compliance Risk Assessment	annually			X	X						
58	Compliance Activity Report	Quarterly (semi-annual/annual)	X		x	x						

No.	Key report's name	Frequency	Banking Agency of the Federation of Bosnia and Herzegovina	Republika Srpska Banking Agency	Supervisory Board	Management Board	Audit Committee	Risk Committee	Outsourcing Management Board	Operational Risk Management & Controls Committee	Assets and Liabilities Committee - ALCO	RBI
59	Report of the Conflict of Interest Policy implementation	annually			X	X						

**KEY ILAAP REPORTS:**

No.	Report name	Frequency	Banking Agency of the Federation of Bosnia and Herzegovina	Supervisory Board	Management Board	Audit Committee	Risk Committee	Outsourcing Management Board	Operational Risk Management & Controls Committee	Asset and Liability Committee	RBI	CBBH
1	C 72.00.a - Liquidity coverage - Liquid Assets (K 72 LCR - Li.a) (total+currencies)	Monthly	x									
2	C 73.00.a - Liquidity coverage - Outflows (K 73 LCR - LO.a) (total+currencies)	Monthly	x									
3	C 74.00.a - Liquidity coverage - Inflows (K 74 LCR - LP.a) (total+currencies)	Monthly	x									
4	C 75.00.a - Liquidity coverage - Collateral Exchange (K 75 LCR - RK.a) (total + currencies)	Monthly	x									
5	C 76.00.a - Liquidity coverage - Calculations (K 76 LCR - Calculation.a) (total+currencies)	Monthly	x							x		

No.	Report name	Frequency	Banking Agency of the Federation of Bosnia and Herzegovina	Supervisory Board	Management Board	Audit Committee	Risk Committee	Outsourcing Management Board	Operational Risk Management & Controls Committee	Asset and Liability Committee	RBI	CBBH
6	C 76.00.a - Liquidity coverage - Calculations (K 76 LCR - Calculation.a) (total+currencies)	quarterly		x	x							
7	Liquidity_Risk_Report_RBBH (All+currencies)	Daily									x	
8	Liquidity_Risk_Report_RBBH (All+currencies)	monthly								x		
9	Liquidity_Risk_Report_RBBH (All+currencies)	quarterly		x	x							
10	NNT report ( GC +Stress test scenario )	Monthly								x		
11	NNT report ( GC +Stress test scenario )	quarterly		x	x							
12	C80.00 Required Stable Funding (RSF) NSFR (total+ccy)	quarterly	x	x	x							
13	C81.00 Available Stable Funding (ASF) NSFR (total+ccy)	quarterly	x	x	x							
14	C84 .00 - NSFR calculation (total+ccy)	quarterly	x	x	x							

No.	Report name	Frequency	Banking Agency of the Federation of Bosnia and Herzegovina	Supervisory Board	Management Board	Audit Committee	Risk Committee	Outsourcing Management Board	Operational Risk Management & Controls Committee	Asset and Liability Committee	RBI	CBBH
15	C84.00 - NSFR calculation (total+ccy)	Monthly								x		
16	TTW_StressTest_RBBH (All+currencies)	Daily									x	
17	TTW_StressTest_RBBH (All+currencies)	Monthly								x		
18	TTW_StressTest_RBBH (All+currencies)	Quarterly		x	x							
19	Monitoring of LCR_DA_RBBH_TOTAL (total+currencies)	Monthly								x		
20	LCR_DA_RBBH_TOTAL (total+currencies)	Daily									x	
21	Monitoring of LCR_DA_RBBH_TOTAL (total+currencies)	quarterly		x	x							
22	NSFR_RBBH_TOTAL (total+currencies)	Daily									x	
23	Monitoring of NSFR_RBBH_TOTAL (total+currenices)	Monthly								x		



No.	Report name	Frequency	Banking Agency of the Federation of Bosnia and Herzegovina	Supervisory Board	Management Board	Audit Committee	Risk Committee	Outsourcing Management Board	Operational Risk Management & Controls Committee	Asset and Liability Committee	RBI	CBBH
24	Monitoring of NSFR_RBBH_TOTAL (total+currenices)	quarterly		x	x							
25	ALCO report	Monthly								x		
26	CBC report	Monthly										
27	Early warning indicators of a liquidity crisis (LCR/NSFR)	Daily										
28	LCR simulation (15 daily if necessary more)	Monthly								x		
29	NSFR simulation (15 daily if necessary more)	Monthly								x		
30	HQLA Report	Monthly										
31	Control and monitoring (internal monthly control of LCR reports)	Monthly										

No.	Report name	Frequency	Banking Agency of the Federation of Bosnia and Herzegovina	Supervisory Board	Management Board	Audit Committee	Risk Committee	Outsourcing Management Board	Operational Risk Management & Controls Committee	Asset and Liability Committee	RBI	CBBH
32	Control and monitoring (internal monthly control of NSFR reports)	Monthly										
33	Control and monitoring (FTP-fund transfer pricing)	Monthly										
34	Control and monitoring (maturity match, reconciliation of GC reports, LCR reports)	Monthly										
35	Liquidity position analysis	Daily										
36	Liquidity position	Daily										
37	Deposits and loans development report	Daily										
38	Deposits concentration report	by-weekly								x		
39	A/L maturity match simulation	by-weekly								x		

No.	Report name	Frequency	Banking Agency of the Federation of Bosnia and Herzegovina	Supervisory Board	Management Board	Audit Committee	Risk Committee	Outsourcing Management Board	Operational Risk Management & Controls Committee	Asset and Liability Committee	RBI	CBBH
40	Countermeasure report	quarterly								x		
41	Countermeasure report	Monthly									x	
42	3 M liquidity report	Monthly								x	x	
43	Early warning indicators of a liquidity crisis	Monthly								x		
44	Foreign account balance	4xday										
45	ALCO	Monthly								x		
46	ALM	Monthly								x		
47	Analysis of deposits maturing per month	Monthly										
48	Moap rates	Monthly										
49	Regulatory reporting (whole regulatory report set)	daily, monthly,	x	x	x							

No.	Report name	Frequency	Banking Agency of the Federation of Bosnia and Herzegovina	Supervisory Board	Management Board	Audit Committee	Risk Committee	Outsourcing Management Board	Operational Risk Management & Controls Committee	Asset and Liability Committee	RBI	CBBH
		quarterly, annually										
50	Monthly Bank Results	Monthly			x							
51	AOD report	Monthly										
52	Risk Controlling Activity Report	quarterly/ annually	x	x	x	x						
53	Risk Controlling Activity Plan	annually	x	x	x	x						
54	Risk assessment	annually		x	x		x					
55	Recovery Plan	annually	x	x	x							
56	Monthly Risk Results	Monthly			x							
57	Report on Stress Test Results	annually	x	x	x		x					
58	Operative report of Risk Controlling	quarterly		x	x							

No.	Report name	Frequency	Banking Agency of the Federation of Bosnia and Herzegovina	Supervisory Board	Management Board	Audit Committee	Risk Committee	Outsourcing Management Board	Operational Risk Management & Controls Committee	Asset and Liability Committee	RBI	CBBH
59	Report to the Risk Committee	4xper year		x	x		x					
60	Information on the Status of Recovery Plan Indicators of Raiffeisen Bank d.d. Bosnia and Herzegovina	Monthly			x							
61	Mandatory reserve calculation	by-weekly										x
62	Annual outsourcing report	Annually	x	x	x			x				

## **Credit risk**

According to the local regulations and relevant credit policies defined in cooperation with RBI, monitoring and reporting on credit risk management, and mitigating and limiting methods are conducted in a timely manner and with special care.

Particular focus is placed on defined limitations, i.e. maximum risk concentrations, the trends of qualitative and quantitative indicators of the Bank's loan portfolio, the fulfilment of defined goals and sufficient use of set limits. The purpose of the above is control and compliance with the defined risk appetite, proactive and timely action in case of violation, protection from significant credit risks and making adequate business decisions at all levels of decision-making.

For the purpose of monitoring and control of credit risk, portfolio trends by credit risk levels are measured regularly, which includes total portfolio migration from better to worse credit risk levels and vice versa, migrations by product types, industries, default and others.

The Bank has implemented the credit risk management framework documented via written internal documents. It contains a reporting system, clear structure and allocation of roles in the credit risk management system, separate functions of risk assumption and management.

Strict rules of risk taking are being defined and limited by regularly revised credit policies. Facility approval process is supported by the system. It has also developed a tool for monitoring EWS that continuously assists in portfolio monitoring and taking timely actions.

Credit risk also includes concentration risk that is being managed primarily via the system of defined limits and via their regular monitoring.

PQR (Portfolio Quality Report) for Private individuals and Micro enterprises and Portfolio report Non-retail are created on regular monthly basis. Retail Risk Portfolio Management and Validation and Portfolio Management and Reporting Non-retail present these reports to the Management Board.

Credit risk, as one of the most significant risks, is measured by monitoring the level of exposure to individuals, industries, maturity, product type, currency, internal rating, average default probability, default rate, collateral and other relevant parameters for managing this risk.

In accordance with the laws and bylaws in Bosnia and Herzegovina, and in order to manage credit risk in RBBH, the Credit Risk Management Unit reports to internal and external users.

The reports for the needs of the Bank's Management Board and senior management contain information on credit risk exposure, newly approved placements, credit risk level, product type, days past due and belonging to industry. Delinquency information is used to monitor the status and characteristics of a portfolio that shows early warning signs.

Other internal users are reported as needed for the purpose of reviewing and analysing the portfolio, and defining sales activities. In determining the capital requirement for credit risk in accordance with the Decision on Capital Calculation in Banks, the Bank applies a standardized approach.

## **Operational Risk**

Operational risk management includes identification, measurement, management and monitoring of exposure, resulting from inadequate or unsuccessful internal processes, human interaction and system, or external events.

Operational risk management framework consists of processes, structures, controls and systems being applied in the operational risk management, thus ensuring establishment of key managing elements and operational activities.

Operational risk management and controlling contributes to strengthening of business goals and regulatory requirements.

The Bank has established an operational risk management framework/ORMF as defined in written instructions/operating procedures, has an established system of reporting management/supervision bodies, clear and structured distribution of roles in the operational risk management system.

As for the operational risk segment, the bank includes all business lines, applies the operational risk assessment methodology, performs scenario analysis, collects data on operational risk events and monitors early warning signs. This resulted in development of treatment plans to avoid operational risks. Therefore, we find there are no sources of operational risk that have not been fully captured by the minimum capital requirement for the operational risk.

The Bank has implemented the operational risk management framework documented via written internal documents. It contains a reporting system, clear structure and allocation of roles in the operational risk management system. The Bank ensured a system support via an application for collection of operational risks, risk assessment, implementation of scenario analysis.

All stated above provides an adequate risk management and implementation of standards. Also, appetite and tolerance were established in total loss amount under operating risk, loss amount by types of events of operating risk and based on belonging risk sub-categories as the achieved loss of operating risk annualised.

The Bank concludes that the policy, management, methodology of assessment/measurement have been established on an adequate level of quality and eligibility.

The implementation framework for operating External Fraud includes its significant sub-categories: cyber risk, information and communication technology risk, outsourcing risk and internal and external fraud risk.

The bank uses a database for the process of management and control of operational risk exposure, all operational risk events are recorded within the Archer database (event collection module). Data entries are made by operational risk managers / operational risk experts. The control function of operational risk is responsible for the quality of data in the base and for reporting.

For the calculation of capital requirements for operational risk, the bank uses data from the core system (balances and income and expense accounts) and the OFSA controlling report (income by business lines). With OFSA it is possible to allocate all income/costs by business lines, based on a 2-dimensional framework - product/service to which the income/cost is related and the type of customer holding the product/service.

### ***Interest rate risk in the banking book***

The management process over the IR risk in the banking book is seen as adequate. There is a clear segregation of organisational parts in charge of risk taking and risk control.

As for the methodology used to determine effects on profit, i.e. net interest income, the Bank calculated economic value of the banking book. Appetite, tolerance and capacity for interest rate risk have been established from the aspect of the ratio of changes in the economic value of the banking book in relation to regulatory capital. Internal limits have been established to change the present value by one basis point (so-called BPV limits). VaR and interest rate risk measurement system that includes all significant sources of interest rate risk are established. IR risk measurement system is in place that encompasses all major sources of IR risk.

Adequate escalation procedures are defined in case of exceeding internal and regulatory limits.

The Bank concludes that the policy, management, methodology of assessment/measurement and relevant ICS have been established on a high level of quality and eligibility.



To measure the exposure to interest rate risk, the openness of the interest rate risk position is used according to the date of the next interest rate change, i.e. according to the maturity date. The process of measuring and managing interest rate risk also includes the projection of changes in the bank's net interest income for the future period based on the scenario of changes in interest rates. The Bank has a Rulebook with a special part on market risk management, as well as an internal instruction for creating reports on interest rate risk in the banking book as required by local regulation, which clearly define procedures and manners on interest rate risk reporting, procedures in cases of exceeding the thresholds (*risk thresholds*) with defined activities for acting on the issue. The Bank also has application solutions for monitoring limits, which contain data on the amounts of limits, which are available to both risk units and risk takers and from which reports on the status of use of limits are generated.

### **Liquidity risk**

The Bank has established a sound liquidity risk management framework that includes strategies, policies, procedures, methodologies as well as ensuring a sufficient level of liquidity.

The implemented framework of liquidity risk management includes all significant sub-categories:

- Liquidity financing risk
- Short-term liquidity risk
- Concentration of funding risk

A stable process for identifying, measuring, monitoring and controlling liquidity risk has also been established. Appetite, tolerance and liquidity risk capacity have been established. Additionally, the Bank has adequately established a distribution mechanism, i.e. it has incorporated liquidity costs, benefits and risks into the price of products, profitability management for all significant business activities (on-balance sheet and off-balance sheet).

The Bank has established a strategy for sources of funds that ensures diversification of sources and maturities of funding. The Bank actively manages daily liquidity positions and risks in order to timely meet payment and settlement obligations in normal and stressful conditions and thus contributes to the smooth functioning of the payment and settlement system.

The Bank has a formal Contingency Financing Plan that clearly sets out strategies to address liquidity shortfalls in extraordinary situation.

Adequate escalation procedures are defined in case of exceeding internal and regulatory limits.

The Bank concludes that the policy, management, methodology of assessment/measurement and relevant ICS have been established on a high level of quality and eligibility.

Liquidity risk management is based on monitoring various indicators, maturity transformation rules of on-balance sheet and off-balance sheet items. To measure liquidity risk exposure, in addition to regulatory indicators (LCR, NSFR), the Bank also uses internal indicators such as the liquid assets to total assets ratio, the loans and funding sources ratio, cash balances (monitoring daily liquidity), monitoring the minimum legal reserves, gap analysis (stressed under normal conditions) which indicates a mismatch in the profiles of remaining maturities, assets and liabilities and others.

Monitoring, control and reporting for liquidity risk are described in the umbrella documents of Risk Controlling/ Market Risk Management, which are the Liquidity Risk Manual and Procedures, as well as in the document the Overview of Liquidity Risk Limits, which describe in detail the methods and systems of liquidity risk monitoring, the frequencies and methods of controls, as well as internal reporting, reporting to the Bank's Management and Supervisory Boards, as well as Alco, and regulatory reporting.

#### **d) Adequacy of the established risk management system vs its risk profile and business policy and strategy;**

Risk management and Risk controlling (as business functions) are an integral and inseparable part of overall business activities of the Bank. In addition to legal and regulatory requirements, the above functions take into account the particular nature, scale, and complexity of business activities and resulting risks in risk and capital management. Recognition, measurement, mitigation, restriction, controlling and monitoring of all material risks and assessment of business activities through return on risk-adjusted capital is ensured in all management levels.

The adequacy of the Bank's risk management system considers the following aspects:

- ✓ Involvement of the highest hierarchical levels in risk management - Responsibility and actual involvement of the highest hierarchical levels of the Bank in the management of identified significant risks through regular and ad-hoc risk reports.
- ✓ Activities of internal control functions -scope and quality of activities of the internal control functions (risk management function, compliance function, internal audit function) in the risk management area and compliance.
- ✓ Quality of reporting - quality of internal reporting on risks of relevant organisational and hierarchical levels, Reporting of control functions and IT support for the above.

At the meetings of the Supervisory Board, the meetings of the Supervisory Board committees (Audit Committee, Risk Committee, Remuneration Committee and Nomination Committee) and the meetings of the Bank's Management Board, reports are discussed actively and presented to show a detailed overview of the portfolio at a certain reporting date, the level of implementation of the set goals, exposure to risks, as well as planned activities that the Bank should undertake in order to achieve the aforementioned positions.

The Bank's Supervisory Board, in the context of the risk management system, takes the highest-level decisions, supervises risk, capital and liquidity management, ensures the definition and implementation of business plans and business strategies, as well as risk strategies, ensures implementation of risk management principles in regular business activities, monitors and manages the risks to which the Bank is or may be exposed in its operations in order to achieve the set business plans, and ensures the establishment of control functions and compliance with regulatory regulations. The Bank's Management Board, in the context of the risk management system, is responsible for complying with the regulatory framework, ensuring adequate implementation of adopted strategies and rules in the bank's regular operations, assessing the bank's internal capital and liquidity, and establishing control functions and internal control systems in business activities.

The activities of the aforementioned functions are reflected through:

- ✓ Establishing and implementing the internal management system (clearly separated business functions of risk taking from risk management and control and risk is defined under the Rules on Organisation and Job Classification of the Bank)
- ✓ Determining proposals for the business policy and strategy of the Bank, policies, procedures and other internal regulations for risk assumption and management
- ✓ Defining goals, regular monitoring and control of their fulfilment

Relevant management bodies act in a timely manner in the area of risk management, in accordance with the presented data from the report give their recommendations and make decisions, and are active participants in the risk management system thus ensuring the maintenance of an acceptable risk profile of the Bank. Accordingly, the overall risk profile of the Bank, as well as future developments in the macroeconomic environment and their impact on risk importance are taken into account when defining and adopting the annual budget, strategic and business plan, and the Bank's capital plan.

The connection and adjustment of the process of strategic and financial planning with the risk management process is reflected in the Bank's risk strategy, i.e. the process of determining risk management goals based on medium-term business plans and establishing an adequate environment for risk-related business decisions. The subject connection is expressed through a defined Risk Appetite Framework in which risk appetite and specific risk goals arise out of the medium-term business goals, available and planned capital and liquidity and thus shape future business risk-related decisions.

Accordingly, the Bank assesses that the established risk management system is adequate compared to its risk profile, business policy and strategy; The assessment of adequacy according to significant basic risk categories is given below:

### **Credit risk**

The Bank has implemented the credit risk management framework documented via written internal documents. It contains a reporting system, clear structure and allocation of roles in the credit risk management system, separate functions of risk assumption and management.

Strict rules of risk taking are being defined and limited by regularly revised credit policies. Facility approval process is supported by the system. It has also developed a tool for monitoring EWS that continuously assists in portfolio monitoring and taking timely actions.

Credit risk also includes concentration risk that is being managed primarily via the system of defined limits and via their regular monitoring.

with respect to residual risk management and in accordance with the Instructions for Appraisers and Market Value Evaluation of Collateral, the Bank took a direct agreement of appraisal in order to have an independent collateral valuation process.

The Bank concludes that the credit risk management policies and the internal control system assessment/measurement methodology are at a satisfactory level.

### **Market Risk**

The market risk management process is seen as adequate. There is a clear segregation of organisational parts in charge of risk taking and risk control. Market risk exposures are being capped via adequate internal limit types being regularly revised and monitored. Appetite, tolerance and currency risk capacity have been established. Adequate escalation procedures are defined in case of exceeding internal and regulatory limits.

The Bank concludes that the policy, management, methodology of assessment/measurement and relevant ICS have been established on a high level of quality and eligibility.

### **Operational Risk**

The Bank has implemented the operational risk management framework documented via written internal documents. It contains a reporting system, clear structure and allocation of roles in the operational risk management system. The Bank ensured a system support via an application for collection of operational risk events.

All of the above mentioned enables an adequate management of this risk type and implementation of relevant standards (collecting events of operational risk, assessment of operational risks, scenario analysis, early warning indicators and risk management plans). Also, appetite and tolerance were established in total loss amount under operating risk, loss amount by types of events of operating risk and based on belonging risk sub-categories as the achieved loss of operating risk annualised.

The Bank concludes that the policy, management, methodology of assessment/measurement have been established on an adequate level of quality and eligibility.

The implementation framework for operating External Fraud includes its significant sub-categories: cyber risk, information and communication technology risk, outsourcing risk and internal and external fraud risk.

### **Interest rate risk in the banking book**

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Adequate escalation procedures are defined in case of exceeding internal and regulatory limits.

The Bank concludes that the policy, management, methodology of assessment/measurement and relevant ICS have been established on a high level of quality and eligibility.

Taking into account the Decision on the Management of Interest Rate Risk in the Banking Book (U.O. number:-17-05/23 of 15.12.2023, the banks will comply with the new Decision and the given final date for its implementation.

### **Liquidity risk**

The Bank has established a sound liquidity risk management framework that includes strategies, policies, procedures, methodologies as well as ensuring a sufficient level of liquidity.

The implemented framework of liquidity risk management includes all significant subcategories: liquidity funding risk, ST liquidity risk, concentration risk of funding sources

A stable process for identifying, measuring, monitoring and controlling liquidity risk has also been established.

Appetite, tolerance and liquidity risk capacity have been established. Additionally, the Bank has adequately established a distribution mechanism, i.e. it has incorporated liquidity costs, benefits and risks into the price of products, profitability management for all significant business activities (on-balance sheet and off-balance sheet).

The Bank has established a strategy for sources of funds that ensures diversification of sources and maturities of funding. The Bank actively manages daily liquidity positions and risks in order to timely meet payment and settlement obligations in normal and stressful conditions and thus contributes to the smooth functioning of the payment and settlement system.

The Bank has a formal Contingency Financing Plan that clearly sets out strategies to address liquidity shortfalls in extraordinary situation.

Adequate escalation procedures are defined in case of exceeding internal and regulatory limits.

The Bank concludes that the policy, management, methodology of assessment/measurement and relevant ICS have been established on a high level of quality and eligibility.

### **Other risks**

#### **Macroeconomic risk (BiH), capital and strategic risk**

Management of macroeconomic risk (BiH), capital risk and strategic risk, has been integrated into the decision-making processes on activities, plans and strategies of the Bank for the forthcoming period. Macroeconomic risk management (BiH) is continuous, encompassed through activities of planning business activities, capital and liquidity, monitoring the achievement of goals and analysing the possible impact of the macroeconomic environment on business, capital and liquidity and the same is considered adequate.

The Bank adjusts its activities, plans and business strategies to the current and forecast economic, business and political environment in which it operates in order for the Bank to successfully adapt to changes in the macroeconomic environment by reducing the impact of macroeconomic risk (BiH) to potential deviations from the Bank's extent to the lowest measure possible.

Capital risk management is basically related to risk management on capital (credit, market risks, operational risk, etc..) within which the Bank applies unique methods of identifying, measuring, mitigating, limiting, controlling and monitoring risks in order to ensure business continuity. The Bank has an adequately defined Risk Appetite Framework that is in line with the business plan and capital plan.

Strategic risk management is adequate. Potential adverse changes in the economic, business and political environment are integrated into the Bank's long-term development strategy, business plans and business decisions through the budgeting process, the medium-term business planning process and stress testing in a way that the resulting indicators of the Bank are put in proportion to the prescribed regulatory and internal limits.

### **Reputation risk**

Reputation risk in the Bank is assessed by self-assessment methodology by all B1 heads and with additional assessment by Compliance on annual basis. Additionally, in regular activities of Compliance, on ad hoc basis, from case to case, Compliance can conduct extraordinary assessment of reputation risk based on the matrix prescribed by the valid Manual on Regulatory Changes Management and Compliance Risk. Based on the assessment, actions and recommendations are given for risk mitigation.

Additionally, in the process of new product approval, process digitalisation and automation, Compliance gives its opinion, if necessary, regarding reputation risk.

Mitigations measures in a rule are implemented with the Marketing department and a relevant business unit.

Managing this risk is defined under internal procedures, especially taking into account that reputation risk-related regulations are very scarce.

From the aspect of internal control system, reputation risk is a part of the overall internal control system, which includes defining controls / control points aimed to prevent such risk.

### ***e) risk protection policies and policies (information on applied credit risk mitigation techniques), risk mitigation, as well as the methods used by the bank to ensure and monitor efficiency in risk reduction;***

Credit risk mitigation is a technique used to mitigate a financial institution's exposure to credit risk.

The Bank uses acceptable credit protection instruments (various types of collateral) in order to mitigate the risks to which it is exposed. The eligibility of credit protection instruments (collateral) is checked from the point of view of eligibility conditions defined by the legislation in Bosnia and Herzegovina, and the rules of the RBI Group for the valuation of collateral and risk mitigation.

In order to optimally monitor and evaluate credit protection instruments, the Bank has a special group in the organisational structure for monitoring the value of credit protection instruments, independent of the credit process (Collateral Management and Administration group). The Group is in charge of checking the documentation of credit protection instruments, but it also has expert personnel to independently assess the market value of credit protection instruments when approving loan facilities as well as monitoring the value of collateral during the term of loan facilities (internal market value assessment is performed at intervals prescribed by internal regulations). The Bank also monitors the sale of hedging instruments in the process of collecting non-performing loans, and applies the experience from the collection of credit protection instruments in the process of collateral management through backtesting of discount rates applied to certain types of credit protection / collateral.

The Collateral Management Policy and Procedure and the Collateral Management Policy and Manual define basic standards for managing the portfolio of credit protection instruments and the basic principles of eligibility of credit protection instruments in the credit risk mitigation process and minimum corrective factors (discount rates) which the Bank applies to the market value of collaterals in all processes of the Bank. Minimum corrective factors for different types of collateral are in line with applicable legislation and RBI Group GD. The Bank performs annual analysis of adequacy of corrective factors based on the realized sales prices from collateral collection (voluntary and court collection), and if necessary adjusts the amount of corrective factors.

The Bank is guided by the following key standards and principles of acceptability of security instruments in credit risk mitigation techniques:

- ✓ Credit protection should be enforceable in all areas of jurisdiction;
- ✓ Continuous management of risks associated with the credit protection arrangement;
- ✓ Legal certainty ensures that the Bank has the right to cash or retain credit protection assets in the event of default.
- ✓ The degree of correlation between the value of assets representing material credit protection and the creditworthiness of the debtor must not be too high;
- ✓ Determined degree of liquidity of assets (liquidity assessment is an integral part of collateral evaluation and re-evaluation);
- ✓ Regular evaluation of collateral values;
- ✓ Adequate insurance of real estate and movable property under the Bank's mortgage
- ✓ Priority ranking of mortgage registration by the Bank in relation to other creditors (first-ranking mortgages or pari-passu in relation to other creditors).

The main conditions for recognising credit protection by type of collateral are defined by internal regulations.

Current credit policies prescribe the minimum degree of coverage of placements by credit protection (by internal rating, industry, etc.). The current legislation in BiH prescribes mandatory credit protection standards depending on the exposure ratio and the amount of the Bank's capital, as well as the minimum standards that credit protection must meet in order to be acceptable. The value of credit protection instruments obtained by internal assessment is used in the process of approving loan facilities, RWA calculation, provisions.

The Bank uses credit risk mitigation techniques to reduce credit risk related with exposure(s) which the Bank has; this include material and non-material credit protection.

The Bank is the receiver of credit protection.

Material credit protection is a credit risk mitigation technique according to which reduction of credit risk under the Bank's exposure is the result of the Bank's right to cash or transfer to itself, or acquire, or keep, certain assets or amounts, or to reduce exposure amount to the difference between exposure amount and credit protection, in the event of default status of a liability.

Non-material protection is a credit risk mitigation technique based on which credit risk reduction against the Bank's exposure arises out of the third party obligation to pay certain amount in the event of default status of a liability.

Types of credit protection:

MATERIJALNA KREDITNA ZAŠTITA	METODE
Finansijski kolateral (gotovina, vrijednosni papiri, zlato, dionice ili konvertibilne obveznice uključene u glavni berzanski indeks)	Jednostvna ili složena metoda
Dionice ili konvertibilne obveznice uključene u glavni berzanski indeks; Udjeli ili dionice u investicijskim fondovima.	Složena metoda
Ostala materijalna kreditna zaštita: - Gotovinski polozi kod treće institucije, - Polica životnog osiguranja, - Instrumenti koji će na zahtjev biti otkupljeni.	Zamjena pondera dužnika s ponderom pružatelja zaštite
NEMATERIJALNA KREDITNA ZAŠTITA	METODE
Garancije / jemstva	Zamjena pondera dužnika s ponderom pružatelja zaštite

None of the exposures to which risk mitigation technique has been applied must not lead to a larger amount of risk-weighted exposure compared to the identical exposure to which the risk mitigation technique has not been applied.

If the conditions for the recognition of material and non-material credit protection are met, the Bank adjusts the calculation of exposure to risk-weighted risk amount. The Bank considers as collateral: cash, securities or goods which are acquired, borrowed or received under repo transactions or securities/goods borrowed from/lent to other contractual party.

If the Bank uses several instruments for reduction of credit risks which cover one exposure, it must act in the following manner:

- a) divide exposure to parts covered by a certain type of assets for credit risk mitigation
- b) separately calculate the amount of risk-weighted exposure for each part in accordance with item a) hereof.

If the Bank covers one exposure with credit protection of a single provider of credit protection, and such protection has different maturities, the Bank must act in the following manner:

- a) divide exposure to parts covered by a certain type of instrument for credit risk mitigation
- b) separately calculate the amount of risk-weighted exposure for each part as the result of item a) hereof.



Credit risk mitigation is defined in network directives, current credit policies and internal procedures/documents of RBBH. Group network directives and credit policies provide unique guidelines and principles of credit policies for all NWB in order to form a well-diversified risk profile. Based on the Group credit policies which define main portfolio indicators and basic principles/criteria of lending, the RBBH creates credit policy for a segment, and thus the following credit policies are created and adopted every year: RBBH Credit Policy for Non-Retail segment which includes the credit policies for Corporate, SMB, Financial Institutions and Sovereigns, as well as the Umbrella RBBH Credit Policy for Retail together with the Credit Policy for PI and Credit Policies for Micro Customers. The RBBH specifies the following in its credit policies:

- lending criteria / underwriting approval rules,
- portfolio and industrial indicators with quantified limits and restrictions ( caps) and
- portfolio objectives,

for the purpose of determining appropriate risk volume which the bank can absorb. Portfolio indicators are defined by different dimensions of exposure and risk-weighted assets volume (by industries, products, collateral coverage, rating score etc.). Limits or CAPs are also specified by different dimensions. By forming the risk limits, maximum exposure is limited, for example for groups of customers.

Against the data obtained through monthly monitoring of portfolio quality, and in cooperation with Retail Sales employees, Retail Credit Risk Management defines new exposure levels for segments (PI or Micro portfolio).

Retail Risk Portfolio management and validation monitors the quality and performance of the Retail portfolio on a monthly level, with a focus on changes in categories of delinquencies and new defaults. The delinquency report is an integral part of the monthly package of reports submitted to the Bank's Management.

If the strategy towards the customer is the restructuring of obligations with the aim of recovering the customer and collecting the Bank's receivables, the process is initiated immediately, by taking appropriate actions by the responsible persons.

Recognition and further treatment of restructured exposures are defined by valid documents that regulate this matter, such as:

- ✓ Valid decision on credit risk management and determination of expected loan losses of the FBiH Banking Agency;
- ✓ Valid instruction for the classification and valuation of financial assets of the FBiH Banking Agency;
- ✓ Other relevant documentation and regulations by the local legislator;

When it comes to monitoring the exposure in the default status, the relevant departments of the Bank produce a document named "Realisation of the NPA Plan" on a quarterly basis, which is upon adoption by the Management Board delivered to FBA until the end of the month.

**f) f) short description of connections between the bank's risk profile and its business strategy, and also a short overview of the bank's performance indicators regarding risk management and their values, based on which interested participants in the financial market can assess risk management and the method by which risk tolerance is included in the risk management system.;**

Risk Management Strategy and Policy is the highest-level managing instrument and a basic framework for recognizing, measuring, mitigating, limiting, control, and monitoring banking risks. It ensures

internal capital adequacy and liquidity adequacy (ICAAP and ILAAP). This document is based on the Bank's business strategy, regulator's provisions and the Bank's organisational structure as well, and establishes the link between the risk management and business activities in a way that the defined risk management goals are based on the medium-term business goals and the environment has been established for making risk-related business decisions.

The Risk Policy ensures meeting of goals defined by the Risk Strategy. Based on the adopted Risk Strategy and Risk Policy, and in accordance with the principle of proportionality, the bank ensures the establishment of formal procedures in the risk management process, ensuring that they contain sufficiently precise and detailed level of instructions for work and descriptions of work process, including rules and guidelines regarding organisational, operational and procedural requirements, an internal system for assigning tasks related to the decision hierarchy, competencies and responsibilities of staff and implementation of work procedures, rules for monitoring established restrictions for limiting risk exposure, and acting in case of identified irregularities and deviations from established procedures.

Based on the defined business model and business strategy, the Risk strategy is prepared, which puts forward binding standards and procedures of risk-taking and managing and controlling in the Bank, as well as connection between risk management and business activities by setting goals for risk management based on the medium-term business goals and the established environment for making risk-related business decisions.

The risk-taking and management strategy presents a mid-term risk and capital management plan with the objective to achieve a proper quality in risk management.

The risk-taking and management strategy is an internal document presenting the basis for:

- identifying, measuring, mitigating, limiting, controlling and monitoring risks inherent in banking operations;
- ensuring capital and liquidity adequacy,

The risk taking and management strategy and its alignment with the business strategy establish a connection, that is, interdependence between risk management and business activities, i.e. business orientation and risk orientation. The subject connection is expressed through a defined Risk Appetite Framework in which risk appetite and specific risk goals arise out of the medium-term business goals, available and planned capital and liquidity and thus shape future business risk-related decisions. The risk appetite framework is a strategic document of the Bank that is used when making business decisions, defining the Budget, and strategic and operational plans. The above is reflected through the regular monitoring of achievements for the defined indicators from the Risk Appetite Framework in relation to the defined risk appetite and risk tolerance.

The Risk Appetite Framework (RAF) is closely related to the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP), since its main objective is to align strategic and business objectives with the minimum regulatory capital requirements and liquidity requirements under both expected conditions and the conditions of implementation of unfavourable scenarios and major single risk events.

Together with preparation and approval of a top-down risk appetite statement, the defined Risk Appetite Framework (RAF) aims to provide management with a tool to establish and limit the total risk level the Bank is ready and capable of taking in fulfilment of its strategic and business objectives.

RAF key features conceptually rest on the RBI Group features: risk tolerance is lower than the risk taking capacity, and the appetite is lower than the tolerance and higher than the capacity.

Key indicators of the Bank's operations with respect to risk management and their values are published alongside with the annual financial statements of the Bank.

***g) a description of the manner in which the reporting of the Supervisory Board and the Bank's Management Board on risks is ensured, in particular the frequency, area, and the manner of involving the Supervisory Board and the Bank's Management Board in determining the content of reporting***

The Management Board and the Supervisory Board devote sufficient time to risk management issues, furthermore due to its size, volume and type of business activities and in line with the principle of proportionality, the Bank applies all articles of the Decision on Internal Governance System in Bank, which includes establishment of the relevant Supervisory Board committees, which support the Management Board and the Supervisory Board in the risk management process. Frequency of risk treatment and risk issues through regular and ad-hoc risk reports at the Management Board, Supervisory Board and Supervisory Board committees (Risk, Remuneration and Audit Committees) are assessed as sufficient as the Bank's bodies receive regular comprehensive risk reports.

Relevant management bodies act in a timely manner in the area of risk management, in accordance with the presented data from the report give their recommendations and make decisions, and are active participants in the risk management system thus ensuring the maintenance of an acceptable risk profile of the Bank.

Informing the bank's management bodies about risks is defined under the Articles of Association of Raiffeisen BANK dd Bosna i Hercegovina.

Reports submitted to the Supervisory Board and the Management Board and their committees can be divided into three types:

- a) Regulatory (prepared continuously in line with the law and prescribed template);
- b) Internal (prepared continuously using the pre-defined internal template, and intended for higher management, Committees, SB and MB)
- c) Operational (reports used by employees and higher management for different snap inspections)

Different reports delivered to higher management, Committees, SB and MB, provide an overview of the Bank's portfolio development and the pertaining risks. Individual risk reports (e.g. credit, market, operational, liquidity, etc.) are complemented with the ICAAP and ILAAP report, which aggregates risk assessments of different types and compares them with the available capital and assumed risk capacity.

An overview of the key Internal and Regulatory Reports prepared by the Bank within the framework of ICAAP and ILAAP of the Bank, including information on the frequency of their delivery, are presented in the table overview under indent c.) *scope and characteristics of teh risk reporting system, as well as the risk measurement method*

Each of the managing bodies and the committees of the Supervisory Board and the Management Board have predefined minimum contents of data in the documents obligatory at the meetings, and they are regularly prepared.

***the general framework of the internal control system and the manner of organisation of control functions, including their managers***

The Internal control system is a set of processes, procedures and measures established for adequate risk management, monitoring efficiency of the bank's operations, reliability of its financial and other information, and harmonisation with the regulations, internal regulations, standards and codes of conduct for the purpose of ensuring stability of the bank's business operations. All employees of the Bank, through their individual roles and responsibilities, contribute to maintaining an effective system

of internal controls. Accountability is based on the concept of "three lines of defense" to encourage a comprehensive risk management structure and controls aimed at avoiding identified risks.

The Bank has established control functions where they are independent from the business processes and activities in which risk occurs i.e. which are monitored and supervised by the control functions.

Control functions in the Bank as of December 31, 2023 are:

1. Risk Management (organizational unit Risk Controlling)
2. Compliance (compliance organizational unit)
3. AML/CTF (organizational unit Anti-Money Laundering and terrorism Prevention Activities)
4. Internal Audit (organizational unit Internal Audit)

During 2023, the Bank recognized the need to separate the AML/CTF function as a separate separate, fourth control function of the Bank.

All four control functions (Internal Audit, Compliance, Risk Control and AML/CTF) were established as independent organizational parts of the Bank.

The heads of the control functions' organisational units (as independent functions of the Bank) directly report to the Supervisory Board of the Bank and thus their hierarchical status is clearly diversified from the hierarchical status of the management (level B-1) of other functions in the Bank.

Managers of organisational units: Risk Controlling, Compliance and Internal Audit prepare quarterly, semi-annual and annual reports on risk management, compliance and internal audit, which they deliver to the Bank's Management Board, Supervisory Board and the Audit Committee, and at least once a year they participate in the meetings of the bodies they report to.

Head of AML/CTF has a direct and immediate connection with the Bank's Management Board and Supervisory Board and submits a report to the Supervisory Board and the Bank's Management Board at least quarterly on the Bank's actions and its compliance with the requirements for the anti-money laundering and counter terrorism financing, as well as activities taken against detected suspicious customers.

The heads of organizational units of control functions attend bilateral meetings with the President of the Supervisory Board and/or the presidents of individual committees at least once a year.

During 2023, there were no changes in the heads of the control functions (Risk Management, Compliance and Internal Audit), except for AML/CTF, where a new authorized person was appointed, about which the regulator was informed.

### **Organisation/main responsibilities of the control function - Internal Audit**

- ✓ Assessment of the risk management system in the Bank and key risks for identification, measuring, monitoring and control purposes as well as reporting aimed at taking respective measures to limit and mitigate risks in the Bank;
- ✓ Adequacy assessment of the Risk Strategy, Risk-Taking and Management Policy in internal management segment, and their compliance with regulations, internal regulations, requirements of the FBA and the adopted risk appetite and business strategy of the Bank;
- ✓ Assessment of compliance of the established procedures and activities of the bank with regulations, internal regulations and decisions of the management bodies of the Bank;
- ✓ Assessment of adequacy and efficiency of established procedures and activities of the bank, including the comprehensiveness of procedures, which ensure the reliability of methodologies and methods, assumptions and sources of information used in the internal models of the Bank;
- ✓ Assessment of adequacy and reliability of risk management and compliance monitoring functions, as well as efficiency and success of internal control system in all areas of the Bank's operations;

- ✓ Assessment of the system of reporting to the competent bodies of the Bank and managers;
- ✓ Assessment of the correctness and reliability of financial statements of the Bank and accounting records system;
- ✓ Assessment of the adequacy of the Bank's assets management;
- ✓ Assessment of the remuneration policy implementation in the Bank;
- ✓ Assessment of compliance of new products and procedures with the applicable regulations, internal regulations with the law, other regulations and general by-laws, standards and codes, and their influence on risk exposure;
- ✓ Assessment of the Bank's IT system adequacy;
- ✓ Assessment of the system of collection and correctness and adequacy of information that is publicly disclosed in accordance with the Law and FBA regulations;
- ✓ Assessment of the strategy and procedures for internal assessment of capital adequacy and liquidity (ICAAP and ILAAP);
- ✓ Assessment and identification of weaknesses in the Bank's operations and its employees, as well as cases of non-fulfilment of liabilities and overrun of authorities;
- ✓ Responsibility for an independent and objective reporting/opinion to the Supervisory Board and the Audit Committee on the matters that were the subject of the audit, provides advices and recommendations for improving the existing internal control system and operations of the Bank, as well as providing assistance to the Supervisory Board and the Audit Committee in achieving their objectives by applying a systematic, disciplined and documented approach to evaluating and improving the existing manner of control, risk management and process management;
- ✓ Efficiency assessment of the Bank's business operations;
- ✓ Implementation of the actions placed by orders and recommendations of the FBA and audit companies;

### **Organisation/main responsibilities of the control function - Risk Controlling**

- ✓ Responsible for developing activity plans of the Risk control function
- ✓ Continuous monitoring of all major risks to which the Bank is or could be exposed
- ✓ Responsible for the process of calculation and assessment of internal capital requirements (economic capital, ICAAP) and determining internal liquidity requirements(ILAAP)
- ✓ Responsible for preparation and reporting towards local regulatory body with respect to the internal capital adequacy assessment and internal liquidity adequacy assessment;
- ✓ Responsible for managing the process of regulatory reporting on changes related to the approach for IRB RWA calculation (Internal rating based) in line with RBI Group requirements and for defining activities of relevant involved organisational units;
- ✓ Responsible for managing the process of developing Bank's recovery plans for purpose of defining measures the Bank would implement in case of major deterioration of its financial condition with an objective of re-establishment of sustainable operations;
- ✓ Responsible for defining activities, processes, methodologies, work procedures and specifying the responsibilities of all involved units in the part of risk control activities:
  - Analyses risks which includes identification, measurement or assessment, management, monitoring and reporting of risks to which the Bank is or could be exposed in its
  - Continuous monitoring of all major risks to which the bank is or could be exposed;
  - Stress testing
  - Checking implementation and effectiveness of methods and procedures for management of the risks to which the Bank is or could be exposed to in its operations, including risks from the macroeconomic environment
  - Testing and evaluating adequacy and efficiency of internal controls in the risk management process
  - Evaluation of adequacy and documentation of risk management methodology

- Assistance to the Supervisory Board and the Management Board in creating business policies of the Bank, introduction of new and reviewing present policies,
  - Participation in the development and review of risk management strategies and policies
  - Forming proposals and recommendations related to efficient risk management and manner of implementation of relevant laws, standards and rules
  - Analysis, monitoring and reporting on the adequacy of the Bank's capital, and verification of strategies and procedures for assessing the required capital and liquidity as a result of ICAAP and ILAAP.
  - Analysis of risks inherent to new products or new markets
- ✓ Reporting to the Supervisory Board, Audit Board, Risk Committee and Management Board of the Bank regarding risk management issues
  - ✓ Reporting to the Supervisory Board, Audit Board, Risk Committee and Management Board of the Bank regarding risk management function activities
  - ✓ At least on an annual basis, participating in meetings of the bodies it reports to;
  - ✓ Market risk and Liquidity Controlling
  - ✓ Operational Risk Controlling and Credit Fraud Management
  - ✓ The main point of contact for RBI and supervisory bodies in terms of: economic capital, internal assessment of economic capital adequacy
  - ✓ Coordinates and manages all activities of resolution planning at the Bank level, including operationalisation of the resolution strategy and participates in testing assessment of the Bank's operational readiness.

### **Organisation/main responsibilities of the control function - Compliance**

- ✓ Monitoring the Bank's compliance with the Law, the supervisor's regulations (FBA and BARS) and other regulations and standards of prudent banking;
- ✓ Identifying weaknesses and assessing risks arising from the Bank's non-compliance with law and other regulations, but particularly the risk of measures and sanctions by the supervisor and other competent bodies, the risk of financial losses and the reputation risk;
- ✓ Advising the Bank's Management Board and other responsible persons in the Bank on manner of implementation of the relevant laws, standards and rules;
- ✓ Estimating effects of change in relevant regulations on the Bank's operations;
- ✓ Providing information, instructions and advice to employees and the management of the Bank and members of the Raiffeisen Group in BiH for prevention of conflict of interest among the Bank, the Group members, employees and customers;
- ✓ Monitoring the compliance of the Bank's operations with laws and bylaws, orders, recommendations of agencies (FBA and BARS) and other competent authorities, as well as international regulations and standards and standards of the RBI Group in the field of prevention of money laundering and terrorist financing;
- ✓ Monitors compliance of ICAAP and ILAAP with legal provisions, by-laws and other regulations and prudent banking standards, as well as internal regulations of the Bank, identifies omissions and assesses risks that are a consequence of non-compliance, and assesses effects of changes in the relevant regulations to the business operations of the Bank and other issues.
- ✓ Praćenje usklađenosti poslovanja Banke sa propisima vezanim za tržište vrijednosnih papirima, a posebno u dijelu prevencije zloupotreba kao što su korištenje cjenovno povjerljivih informacija i manipulacija na tržištu vrijednosnih papira, kao i upravljanje potencijalnim sukobima interesa u vezi finansijskih instrumenata, upravljanje compliance relevantnim informacijama i uspostavljanje povjerljivih područja;



- ✓ Compliance of the Bank with the FATCA regulations and collection of data at the Bank's level for reporting to competent USA tax authorities (IRS);
- ✓ Monitors compliance with the rules on protection of data and banking/business secrecy at the Bank level;
- ✓ Monitoring and controlling compliance with the regulations on personal data protection, raising awareness of importance of the personal data protection and training of the employees involved in the personal data processing;
- ✓ Monitoring implementation of the RBI regulations;
- ✓ Coordinating and monitoring implementation of the ICS methodology;
- ✓ Creating a Fraud Management Strategy, monitoring its implementation, creating guidelines for the fraud management process as well as researching potential frauds and possible abuses at the Bank level;
- ✓ Responsible for controlling and taking measures to implement rules related to Anti-Bribery and Corruption (ABC), especially related to gifts, invitations to meetings/travels, procurement and business cooperation with third parties;
- ✓ Organizing and coordinating activities to educate employees in the area of FATCA regulations, Compliance rules, personal data protection and the RBI Group Code of Conduct and implementation of the Internal Control System-ICS methodology;
- ✓ Regular reporting in accordance with the regulatory framework (law, bylaws and internal acts of the Bank) of the Audit Committee, the Supervisory Board of the Bank and RBI Group Compliance, with information to the Management Board.

#### **Organisation/main responsibilities of the control function – Anti-money laundering and counter-terrorism financing (AML/CTF)**

- ✓ Responsible for co-ordination between Network units and responsible persons and functions of the Bank in implementation of the AML/CTF Law in conformity with: Customer acceptability policy, Customer Identification Policy, Policy of Ongoing Account and Transaction Monitoring and the AML/CTF Risk Management Policy;
- ✓ Monitoring compliance of the Bank's operations with regulations, international regulations and standards of RBI Group in implementation of Financial sanctions/restrictions (FiSa) towards territories, persons and products for purpose of protecting the Bank from possible legal sanctions and for purpose of protecting its reputation;
- ✓ Responsibility for verifying, deciding and taking further actions regarding transactions that have been stopped due to matching the subject names to the names from the relevant sanction lists;
- ✓ Responsibility for checking, deciding and taking further actions regarding customers for which there is a match with the subject names from the relevant sanction lists;
- ✓ Responsibility for assessing the adequacy of the existing Program, policies, procedures and checking risks related to the area of Anti-Money Laundering and Counter-Terrorism Financing, as well as making proposals for their updates and improvements to the Supervisory Board of the Bank;
- ✓ Preparing instructions and procedures related to the monitoring and reporting on anti-money laundering and counter terrorism financing activities and financial sanctions;
- ✓ Responsibility for monitoring detection of suspicious customers, related and suspicious transactions, as well as reporting them to competent institutions;
- ✓ Informs and instructs those responsible in the Bank to suspend or reject transactions in accordance with the regulations on Anti-money laundering and counter-terrorism financing;



- ✓ Coordination of activities within the Bank for the purpose of reporting to competent bodies in line with the relevant provisions in the area of anti-money laundering and counter terrorism financing;
- ✓ Written and oral communication with the Central Bank BiH, FBiH Banking Agency, RS Banking Agency, SIPA, Financial Intelligence Department (FID), FBiH Financial Police and other relevant bodies related to implementation of the AML&CTF regulations;
- ✓ Coordinating activities on providing data to courts, prosecutors' offices and other bodies in charge of collecting information from the Bank under special requirements, as well as representing the Bank in front of those bodies in the anti-money laundering and counter-terrorism financing activities segment;
- ✓ Providing mandatory instructions with respect to anti money laundering and counter-terrorism financing regulations to managers and other responsible employees at lower organisational levels of the Bank;
- ✓ Monitoring compliance of operations and implementation of the RBI Group standards in the Sensitive business activities: Business policy regarding war materials and war parties, Business policy related to nuclear energy and Business policy related to games of chance;
- ✓ Organising and coordinating activities related to training of employees in the segment of anti-money laundering and counter-terrorism financing, financial sanctions/restrictions (FiSa) and Sensitive business activities;
- ✓ Quarterly reporting to the Bank's Supervisory Board along with providing information to the Bank's Management Board.

According to the Internal Organisation and Job Classification Rules for control functions, the Bank defined the organisational type of performance for the above-mentioned control functions as well as the duties and responsibilities of the bank's control functions, the job classification with job titles, qualification requirements as well as job descriptions and reporting lines.

## 1.6 Regulatory capital, capital buffers, capital requirements and regulatory capital adequacy

*The Bank publishes data and information on the regulatory capital, capital requirements, regulatory capital adequacy, capital buffers and financial leverage;*

*Data and information related to the capital include:*

- a) the amount of regulatory (eligible) capital, and the amounts of common equity tier 1 (CET1), additional tier 1 capital (AT1) and supplementary capital of the bank with an overview of individual elements of capital;*

Capital		
No.	Item	Amount
1.	REGULATORY CAPITAL	538.407
1.1	COMMON EQUITY	493.423
1.1.1	COMMON EQUITY TIER 1 (CET1)	493.423
1.1.1.1	Capital Instruments recognised as CET1	251.640
1.1.1.1.1	Paid capital instruments	247.167
1.1.1.1.2	Share premium	4.473
1.1.1.2	Retained earnings	294.873
1.1.1.3	Recognised profit or loss	
1.1.1.3.1	Profit or loss belonging to the ultimate shareholder	121.960
1.1.1.3.2	(-) Part of the profit for the period generated in the business year or profit for the period generated at the end of the business year, that is not recognised	-121.960
1.1.1.3.3	Other accumulated aggregate profit	277
1.1.1.3.4	Other reserves	1.230
1.1.1.4	(-) Other intangible assets	-32.983
1.1.1.5	(-) Deferred tax assets that may be deducted and which depend on future profitability and arises from temporary differences	-10.240
1.1.1.6	(-) CET1 instruments of financial sector entities if the bank has a significant investment	-11.374
1.1.2	ADDITIONAL TIER 1 CAPITAL (AT1)	-
1.2	TIER 2	44.984
1.2.1	Capital instruments and subordinated debt recognised as Tier 2 capital	44.984

- b) description of main characteristics of financial instruments included in calculation of regulatory capital;*

Description of main characteristics of financial instruments			
No No.	Item		
1.	Issuer:	Raiffeisen SEE Region Holding GmbH, Vienna, Austria with % share of 100,00%	The European Fund for Southeast Europe S.A. , SICAV-SIF
1.1.	Uniform sign	BARFSNR00003 ISIN	549300D2UDHX6IFJ BJ16

Description of main characteristics of financial instruments			
No No.	Item		
			LEI sign
	<b>Treatment in accordance with the regulatory frame</b>		
2.	Recognised on individual/ consolidated basis	Individual	Individual
3.	Type of instrument	Ordinary shares	Subordinated debt issued in the form of a financial instrument
4.	Amount recognised for the purpose of calculating regulatory capital in thousands of KM, as at the date of the last reporting	247.167 KM	44.984 KM
5.	Nominal amount of instrument	250,00 KM	NP
5.1.	Issuing price	NP	NP
5.2.	Purchase price	NP	NP
6.	Accounting classification	Share capital	Liability-depreciated value
7.	Instrument issuance date	First Instrument issuance date 07.11.1992; additional subsequent issues after the said date	Initial agreement 14.11.2022.
8.	Instrument with maturity date or instrument without maturity date	Without maturity date	With maturity date
8.1.	Initial maturity date	Without maturity date	18 November 2032
9.	Purchase option by issuer	NO	NO
9.1.	The first date of activating purchase option, conditional date of activating purchase option and purchase value	n.a.	n.a.
9.2.	Subsequent date of activating purchase option (if applicable)	n.a.	n.a.
	<b>Coupons/dividends</b>		
10.	Fix or variable dividend/coupon	variable	n.a.
11.	Coupon rate and related indexes	n.a.	Margin amounts to 5.5 % p.a. Interest rate is a 6M EURIBOR increased by margin amount
12.	Mechanism of mandatory dividend cancellation	n.a.	n.a.

Description of main characteristics of financial instruments			
No No.	Item		
13.	Full discretion right, partial discretion right or without discretion right with respect to time for dividend/coupon payment	Full discretion right	n.a.
13.1.	Full discretion right, partial discretion right or without discretion right with respect to dividend/coupon amount	Full discretion right	n.a.
14.	Possibility to increase yields or other incentives for redemption	NE	n.a.
15.	Non-cumulative or cumulative dividends/coupons	Non-cumulative	n.a.
16.	Convertible or non-convertible instrument	Non-convertible	Non-convertible
17.	If convertible, conditions under which conversion can happen	n.a.	n.a.
18.	If convertible, partially or fully	n.a.	n.a.
19.	If can be converted, conversion rate	n.a.	n.a.
20.	If convertible, mandatory or voluntary conversion	n.a.	n.a.
21.	If convertible, instrument into which it converts	n.a.	n.a.
22.	If convertible, issuer of the instrument into which it converts	n.a.	n.a.
23.	Possibility to reduce value	NO	NO
24.	If there is a possibility to reduce value, conditions under which value reduction can happen	n.a.	n.a.
25.	If there is a possibility to reduce value, partly or fully	n.a.	n.a.
26.	If there is a possibility to reduce value, permanently or temporary	n.a.	n.a.
27.	If value reduction is temporary, description of mechanism for value increase	n.a.	n.a.
28.	The type of instrument that will be paid out immediately before the specified instrument in the event of liquidation or bankruptcy	It is paid after the settlement of all other liabilities to creditors	It is paid after the settlement of all other liabilities to non-subordinate creditors
29.	Non-adjusted characteristics of converted instruments	NO	NO
30.	If any, state non-adjusted characteristics	n.a.	n.a.

**c) a description of all restrictions applied in the calculation of regulatory (eligible) capital in accordance with the provisions of the Capital Calculation Decision, equity instruments, regulatory adjustments and adjustments to which these restrictions apply.**

Decision on Capital Calculation in Banks specifies the minimum capital standards and minimum standards for creating and implementing a capital management programme, which the Bank is obliged to ensure, continuously maintain and implement, as well as additional capital protection measures.

Acting in line with the Decision and defined requirements, at any time, the Bank has to meet the above defined capital requirements for common equity Tier 1, CET1 and regulatory capital. The Capital Calculation Decision prescribed the following capital requirements:

- a) A common equity Tier 1 (CET1) capital ratio of 6.75%;
- b) A Tier 1 capital ratio of 9%;
- c) A regulatory capital ratio of 12%;

In addition to legally prescribed minimum capital rates, the Bank maintains the rate in accordance with teh SREP request of the Agency.

Article 44 of the Capital Calculation Decision has prescribed a capital buffer, to be maintained in the form of CET1 at 2.5% of total risk exposure. The Bank shall ensure and maintain financial leverage of at least 6% as defined by Article 38 of the Decision.

In accordance with the Capital Calculation Decision, the Bank prepares the reporting form KA 3 - Capital rates and capital levels and the Form FP - Financial leverage ratio calculation (C 47.00), and delivers those on a quarterly basis to the regulator until the next month upon expiry of a quarter. Additionally, the Bank monitors and adjusts its operations on a monthly basis in order to maintain the ratios within the prescribed limits.

In accordance with the Capital Calculation Decision, the Bank recognises regulatory adjustments at the reporting date in the form of intangible assets, deferred tax assets, direct or indirect investments of the Bank in common equity instruments of the financial sector entity or significant investments.

As of the reporting date 31.12.2023, the Bank disposed of the following regulatory adjustments:

- Other intangible assets totalling KM 32.983 ths, dominated by rights to innovations, patents and licences and the purchased software;
- Tax deferred assets totaling KM 10.240 thousand, of which the largest portion relates to recognised effects based on provisions for credit risk stage 1 and credit risk stage 2.
- Direct or indirect investments of the Bank into instruments of common equity of a financial sector entity, or significant investments in the amount of KM 11.374 ths. Significant investments of the Bank in financial sector as amounts to KM 11.374 ths, and were dominated by the significant investment in Raiffeisen Leasing doo Sarajevo worth KM 10.051 ths.

On 15.12.2023, the FBiH Banking Agency passed a new Decision on Capital Calculation which shall apply from 30.06.2024. The amount of intangible assets for the purposes of determining deductions from common equity Tier 1 is applied with the exception of credit-rated assets in the form of software.

**d) Data and information related to the capital requirements and the regulatory capital adequacy;**

- the amount of capital requirement for credit risk (standardized approach) for each of the exposure classes;
- the amount of capital requirement for settlement (delivery) risk;
- the amount of individual capital requirements for market risks, with special disclosure of the amount of capital requirement for specific and general position risk based on debt and equity instruments, additional capital requirement for large exposures exceeding the limits defined by the Decision on Large Exposures, capital requirement for foreign exchange risk and capital requirement for commodity risk;
- the amount of the capital requirement for operational risk and the type of approach used to calculate this requirement (basic indicator approach or standardized approach);
- additional capital requirements for large exposures from the trading book;
- capital rates (a common equity Tier 1 (CET1) rate, a Tier 1 capital rate and regulatory capital rate);

The Bank uses standardized approach in calculation of the capital adequacy and risk exposure in line with the Decision on Capital Calculation in Bank.

Capital adequacy			
No.	Item	Risk-weighted exposure amount	Capital requirements
1.	Exposures to central governments and central banks	46.664	5.600
2.	Exposures to regional governments or local authorities,	35.458	4.255
3.	Exposures to public sector subjects	13.377	1.605
4.	Exposures to multilateral development banks	-	-
5.	Exposures to international organisations	-	-
6.	Exposures to institutions	199.166	23.900
7.	Exposures to companies	750.253	90.030
8.	Exposures to private individuals	1,270,350	152.442
9.	Exposures secured by real estate	313.134	37.576
10.	Default status exposures	22.751	2.730
11.	High-risk exposures	-	-
12.	Exposures in the form of covered bonds	-	-
13.	Exposures to institutions and companies with short-term credit assessment	-	-
14.	Exposures in the form of units or shares in investment funds	-	-
15.	Exposures based on equity investments	214	26
16.	Other exposures	140.057	16.807
17.	Total capital requirement for credit risk		334.971
18.	Capital requirements for settlement/delivery amount		-
19.	Capital requirements for market risks		5.676
19.1	Capital Requirements for FX Risk		5.676
20.	Capital requirements for operational risk		32.390
21.	CET1 ratio		15.87%
22.	T1 ratio		15.87%
23.	Regulatory capital ratio		17.32%

The Bank publishes the following data and information related to the Bank's credit risk exposure, including the credit risk mitigation techniques and information on external institutions for credit risk assessment - ECAI or export credit agencies - ECA;

**e) definitions of default and past due exposures for the accounting needs;**

Placements in the status of non-payment of obligations (debtors have encountered significant financial problems or a delay in payment of obligations is expected) require special treatment and are the same in the competence of the Department for Special Asset Management Non-Retail & SE and Collateral and Retail Collection. Business with the previously mentioned group of customers as well as the collection of past due debts plays a significant role in the calculation of ECL.

Timely transfer of customers to the competence of the Special Exposure Management Non-Retail & SE and Collaterals, i.e. early involvement, was provided by the Bank through the function of the Credit Risk Management Unit - Corporate, SE, FI & LRG.

Default is defined as an event where a debtor:

- ✓ is unlikely to pay its credit obligations to the Bank from its own cash flow (unlikely to pay) and not from the cash flow from collateral sold with exception of transactions where primary source of repayment comes from either sale proceeds of the financed commodities or sale proceeds of financed assets;
- ✓ is overdue to the Bank more than 90 days considering the materiality threshold (90+)

Materiality threshold for Corporate is EUR 500,00 and 1% of total agreed loan facilities. The materiality threshold is to be calculated by using the debtor's total overdue amount to the Bank to total balance exposure/liabilities of the debtor.

For Retail portfolio, default definition and levels of statuses of fulfilment of obligations and rules for recovery, i.e. return of customers into the income portfolio are precisely defined in the Instructions for Default Treatment. Default is defined as an event where a debtor:

- ✓ is unlikely to pay its credit obligations to the Bank from its own cash flow (unlikely to pay) and not from the cash flow from collateral sold ;
- ✓ is overdue to the Bank for more than 90 days considering the materiality threshold (90+).

The materiality threshold for private individuals is EUR 100.00 and 1% of total agreed loan facilities. Default status of a single account means default status for accounts with similar characteristics and finally default status at the customer level in case exposure of accounts in default makes 20% or more total customer exposure. Allocation of default statuses is at the level of sub-account/product with implementation of the effects of withdrawal of 20% of so called pulling cross default.

**f) description of approaches and methods used to determine value adjustments for credit risks and provisions for losses in off-balance items**

The Bank is required to follow the loan loss provisioning methodology under both International Accounting Standards and International Financial Reporting Standards.

From 01.01.2018, the Bank applies the International Financial Reporting Standard - IFRS 9, which prescribes a new model of expected credit losses for recognising and measuring provisions and aims to accelerate the recognition of losses with the requirement of provisions to cover already incurred losses and losses expected in the future.

Methods and processes for expected loan loss provisions are defined for all segments of the Bank's operations to which credit risk relates and are performed on assets subject to credit risk that are classified at amortized cost or at fair value through other comprehensive income. In other cases, assets are declared at fair value through income statement. IFRS 9 calculation of ECL also applies to all off-balance sheet financial instruments that are classified at amortized cost or at fair value through other comprehensive income.

IFRS 9 recognises three levels of ECL depending on the assessment of credit impairment volume vs. initial recognition of financial instrument.

In cases where credit risk of a financial instrument has not increased significantly since initial recognition, the Bank measures the loss of that financial instrument at an amount equal to 12-month expected credit loss. Such instrument belongs to credit risk stage 1.

In cases where credit risk of a financial instrument has increased significantly since initial recognition, the Bank measures the loss of that financial instrument at an amount equal to lifetime expected credit loss. Such instrument belongs to the 2nd credit risk stage, as long as it is not in the default status when it moves to the 3rd credit risk stage. Besides these stages, assets which have been purchased or originated credit impaired (POCI assets) have been also defined.



The Non Retail assets segment encompasses corporates and SMB, sovereigns and regional governments, as well as banks and other financial institutions, and private individuals classified as Non Retail under RBI Group standards.

The assessment if the expected lifetime credit losses are recognised is based on a significant increase of probability or risk of default and it is performed on individual basis. Expected credit losses represent a sum of marginal losses appearing in every time bucket on the balance sheet date.

Whether significant increase of credit risk of a financial instrument happened from the initial recognition is checked on every reporting date. It is being checked against individual account/framework agreement by using quantitative and qualitative information.

Quantitative factor of credit risk increase is PD increase between the reporting date and the date of initial recognition. PD threshold is set at 250%, but it is time dependant.

Qualitative factors of credit risk increase are defined in IFRS 9 Chapter B.5.5.17 and they are mainly included in internal rating of a customer. Additional qualitative factors of credit risk increase are Credit Risk Status (CRS), Forbearance flag and 30 dpd. They are triggers for transferring exposure into credit risk stage 2. Besides rating, qualitative factors of credit risk increase are holistic approach (implementation of special risk factor), significant changes of a contract, external market indicators and other factors.

The ECL calculation is based on four components:

- Exposure at default (EAD) - an assessment of exposure in the event of default as of certain future date, considering therein expected changes to the exposure after the reporting date and including repayment of principal and interest and expected draw-downs of unused funds.
- Probability of default (PD) - an assessment of probability of default in certain time period/bucket.
- Loss-given default (LGD) - an assessment of a loss occurring due to a default. It is based on a difference between contractual cash flows and those that a creditor expects to receive, including collection against collateral. Usually, it is posted as a percentage of EAD.
- Discount rate - it is used for discounting expected losses to present value as of the reporting date using effective interest rate (EIR).

In addition to the balance sheet, off-balance sheet financial instruments are also included in the calculation of expected credit losses. In order to reflect the possible risk stemming from withdrawal of off-balance sheet exposures, the Bank uses models predicting probability of withdrawal of certain off-balance sheet assets and their conversion into on-balance financial instruments. This resulted in EAD calculation (EAD coeff) that was multiplied with off-balance sheet exposure in order to get the portion of off-balance sheet exposure that would further serve for ECL calculation.

The EAD model is developed for higher risk portfolios only (i.e. Corporate and SMB), since other portfolios (PI, LRG, SOV) usually do not have products with off-balance sheet exposures and therefore do not require any EAD modelling (i.e. EAD is equal to the used amount).

#### *Probability of Default - PD*

RBI Group has unique and unified approach to rating of all SMB and Corporate customers in all its network banks. Statistical models were developed in accordance with the requirements of Basel II Internal Rating Based Approach (IRB). IRB rating models are the basis for calculating the PD parameters used to calculate expected credit losses according to the IFRS 9 methodology.

PD estimation and calibration is done annually, and for the needs of IFRS 9, PD parameter is basically PD vector which describes PD curve during time, i.e. curve of lifetime probability of default.

Lifetime PDs are built on 12-month PDs. This means that PD curve needs to be formed that would show expected movement of default risk over a lifetime of a financial instrument. This means that with longer maturity of a financial instrument comes bigger default risk. Another thing to consider here is an effect of credit risk improvement as the maturity date of a financial instrument nears.



All models rest on the statistical model and are based on internal Non-retail data.

Macroeconomic factors are applied to the calculated lifetime PD values in order to be adjusted with the expected macroeconomic trends. Information about the future (macroeconomic outlook) should cover the development of the portfolio of expected credit losses between economically good and stressful times.

Research and Consulting anticipates three types of scenarios for macroeconomic adjustments: "Optimistic", "Base" and "Pessimistic".

#### *Loss Given Default - LGD*

In the event of default, LGD shows us the extent of exposure that would be lost.

LGD can be calculated on any granularity level, i.e. on the level of customer, product or contract, which depends on availability of data and portfolio characteristics i.e. the type of portfolio, segment and form of relationship between Bank and customer.

Sensitivity of LGD to macroeconomic conditions is modelled through Cure Rate and macro ratio. The idea is to present the long-term average LGD as a weighted average of recovered (return to performing) LGD and closed LGD (closed and not returned to performing).

In line with the standards of the RBI Group, the **Retail assets segment** encompasses Micro companies and private individuals.

On each reporting date, the Bank assesses whether the credit risk of the financial instrument has significantly increased since the date of the initial recognition. Credit risk analysis includes multi-factor and holistic analysis. This means that the assessment is made using qualitative or quantitative inputs or their combination, and whether a certain factor will be relevant depends on the type of product, the characteristics of the financial instruments and the borrower, as well as the geographical region. In cases where some factors or indicators are not available on an individual level, assessments are made on a collective basis.

IFRS 9 explains that the bank may apply various approaches when assessing whether there has been a significant increase in credit risk – including using different approaches for different financial instruments. An approach that does not include an explicit PD as an input, such as a credit loss rate approach, can be used provided that the bank is able to separate the changes in the risk of default occurring from other changes in expected credit losses – e.g. due to collateral. Any approach used considers:

- The change in the risk of default occurring since initial recognition;
- The expected life of the financial instrument; and
- Reasonable and supportable information that is available without undue cost or effort that may affect credit risk.

In Retail segment the process of assessment of changes in credit risk has two main elements:

- a qualitative element. One of the qualitative criteria serves as a backstop indicator (over 30 dpd is possible only for technical reasons), and
- quantitative element (i.e. reflecting a quantitative comparison of PD lifetime at reporting and at initial recognition). Forward looking information is added as macroeconomic overlay.

The quantitative analysis is based on changes in PD lifetime. When developing a PD lifetime model, there are two possible levels:

- Rating grade level - required for all portfolios where PD estimates are already used in Pillar I or II capital calculation i.e. with annually validated rating system in place.
- Portfolio level - for all other portfolios. Probability of delay during the availability of the facility for the calculation of the expected credit loss is obtained from the analysis of sustainability or standardization.

Qualitative factors are taken into account to complement the assessment of increased credit risk and also in cases where only qualitative factors exist, the assessment will be driven by these factors alone. Qualitative factors of credit risk increase are defined in IFRS 9 Chapter B.5.5.17 and they are mainly

included in internal rating of a customer. Additional qualitative factors of credit risk increase are Forbearance, holistic approach, significant changes of a contract, external market indicators and other factors.

**The ECL calculation process includes the following steps:**

- **Step 1:** Preparation of appropriate risk estimates - PD, LGD, EAD for every future period, including the macroeconomic excess provisions.
- **Step 2:** Calculation of expected credit losses for each monthly period in each scenario.
- **Step 3:** Discounted calculation of expected credit losses for each period in each scenario.
- **Step 4:** Calculation of total discounted expected credit losses (12-month lifetime of facility) for each scenario.
- **Step 5:** Calculation of final expected credit losses (12-month lifetime of the facility) as expected credit losses weighted by the degree of probability in all scenarios.

In the case of revolving products, changes in the use of the undrawn part of the liabilities are taken into account. For these purposes, the Credit Conversion Factor (CCF) has been adjusted according to IFRS 9. As for portfolios with created IRB models, it is regulated that the Basel CCF values can be used, and at the class (pool) level, so that the margins of conservatism are removed.

Credit conversion factor value applied in the Retail segment amount to:

- 20% for undrawn credit facilities (agreements to lend, purchase securities, provide guarantees or acceptance facilities with an original maturity of up to and including one year)
- 50% for undrawn credit facilities (agreements to lend, purchase securities, provide guarantees or acceptance facilities) with an original maturity of more than one year

For the purposes of determining the original maturity, the date applied to the estimated term of validity of the revolving exposure is used.

The credit conversion factor of other products of the Retail segment (e.g. Guarantees) is defined by the CRR (Capital Requirement Regulation), Annex 1.

Value adjustments for credit risk and collection of receivables in default status for Non-Retail customers, which are recorded through income statement are calculated in the credit risk stage 3 according to IFRS 9 methodology. These adjustments are specific due to the methodology, where the standard allows application of multiple scenarios of expectations in a particular case, from which the average likelihood of materialisation is taken for the final calculation. Collateral values, cash flows generated by a legal entity or other documented sources of cash flows may be used in scenarios. Specifically, the Bank uses (minimum) 2 scenarios, the probability of which can be 90% and 10%. For certain calculation parameters, annual back testing of data is performed, as well as their adjustments, all for the purpose of better calculation of value adjustments of this category of receivables. The calculation and booking is done monthly on an *individual basis, taking into account the specifics of each individual customer and the product the customer uses*, with prior approval of the Credit Committee for problem loans.

Value adjustments for credit risk and collection of receivables in default status for Retail customers, which are recorded through income statement are calculated in the credit risk Stage 3 according to IFRS 9 methodology. When calculating the expected credit losses for the Retail segment, the Bank does not take into account the value of the collateral, but calculates the best estimate of the expected credit loss instead. Bank believes that the most adequate manner of presenting historical data on losses is precisely the estimation of expected cash flows based on unsecured exposure in default status, and based on the use of the Best Estimate of Expected Loss parameter (so-called BEEL). By definition, this parameter reflects the most likely possibility of loss related to sub-accounts in default status that have similar risk and refund profiles, and provides a statistically estimated level of loss for such sub-accounts. Therefore, BEEL (for the purpose of adjusting the contractual cash flows to their estimated recovery rate) is applied on a homogeneous group of accounts. BEEL's valuation model takes into account discounted rates of return for exposures that are already in default. Since this model is designed to provide the best estimate of the possibility of loss until the end of the workout period,

those sub-accounts whose observation period coincides with the end of the workout period are assumed to have a zero return rate, i.e. BEEL is equal to 100%. In order to achieve adequacy for provisioning purposes, it is ensured that during each reporting period each sub-account in default status is associated with an estimate that reflects current data on the rate of refund, in order to thereby determine the expected possibility of recovery of funds for the respective sub-account. BEEL values are updated on a monthly basis.

According to the Decision on Credit Risk Management and Accounting for Expected Credit Losses and the Instructions for Financial Assets Classification and Valuation, RBBH calculates value adjustments for balance sheet assets items and provisions for contingent liabilities (on a monthly level). After the expected credit losses are calculated according to the internally developed IFRS 9 models, they are adjusted for each individual exposure according to the defined conditions for credit risk stages 1, 2 and 3 in terms of the required minimum rates of expected credit losses regulated in Articles, 23, 24, 25 and 26 of the Decision, and ultimately the larger amount of the two afore-mentioned is recorded.

Calculation and posting of expected credit losses is done with the approval of the Bank's Management Board.

**g) the total amount of the Bank's exposure after value adjustments and provisions, excluding the effects of credit risk mitigation techniques (net exposure) as well as an average amount of exposure during a period by exposure categories;**

No.	Exposure class	Net exposure value at the end of a period	Average net exposure during a period
1	Exposures to central governments and central banks	1,177,952	925.397
2	Exposures to regional or local governments	59.726	54.160
3	Exposures to public sector subjects	14.568	11.886
4	Exposures to multilateral development banks	37.280	23.276
5	Exposures to international organisations	-	-
6	Exposures to institutions	674.855	770.183
7	Exposures to companies	1,167,623	1,092,003
8	Exposures to private individuals	2,125,381	2,075,061
9	Exposures secured by real estate	555.099	534.243
10	Default status exposures	23.169	22.099
11	High-risk exposures	-	-
12	Exposures in the form of covered bonds	-	-

No.	Exposure class	Net exposure value at the end of a period	Average net exposure during a period
13	Exposures to institutions and companies with short-term credit assessment	-	-
14	Exposures in the form of units or shares in investment funds	-	-
15	Exposures based on equity investments	214	209
16	Other exposures	476.856	685.299

**h) geographical exposure classification by significant areas, according to exposure categories and including a detailed elaboration as required;**

No.	Type of exposure	BOSNIA AND HERZEGOVINA	AUSTRIA	GERMANY	NORWAY	CROATIA	THE NETHERLANDS	ITALY	SWEDEN	BELGIUM	USA	POLAND	LUXEMBURG	FRANCE	SERBIA	REPUBLIC OF NORTH MACEDONIA	OTHER	OTHER EU	Total
1	Exposures to central governments and central banks	905.685	56.033	28.829	-	18.076	38.083	-	-	39.334	-	32.393	-	28.366	20.795	10.351	7	-	1,177,952
2	Exposures to regional or local governments	59.726	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	59.726
3	Exposures to public sector subjects	14.539	-	29	-	-	-	-	-	-	-	-	-	-	-	-	-	-	14.568
4	Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-	8.225	-	28.778	-	-	-	277	-	37.280
5	Exposures to international organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Exposures to institutions	11.597	172.430	147.366	114.337	65.760	23.460	58.805	48.649	-	24.568	-	511	-	63	-	5.354	1.955	674.855
7	Exposures to companies	1,163,999	852	-	-	4	-	-	-	-	2.379	-	-	-	-	-	389	-	1,167,623

No.	Type of exposure	BOSNIA AND HERZEGOVINA	AUSTRIA	GERMANY	NORWAY	CROATIA	THE NETHERLANDS	ITALY	SWEDEN	BELGIUM	USA	POLAND	LUXEMBURG	FRANCE	SERBIA	REPUBLIC OF NORTH MACEDONIA	OTHER	OTHER EU	Total
8	Exposures to private individuals	2,124,598	18	35	1	212	7	15	1	2	7	5	-	7	41	23	205	204	2,125,381
9	Exposures secured by real estate	554.317	-	233	-	107	-	-	-	-	-	43	-	-	24	-	312	63	555.099
10	Default status exposures	23.157	-	-	-	11	-	-	-	-	-	-	-	-	1	-	-	-	23.169
11	High-risk exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Exposures in the form of covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Exposures to institutions and companies with short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	Exposures in the form of units or shares in investment funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	Exposures based on equity investments	32	-	-	-	-	-	-	-	182	-	-	-	-	-	-	-	-	214
16	Other exposures	476.856	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	476.856

*The significance of geographical areas or countries is determined by the materiality threshold, which is set in such a way that the exposure to a country is significant if total net exposure of the Bank to it exceeds 1% of the Bank's regulatory capital as at 31.12.2023.*

*\* Countries that are not considered significant, and which are included in the columns "Other EU countries" are: Slovenia, Portugal, the Czech Republic, Romania, Ireland, Lithuania, Slovakia, Hungary, Denmark, Greece, Spain, Bulgaria, Finland and Estonia.*

*\*\* Countries that are not considered significant, and which are included in the columns "Other countries" are: Switzerland, Australia, Great Britain, Montenegro, South Africa, Canada, Turkey, Libya, India, Egypt, Syrian Arab Republic, China, Japan, South Korea, Brazil, Iran (Islamic Republic), Saudi Arabia, Kuwait, Ukraine, Albania, Russian Federation, Pakistan, Qatar, Jordan, Algeria, Indonesia, Sri Lanka, United Arab Emirates, Chad, Malaysia, Ethiopia, Palestine, Republic of Moldova, Venezuela, Kenya, Israel, Lebanon, American Samoa, Bangladesh, Vietnam, Sudan, Kosovo, Namibia, Morocco, Argentina, Bahrain, Mexico, New Zealand, Tunisia, Nepal, Philippines, Nigeria, Niue, Rwanda, Peru, Chile, Honduras, Singapore, Liechtenstein, Mongolia, Colombia, Iraq, Gana, Azerbaijan, Oman and Kazakhstan*

**i) exposure classification by business lines and exposure categories, including a detailed elaboration as required;**

Exposures by business lines (net value of exposure)																					
No.	Type of exposure	Agriculture, forestry and fishing	Mining and quarrying	Processing industry	Production and supply of electricity, gas, steam and air conditioning	Water-supply, sewage, waste management and environmental remediation	Construction	Wholesale and retail trade; repair of motor vehicles and motorcycles	Transport and storage	Accommodation, hotels and catering	Information and communication	Financial and insurance activities	Real estate activities	Professional, scientific and technical activities	Administrative and support service activities	Public administration and defence; compulsory social security	Education	Health and social protection	Arts, entertainment and recreation	Other service activities	Total
1	Exposures to central governments and central banks	-	-	-	-	-	-	-	-	-	-	905.192	-	-	-	272.753	-	-	-	7	1,177,952
2	Exposures to regional or local governments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	59.725	-	-	-	1	59.726
3	Exposures to public sector subjects	-	-	-	10.139	-	-	-	-	-	-	70	-	220	-	147	20	3.944	-	28	14.568
4	Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-	-	37.280	-	-	-	-	-	-	-	-	37.280
5	Exposures to international organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exposures by type of business activities (net value of exposure)																					



No.	Type of exposure	Agriculture, forestry and fishing	Mining and quarrying	Processing industry	Production and supply of electricity, gas, steam and air conditioning	Water-supply, sewage, waste management and environmental remediation	Construction	Wholesale and retail trade; repair of motor vehicles and motorcycles	Transport and storage	Accommodation, hotels and catering	Information and communication	Financial and insurance activities	Real estate activities	Professional, scientific and technical activities	Administrative and support service activities	Public administration and defence; compulsory social security	Education	Health and social protection	Arts, entertainment and recreation	Other service activities	Total
6	Exposures to institutions	-	-	-	-	-	-	-	-	-	-	674.855	-	-	-	-	-	-	-	-	674.855
7	Exposures to companies	8.859	2.857	273.331	6.324	24.231	63.034	596.014	50.880	506	63.028	68.779	799	3.550	4.093	-	1.005	-	72	261	1,167,623
8	Exposures to private individuals	4.840	1.276	86.217	1.768	1.803	70.655	205.387	56.988	4.547	12.832	69	903	22.258	5.629	-	924	1.692	492	1,647,101	2,125,381
9	Exposures secured by real estate	580	-	48.473	858	1.024	12.809	193.955	4.000	377	9.861	-	1.958	3.919	247	-	37	156	-	276.845	555.099
10	Default status exposures	11	20	3.108	-	-	68	2.476	318	32	1	-	1	82	24	-	1	2	1	17.024	23.169
11	High-risk exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Exposures in the form of covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Exposures to institutions and companies with short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Exposures by business lines (net value of exposure)</b>																					

No.	Type of exposure	Agriculture, forestry and fishing	Mining and quarrying	Processing industry	Production and supply of electricity, gas, steam and air conditioning	Water-supply, sewage, waste management and environmental remediation	Construction	Wholesale and retail trade; repair of motor vehicles and motorcycles	Transport and storage	Accommodation, hotels and catering	Information and communication	Financial and insurance activities	Real estate activities	Professional, scientific and technical activities	Administrative and support service activities	Public administration and defence; compulsory social security	Education	Health and social protection	Arts, entertainment and recreation	Other service activities	Total
14	Exposures in the form of units or shares in investment funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	Exposures based on equity investments	-	-	-	-	-	-	-	-	-	-	214	-	-	-	-	-	-	-	-	214
16	Other exposures	-	-	-	-	-	-	68.360	8	-	-	388.691	-	-	-	-	-	-	-	19.797	476.856

**j) Exposure classification by remaining maturity of all exposures, by exposure categories, and a more detailed classification if applicable;**

Remaining period to maturity of all exposures (net value of exposure)						
No.	Exposure class	≤ 1 year	> 1 ≤ 5 years	> 5 years	Maturity not stated	Total
1	Exposures to central governments and central banks	86.403	185.857	-	905.692	1,177,952
2	Exposures to regional or local governments	208	15.621	41.240	2.657	59.726
3	Exposures to public sector subjects	3.539	676	10.076	277	14.568
4	Exposures to multilateral development banks	-	37.148	-	132	37.280
5	Exposures to international organisations	-	-	-	-	-
6	Exposures to institutions	528.733	26.448	5.342	114.332	674.855
7	Exposures to companies	678.782	294.137	48.736	145.968	1,167,623
8	Exposures to private individuals	270.069	491.470	946.116	417.726	2,125,381
9	Exposures secured by real estate	130.751	131.002	292.781	565	555.099
10	Default status exposures	1.552	9.546	10.906	1.165	23.169
11	High-risk exposures	-	-	-	-	-
12	Exposures in the form of covered bonds	-	-	-	-	-
13	Exposures to institutions and companies with short-term credit assessment	-	-	-	-	-
14	Exposures in the form of units or shares in investment funds	-	-	-	-	-
15	Exposures based on equity investments	-	-	-	214	214
16	Other exposures	-	-	-	476.856	476.856

**k) by significant business line, the amount of gross exposure in default status, gross amount of past due receivables and gross amount of other exposures with related value adjustments (provisions for expected credit losses)**

Exposure by significant business line							
No.	Business line	Default exposures	Value adjustments for default exposures	Amount of past due receivables	Value adjustments for past due receivables	Exposures which are not in default status	Value adjustments for exposures which are not in default status
1	Agriculture, forestry and fishing	148	137	119	53	14.436	158
2	Mining and quarrying	49	29	6	4	4.155	22
3	Processing industry	9.018	5.909	9.619	3.140	412.447	4.426
4	Production and supply of electricity, gas, steam and air conditioning	6	6	2	-	19.480	391
5	Water-supply, sewage, waste management and environmental remediation	14	14	8	6	27.250	192
6	Construction	1.482	1.415	428	294	147.942	1.444
7	Wholesale and retail trade; repair of motor vehicles and motorcycles	15.402	12.926	9.915	6.106	1,071,724	8.008
8	Transport and storage	1.391	1.074	799	673	113.004	1.127
9	Accommodation, hotels and catering	444	412	251	211	5.593	163
10	Information and communication	240	239	456	211	86.525	805
11	Financial and insurance activities	55	54	-	-	2,079,322	4.171
12	Real estate activities	91	90	100	73	3.714	54
13	Professional, scientific and technical activities	425	343	326	215	30.536	589
14	Administrative and support service activities	668	644	544	538	10.149	181
15	Public administration and defence; compulsory social security	-	-	11	1	335.807	3.181
16	Education	114	113	99	97	2.010	24
17	Health and social protection	20	18	7	2	5.867	74
18	Arts, entertainment and recreation	18	17	-	-	576	12

19	Other activities	100.784	83.760	67.346	60.161	1,982,277	38.238
20	Total	130.369	107.200	90.036	71.785	6,352,814	63.260

**l) presentation of changes in value adjustments (provisions for expected credit losses) from item g) hereof during the reporting period, which includes the initial balance, changes during the reporting period and the final balance;**

	Value adjustments for default exposures	Value adjustments for exposures which are not in default status
Initial balance	128,194	75,555
New value adjustments during the period	38,066	40,069
Amount of value adjustment	59,060	52,364
Final balance	107,200	63,260

**m) for each of exposure categories:**

- 1) name of selected ECAI or ECA, including the reasons for any change in their selection;
- 2) exposure classes for which the ECAI or ECA credit rating assessment is used;
- 3) description of procedures for the application of credit rating of an issuer or issued financial instruments of an issuer to individual positions in the banking book;
- 4) allocation of credit ratings of the selected ECAI or ECA to appropriate credit risk stages;
- 5) amounts of exposures before and after the use of credit protection for exposures that are not in default status and for exposures in default status

Since the date of entry into force of the FBA Capital Calculation Decision, the Bank has been using the loan quality assessments by the following ECAI, external credit risk assessment institutions:

- ✓ Standard & Poor's;
- ✓ Moody's;
- ✓ Fitch.

The ECAI ratings are used for the exposures to: central governments and central banks, regional governments, public sector, companies and institutions. Credit ratings of the selected ECAI or ECA are assigned to the relevant credit quality grades based on the credit quality level in relation to the rating assigned by ECAI.

Overview of credit ratings of external institutions for credit risk assessment by credit quality level is shown in the table below:

Credit quality level	Fitch's	Moody's	S&P's
1	AAA to AA-	Aaa to Aa3	AAA to AA-
2	A+ to A-	A1 to A3	A+ to A-
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-
5	B+ to B-	B1 to B3	B+ to B-

Credit quality level	Fitch's	Moody's	S&P's
6	CCC + and below	Caa1 and below	CCC + and below

The Bank determines credit quality level in the following way:

- ✓ If different assessments of the credit quality level are given for a certain customer by the selected ECAs, then the assessment that has a lower credit quality level is selected and the exposure is continuously assigned the risk weight of that lower quality level (which is actually a higher risk weight, i.e. a more cautious treatment of the exposure);
- ✓ External customer rating is analysed as priority. If it does not exist, then country rating of the customer's origin is observed. For exposures to customers, for which there is no credit assessment of the selected ECA, credit assessment assigned to central government (in which the customer's seat exists) is used.

Exposure amounts before and after using credit protection as of 31 December 2023 are shown in the table below:

Before and after the use of credit protection					
No.	Exposure class	Value of net exposure before the use of credit protection		Value of net exposure after the use of credit protection	
		Exposures which are not in default status	Default exposures	Exposures which are not in default status	Default exposures
1	Exposures to central governments and central banks	1,177,952	-	1,177,946	-
2	Exposures to regional or local governments	59.726	-	59.726	-
3	Exposures to public sector subjects	14.568	-	14.452	-
4	Exposures to multilateral development banks	37.280	-	37.280	-
5	Exposures to international organisations	-	-	-	-

Before and after the use of credit protection					
No.	Exposure class	Value of net exposure before the use of credit protection		Value of net exposure after the use of credit protection	
		Exposures which are not in default status	Default exposures	Exposures which are not in default status	Default exposures
6	Exposures to institutions	674.855	-	674.855	-
7	Exposures to companies	1,167,623	5.165	1,163,503	5.165
8	Exposures to private individuals	2,125,381	18.004	2,116,921	17.946
9	Exposures secured by real estate	555.099	-	554.992	-
10	High-risk exposures	-	-	-	-
11	Exposures in the form of covered bonds	-	-	-	-
12	Exposures to institutions and companies with short-term credit assessment	-	-	-	-
13	Exposures in the form of units or shares in investment funds	-	-	-	-
14	Exposures based on equity investments	214	-	214	-
15	Other exposures	476.856	-	476.856	-

The Bank shall publish data i.e. information related to the countercyclical capital buffer:

a) *geographical distribution of exposures significant for the calculation of countercyclical capital buffer;*

b) *total amount of the countercyclical protective layer of the bank's capital.*

The FBA Capital Calculation Decision, Article 45, paragraph (6), defines the following: The countercyclical protective layer of capital as well as the protective layer of capital for systemic risk, if necessary, will be prescribed by a separate document.



## 1.7 Financial leverage ratio

**a) Financial leverage rate calculated in accordance with the provisions of the Capital Calculation Decision as of 31.12.2023 was 9.10 %.**

**b) Overview of items included in determining the total exposure of bank, which is the denominator when calculating the financial leverage rate:**

Exposure values	Amount
Off-balance items with the 10 % conversion factor (CCF) in line with the Capital Calculation Decision	23,444
Off-balance items with the 20 % conversion factor (CCF) in line with the Capital Calculation Decision	144,008
Off-balance items with the 50 % conversion factor (CCF) in line with the Capital Calculation Decision	102,086
Off-balance items with the 100 % conversion factor (CCF) in line with the Capital Calculation Decision	13,288
Other assets	5,195,381
(-) Amount of the assets deductible items – CET1 capital – in line with the Capital Calculation Decision	-54,597
(-) Exposure of the financial leverage ratio – in line with the Capital Calculation Decision	5,423,610
<b>Capital</b>	
CET1 capital – in line with the Capital Calculation Decision	493,423
<b>Financial leverage ratio</b>	
Financial leverage ratio in line with the Capital Calculation Decision	<b>9.10%</b>

**c) description of the most significant factors that influenced the change of the financial leverage ratio compared to the previous announcement are:**

- The increase in investment in intangible assets and the increase in deferred tax assets based on provisions for credit risk stages 1 and 2 had an impact on the increase of Deductible items of capital, and at the same time on the decrease of the Core capital.
- The increase in total assets was mostly influenced by increases in the positions of Loans and receivables from customers (increase in the amount of 206,237 thousand KM compared to 30.06.2023) and Other assets at amortised cost (increase in the amount of 166,708 thousand KM compared to 30.06.2023)

**d) a description of the procedures used by the bank to manage excessive financial leverage risk**

Leverage rate is calculated in a way that capital measure is divided by total exposure and is expressed in percentages. The Bank calculates financial leverage rate on the reference reporting date.

The capital measure is its core capital, while the measure of total exposure of a bank is the sum of exposures of:

- a) assets in paragraph (5) Article 41. of the Decision on Capital Calculation in Banks, except for items that are deducted when determining capital measure
- b) Financial derivatives in Paragraph (10) Article 41. of the Decision on Capital Calculation in Banks
- c) increases for the credit risk of the other contracting party on securities financing transactions, from paragraph (11) of Article 41;
- d) off-balance items in Paragraph (12) Article 41

The Bank's strategy for managing the risk of excessive financial leverage is to maintain the level of financial leverage by aligning the level of total exposure with the business plan and aligning the structure and level of capital with the one planned in the Capital Plan and Program for a period of three years.

The leverage risk management strategy is closely related to the capital risk management strategy, i.e. the strategy of taking over and managing any other risks to which the bank is exposed or might be exposed. One of the main objectives is protection against capital erosion due to losses associated with risks to which the bank is exposed or might be exposed (expected or realized).

In order to meet the leverage risk management strategy, the Bank determines:

- Planned financial leverage rate that reflects budgeted growth of exposure and structure and capital plan
- Rates of minimum match between the Bank's assets and liabilities

to prevent unwanted changes to the business plan in case of capital erosion or in case of unplanned increase in total risk exposure and forced sale of assets that may result in losses on sale and/or value adjustment of its remaining assets, which may also lead to losses or negative effects on capital.

The planned leverage rates are an integral part of the Capital Program and Plan and the risk appetite framework, which defines the Bank's appetite, tolerance and capacity for leverage rates as an indicator of the risk of excessive leverage.

Excessive leverage risk management is the responsibility of the Accounting, Taxes and Financial Reporting Unit, which coordinates management for all organisational units that manage risks or organizational units that affect the financial result through the achievement of business objectives and consequently through capital at the Bank's leverage rate. This unit monitors and reports to the Bank's bodies on the leverage ratio.

The financial leverage report that is sent to the Banking Agency is created on a quarterly basis. Additionally, the Bank calculates and monitors the financial leverage rate on a monthly basis. Creating reports is within the competence of Accounting, Taxes and Financial Reporting.

The Bank continuously monitors indicators of the excessive financial leverage risk that include the financial leverage rate and mismatch between assets and liabilities of the Bank.

## 1.8 Liquidity requirements

**The Bank shall publish data i.e. information related to qualitative and quantitative requirements for liquidity risk management in accordance with the Liquidity Risk Management Decision for Banks, and at least:**

- a) liquidity risk management strategies and procedures;**
- b) the manner of organizing the liquidity risk management function in the bank, including the system of reporting and measuring liquidity risk;**
- c) policies and procedures for monitoring permanent efficiency of liquidity risk protection and liquidity risk reduction;**
- d) description of liquidity risk exposure and compliance with the strategy referred to in item a) hereof**
- e) liquidity coverage ratio (LCR) data, including an overview of the items included in the calculation of that ratio and**
- f) net stable funding sources data (NSFR), including an overview of the items included in the calculation of that ratio.**

### **Liquidity risk management strategies and procedures**

Strategic framework for liquidity management includes harmonized liquidity management, asset liquidity management and borrowed liquidity (liabilities) management, respecting the key principles of liquidity management as well as ILAAP principles in planning liquidity and funding sources (accountability, proportionality, continuity, risk significance, comprehensiveness and the "forward-looking" principle).

The management of liquidity and liquidity risk is embedded in the strategies, policies and procedures, which ensure an efficient diversification from the viewpoints of both funding and its maturity.

Liquidity risk is the risk of loss stemming from the current or anticipated inability of the bank to pay its liabilities when they fall due. Significant liquidity risk sub-classes are:

- Liquidity financing risk
- Short-term liquidity risk
- Concentration of funding risk

The selection of significant liquidity risk factors depends on degree of their influence on the liquidity position. Depending on the manner of measuring, there are:

- ✓ Quantitative risk factors are measured:
  - for short-term liquidity risk based on: management of intraday liquidity needs through maintenance of the daily minimum liquidity buffer, management of assets above the mandatory reserve and maintenance of the daily mandatory reserve, TTW stress test by currency and based on the LCR report;
  - for liquidity funding risk, based on the developments of CDS rates, the NSFR report (RBI and local FBA methodology), credit line costs, concentration of funding sources, loans and deposits;
  - The participation of all customers (considering GCC or the customer) who individually exceed 5% of the balance sheet sum, ratio of concentration of large funding sources by residual maturity, indicators on significant concentrations by types of products (avista and term deposits).

- ✓ The qualitative risk factors are measured:
  - for the short-term liquidity risk based on the short-term funding risk
  - for the liquidity funding risk based on the rating

Short-term liquidity risk is defined as the risk that a bank will not be able to meet its obligations when they are due.

The Bank's management of this risk is based on active planning and monitoring of trends of balance sheet items, plans and implementation of depositing and lending activities, where the Bank's priority is to maintain liquidity levels within optimal frameworks that ensure timely and continuous execution of payment obligations, both in regular operations and stressful situations, without jeopardizing its position in the financial market.

Funding liquidity risk is the risk that the Bank will not be able to successfully meet expected and unexpected present and future needs for cash funds and needs for security instruments without impacting its regular business operations or financial result.

Funding concentration risk occurs when the bank largely relies on liquidity from a single customer or limited number of customers.

When forecasting and planning cash flows, special attention is paid to monitoring the local market environment, primarily from the aspect of the customers' needs by monitoring the maturity of large deposits and planning their re-negotiation. In planning its liquidity needs, the Bank includes planning outflows regarding off-balance liabilities (letters of credit, guarantees, agreed credit lines), and for deposits without maturity it estimates potential outflows based on previous observations (experience) on the ground of annual trends and internally developed models.

In defining and maintaining an adequate level of liquidity, the Bank pays special attention to providing sufficient capacity of liquidity reserves that will be used for short-term intervention in a liquidity shock situation.

The Bank creates the amount of required and reserve liquidity based on current and projected liquidity position and liquidity ratios, taking into account the general goals set by the Bank's annual budget. In this way, an appropriate portfolio of liquid assets is planned, which can always:

- (1) meet current and expected liquidity needs,
- (2) meet regulatory requirements regarding liquid funds.

In order to maintain the capacity of liquidity reserve, the Bank plans and provides a portfolio of liquid unencumbered (unpledged) securities on an annual basis, taking into account possible reductions in the market value in order to avoid overestimation of the liquidity buffer.

Within the investment portfolio of Treasury, securities positions are planned according to available limits and investment plans, primarily considering the following basic principles: security, liquidity and yield, as well as restrictions regarding purchases (availability in foreign markets, currency, maturities, securities types and issuer rating). In order to provide potentially necessary additional liquidity, the planned new purchases of securities are guided by the principle of acceptance in order to secure potential future credit lines with the pledging/pledge of securities and the possibility of entering into repo transactions.

For providing intraday liquidity, the Bank has established a methodology for calculating dMLB - daily Minimum liquidity buffer, and its fulfilment is mandatory in highly liquid cash, as follows: KM funds held with the CBBH through legal reserves and in foreign currencies on a vista accounts with foreign banks and cash in all currencies in the Bank's vaults. In addition to dMLB, the Bank has to maintain the minimum legal reserves according to valid local regulations, on a daily basis.

At least once a day, Liquidity Management Group must perform the following control of intraday values:

- Current value of dHQLA;
- Ratio between intraday dHQLA and dMLB (ratio);
- Control (backtesting) of the ratio of expected/announced outflows for the day and dMLB amount.

Financing risk occurs when funding costs change and the bank's assets are not financed by liabilities with a similar maturity structure. To avoid this risk, within the process of planning business activities of the Bank, it also plans the funding sources, both from local depositors and external lenders. The strategic funding framework is based on obtaining funding by purpose and maturities that will provide funds for the business functions' budgeted lending activities while maintaining a cost-effective, risk-free liquidity level.

The process of developing funding plans for a business year is primarily focused on the principle of diversification of risk of funding sources and includes the following key activities:

- a) ensuring a stable deposit base of local customers, private individuals;
- b) maintaining the deposit base of large depositors/legal entities, continuous monitoring and analysis of maturities and monitoring the cash flows;
- c) planning to negotiate short-term lines in the money market;
- d) Planning to contract additional, LT credit lines within the programme of supranational financial institutions acceptable by purpose and maturities for supporting placements of new loan volumes to the customers of the Bank or by Group members.

### **The manner of organizing the liquidity risk management function in the bank, including the system of reporting and measuring liquidity risk;**

Liquidity risk management is defined in the following strategic documents of the Bank:

Rulebook and Procedure for Liquidity Risk Management, ILAAP Policy, Risk Acquisition and Management Strategy, Risk Acquisition and Management Policy, Liquidity and Funding Strategy and Plan, Liquidity and Long-Term Funding Management Program, Liquidity Contingency Plan.

The Bank has separated the responsibilities of the liquidity risk management function from the responsibilities of the liquidity risk control function and thus established a system of responsibilities in liquidity risk management, reporting and measurement.

The Bank's Supervisory Board annually adopts the Strategic Framework for Liquidity and Funding Sources Management, which defines quantitative measures for liquidity monitoring, assets structure and funding sources, external funding plans and dynamics, as well as lines of responsibilities in monitoring and reporting these positions.

The Management Board is responsible for defining goals and adopting measures through which it manages liquidity risk.

ALCO, to which the Management Board has transferred powers to manage liquidity risk, is responsible for monitoring and analysing balance sheet and liquidity positions on a static and dynamic basis every month, and make appropriate decisions to maintain the Bank's liquidity position in accordance with the local and Group limits.

The Liquidity management group is responsible for the strategic management of short-term liquidity (intraday, monthly, quarterly) and structuring of liquidity reserves (bonds portfolio) and it is responsible to periodically (monthly or quarterly) report ALCO, MB and SB of the Bank. Liquidity management at the operational level is a daily responsibility of this unit. In addition to managing liquid funds, it also monitors

and analyses the structure of the deposit base, concentration of large depositors, periodicity of a vista inflows/outflows, trend of loan and deposit portfolio by segments and maturity, anticipates short-term liquidity flows and long-term funding needs according to dynamics and plans of business segments.

The Funding Management Group is responsible for managing long-term liquidity by obtaining deposits and credit lines from local and foreign financial institutions.

In terms of established control functions, the organizational structure of the Bank is established in such a way that control functions are functionally and organizationally segregated from the risk-taking function, and a clearly defined division of tasks and duties of employees prevents possible conflict of interest. The Risk Controlling unit, as a control function of risk management, is primarily responsible for establishing limits, monitoring exposures and internal reporting on limits established for the purpose of liquidity risk management. It is also responsible for development of methodologies for measuring liquidity risk in normal and stressful conditions, and for participating in the establishment of measures for stressful events. Creating LCR; NSFR and net cash flow report and the preparation of internally established reports on risk monitoring for ALCO is also a task of this unit.

Preparation of other reports in accordance with regulatory requirements (Report on Maturity Match of Financial Assets and Financial Liabilities, Legal Reserves, Daily Liquidity) is the responsibility of the Accounting, Taxes and Financial Reporting unit.

Internal Audit is an independent organizational unit, completely independent from other organizational units of the Bank, which performs an independent and objective audit function in accordance with the professional principles and standards of internal audit, as well as internal rules of internal audit's activities. In doing so, it adheres to the relevant laws and regulations, as well as internal regulations governing the operations of the areas that are audited.

Risk Controlling, Treasury, Liquidity Management Group and Funding Management Group are responsible for updating documents in the scope of liquidity policies, their implementation, defining short-term and structural liquidity limits, and monitoring compliance with approved limits and target ratios.

### **Policies and procedures for monitoring permanent efficiency of liquidity risk protection and liquidity risk reduction**

The system of regular (daily / monthly) monitoring of liquidity risk exposure provides all relevant levels of management in the Bank with timely information necessary for making business decisions i.e. safe and stable operations of the Bank. A comprehensive framework of policies and procedures that provide continuous effective protection against liquidity risk as well as its reduction is defined by a set of internal documents.

Liquidity risk monitoring includes:

- monitoring of current liquidity risk exposure - continuous monitoring of compliance with defined regulatory, intragroup and internal liquidity risk limits (both in normal (Going concern scenario) and in stressful business conditions (Time-To-Wall (TTW)) on a daily and monthly basis.
- monitoring future liquidity risk exposure - the process of projecting liquidity risk positions using the stress test method and simulation method.

ALCO analyses positions on a monthly basis and adopts strategic measures for future activities.

### **Description of liquidity risk exposure and compliance with the strategy**

Indicators of liquidity risk exposure and its compliance with the strategy are established through monitoring the compliance of quantitative indicators, which includes regulatory limits and internal target ratios.

- Regulatory limits refer to:
  - a) Maintenance of legal reserve according to CBBH regulations - obligation to hold BAM cash funds on the account with the CBBH in the amount of 10% of the base which is consisted of deposits and borrowed funds, regardless of the currency of the base. Meeting obligations is on a daily basis.

As of 31.12.2023, the Bank had the amount of KM 905,919,741.63 on the account with CBBH. Legal reserves for the last decade in December 2023 was KM 438.068.204,46.<sup>4</sup>

- b) Maintenance of maturity match of financial instruments of assets and liabilities up to 30 days is in accordance with the the Bank's risk appetite.
- c) Ensure a continuous minimum liquidity coverage ratio (LCR) to be larger than or equal to 100% - this represents the ratio between the liquidity buffer and total net liquidity outflows during a stressful period of 30 calendar days.
- d) Ensure that Net Stable Funding Ratio (NSFR) is continuously higher or equal to 100% - it is a ratio between available stable funding and required stable funding

As of 31.12.2023, LCR is 223.69%.

As of 31.12.2023, NSFR is 159.73%.

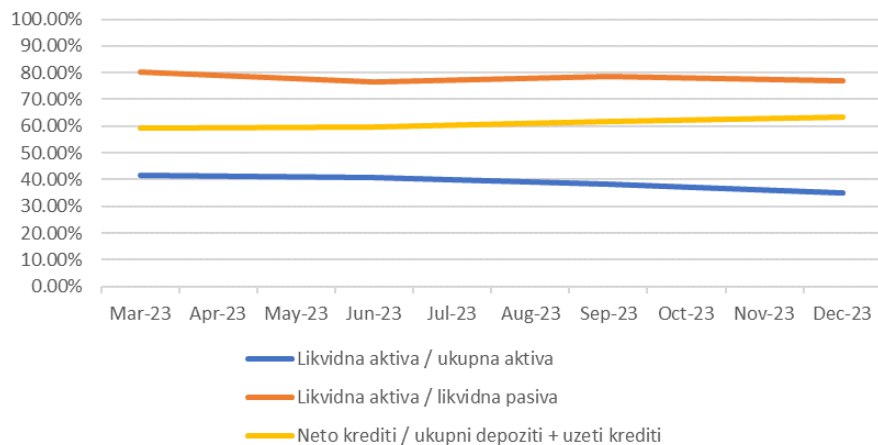
An additional set of internal liquidity limits is used for monitoring and analyzing liquidity, and relates to:

- maintenance of daily minimum liquidity buffer (dMLB);
- monitoring of ratios: liquid assets/total assets, liquid assets/liquid liabilities, loans/deposits+taken loans.

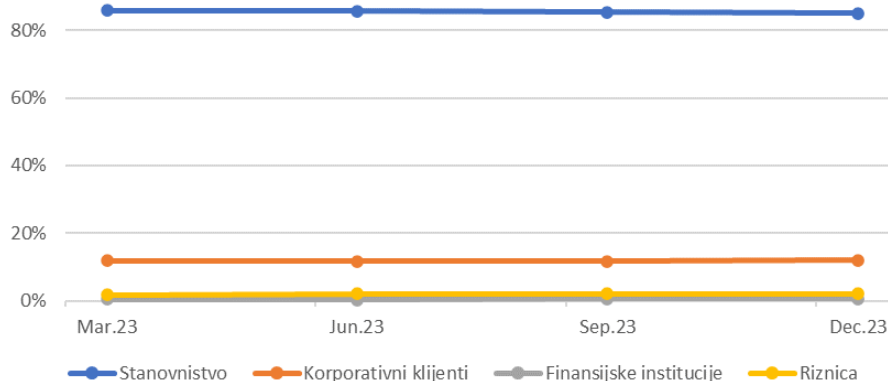
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<sup>4</sup> Amounts in nominal value.

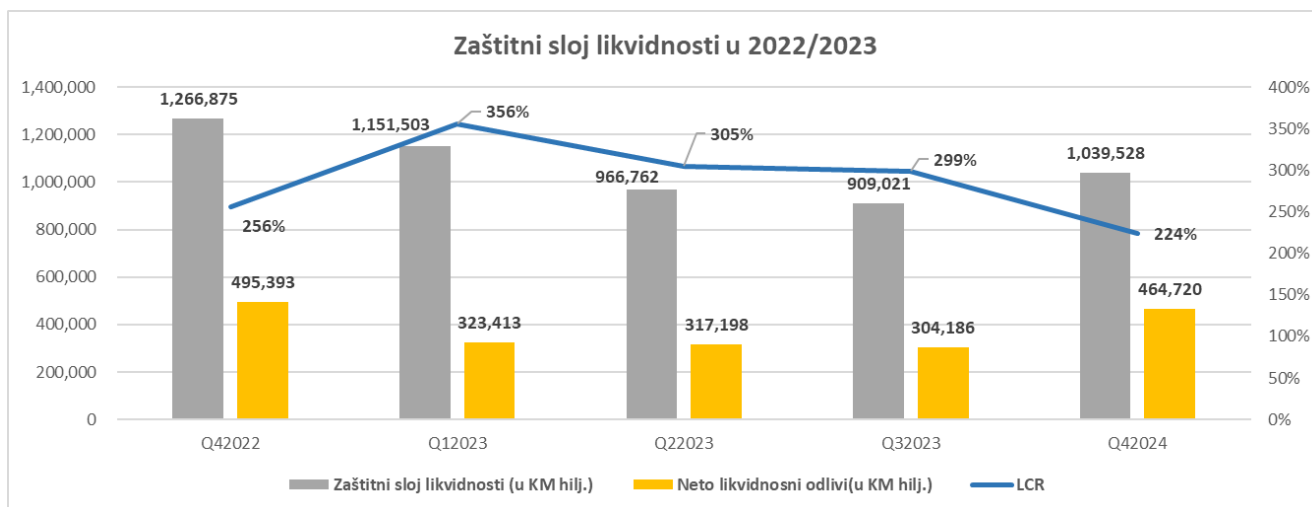
### Koeficijenti likvidnosti 2023



### Struktura izvora finansiranja 2023

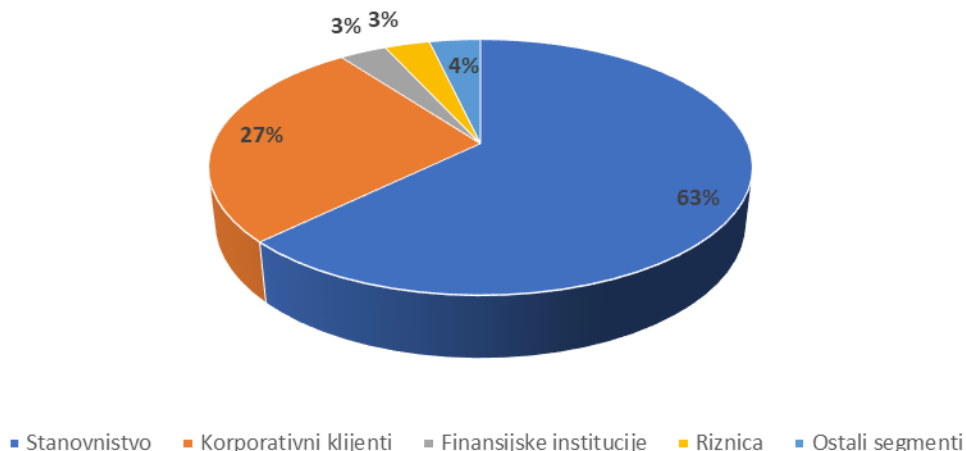


### Zaštitni sloj likvidnosti u 2022/2023





## Struktura izvora finansiranja 2023



Taking into account the bank's assets and liabilities structure as well as its liquidity and funding sources plans, the liquidity stress testing outcomes, the stability of funding sources, as well as the bank's business plan from the view-point of liquidity risk management, the bank has assessed its liquidity buffer as sustainable and stable. Additionally, the Bank maintains a sufficient level of liquidity protection layer in order to meet internal liquidity requirements in accordance with the provisions of the Decision on Liquidity Risk Management, meet internally defined limits and ultimately ensure smooth operations of the Bank.

### Liquidity Contingency Plan

In order to effectively monitor liquidity risk management and overcome emergencies, the Bank has developed and maintains a set of instruments for early identification of possible liquidity crises and has defined a crisis management model in an internal document - RBBH Liquidity Contingency Plan.

A liquidity crisis occurs if there is a reasonable assumption that the Bank is not able to meet its obligations or if the Bank's asset growth outpaces potential funding capacity.

Factors from environment can be considered as an indicator of a future liquidity crisis. Generally, it should be linked with a general worsening of the standing of BH funds or a liquidity crisis in the local market and/or disruptions in the neighbouring financial markets. If there is a chance that there will be a major uncertainty regarding the liquidity costs and increased interest rate risk and dislocation of commercial activities, it is important to monitor these signals and analyse whether the available liquidity funds can satisfy the market test.

On the other hand, a possible liquidity crisis warning may also be related to factors specific for the Bank such as:

- Excessive ST financing;
- Excessive LT lending;
- Breach of the limit for liquidity mismatch at the Group level;
- Illiquid assets growth outpaces available alternative funding potentials;
- Short or long term rating downgrade(s) (effective or market rumours);

- Reduction of available interbank facilities in the money market by the main fund providers;
- Large loan defaults;
- Poor or deteriorating quality of loan portfolio;
- Reduction of total volume of customer deposits;
- Non-diversified short-term customer funds - large concentrations of deposits;
- Significant reduction of liquid assets acceptable by local regulations;
- FX mismatch of assets/liabilities - internal limit breach;
- Utilisation of approved account overdrafts  $\geq 75\%$  within a single month.

Intensive monitoring of these factors focuses on the harmonious functioning of the process of early identification of potential signs of vulnerability to adverse events, initiating the escalation process and implementing the action plan.

Early warning indicators of possible liquidity crisis are instruments for timely detection of the first signs of liquidity deterioration due to negative impacts, which are defined in two levels:

a) Key indicators - a group of liquidity ratios that ALCO adopts annually and monitors monthly (defined in the section Description of liquidity risk exposure and compliance with the strategy as internal limits);

b) Additional indicators for early warning regarding a potential liquidity crisis - EWI. These indicators have three sub-groups of indicators covering various aspects of factors influencing the Bank's liquidity (market price indicator, liquidity indicator and counterbalancing capacity indicator). They are monitored by ALCO on a monthly basis.

Due to a need for quick reaction, the Liquidity Contingency plan defines possible actions in advance, with

- Precisely defined strategy of the Bank in case of lack of liquidity due to unfavourable events;
- Business areas, responsible persons, responsibilities, actions steps defined;
- communication and reporting actions defined aiming at an important increase in probability of successful overcoming of extraordinary events referring to liquidity.

The purpose of the Liquidity Contingency Plan is providing efficient intervention from the very beginning of a crisis and aims at providing minimal liquidity for a period of at least 30 days in any stage of the crisis.

**Liquidity coverage ratio (LCR) data, including an overview of the items included in the calculation of that ratio.**

To provide short term-resilience of its liquidity risk profile, the Bank is required to continuously ensure that minimum Liquidity Coverage Ratio (LCR) is greater or equal to 100%. This is the ratio between liquidity buffer and total net liquidity outflows over a stress period of 30 calendar days.

LCR template		
No.	Item	Amount
1.	Liquidity buffer	1 039.528
2.	Net liquidity outflow	464.720

3.	Liquidity coverage ratio (%)	223.69%
<b>Liquidity buffer</b>		
4.	<u>The liquidity buffer in the form of level-1 assets, excluding the high-quality covered bonds (in line with Article 23 of the Decision): unadjusted</u>	1,039,528
5.	Collateral outflow in the form of level-1a liquid assets, excluding high-quality covered bonds maturing within 30 days	
6.	Collateral inflow in the form of level 1 liquid assets, excluding high-quality covered bonds maturing within 30 days	
7.	Secured cash outflows	
8.	Secured cash inflows	
9.	Adjusted amount of the level 1 liquid assets excluding the covered high-quality bonds "before application of the cap value"	1,039,528
10.	Value of the level 1 liquid assets in the form of covered bonds of high quality in line with Article 23 of the Decision: unadjusted	
11.	Collateral outflows in the level-1 assets in the form of high-quality covered bonds maturing within 30 days	
12.	Collateral inflows in the level-1 assets in the form of high-quality covered bonds maturing within 30 days	
13.	Adjusted amount of the level 1 liquid assets in the form of covered high-quality bonds "before application of the cap value"	
14.	Adjusted amount of the level 1 liquid assets in the form of covered high-quality bonds "after application of the cap value"	
15.	"Amount of liquid assets surplus" of level 1 in the form of covered high-quality bonds	
16.	Value of level 2a liquid assets in line with Article 23 of the Decision: unadjusted	
17.	Collateral outflows in the level 2a liquid assets maturing within 30 days	
18.	Collateral inflows in the level 2a liquid assets maturing within 30 days	

19.	Adjusted amount of the level 2a liquid assets "before application of the cap"	
20.	Adjusted amount of the level 2a liquid assets "after application of the cap"	
21.	"Amount of liquid assets surplus" of level 2a	
22.	Value of level 2b liquid assets in line with Article 23 of the Decision: unadjusted	
23.	Collateral outflows in the level 2b assets maturing within 30 days	
24.	Collateral inflows in the level 2b assets maturing within 30 days	
25.	Adjusted amount of the level 2b liquid assets "before application of the cap"	
26.	Adjusted amount of the level 2b liquid assets "after application of the cap"	
27.	"Amount of liquid assets surplus" of level 2b	
28.	Amount of liquid assets surplus	
29.	Liquidity buffer	1,039,528
<b>Net liquidity outflow</b>		
30.	Total outflows	1,032,688
31.	Entirely exempt inflows	
32.	The inflows to which the 90% limit is applied	
33.	The inflows to which the 75% limit is applied	567.969
34.	Reduction by "entirely exempt inflows"	
35.	Reduction by inflows to which the 90% limit is applied	
36.	Reduction by inflows to which the 75% limit is applied	567.969
37.	Net liquidity outflow	464.720
<b>Pillar 2</b>		

38.	Pillar 2 requirements	
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**Data on Net Stable Funding Ratio (NSFRLCR), including including an overview of the items included in the calculation of that ratio**

The Bank must ensure a minimum NSFR, that represents a ratio between ASF (Available Stable Funding) and RSF (Required Stable Funding) expressed in form of a percentage. Thus, the Bank must continuously maintain NSFR of at least 100% in the reporting currency, regardless of the actual denomination in the currency. Net stable funding ratio (NSFR) is aimed at promoting longer term resilience by encouraging banks to continuously finance their activities with stable funding sources.

Net stable funding ratio (NSFR)		Amount	RSF (Required Stable Funding)	ASF (Available stable funding)	Ratio
		0010	0020	0030	0040
0010	<b>REQUIRED STABLE FUNDING</b>	6,367,320	2,412,570		
0020	RSF of the CBBH assets	1,226,161			
0030	RSF of liquid assets	286.860	18.755		
0040	RSF of the value of securities that are not liquid assets	66.196	54.422		
0050	RSF of loans	3,370,834	2,056,450		
0060	RSF of inter-dependant assets				
0070	RSF of assets within the group or institutional protection system if it is a subject of preferred treatment				
0090	RSF of contribution to the guarantee fund of central other contractual party				
0100	RSF of other assets	245.330	223.067		
0110	RSF of OB items	1,171,939	59.876		
0120	<b>AVAILABLE STABLE FUNDING</b>	5,063,638		3,853,583	
0130	ASF of capital items and instruments	593.214		593.214	
0140	ASF of retail deposits	2,647,129		2,447,874	
0150	ASF of other non-financial customers (except central banks)	1,552,185		788.222	
0160	ASF of operating deposits				
0170	ASF of obligations and mandatory lines within the group or institutional system of protection to which a preferred treatment applies				
0180	ASF of financial customers and central banks	175.510		15.421	
0190	ASF of obligations to another contractual party that cannot be determined				
0200	ASF of inter-dependant obligations with Agency approval				
0210	ASF of other liabilities	95.600		8.852	
0220	NSFR				159.73%

## 1.9 Exposures under equity investments

**The Bank publishes the following data i.e. information related to the exposures under equity investments in the banking book:**

**a) classification of exposures per investment purpose, including generation of the capital profit and strategic reasons;**

Interests in affiliated companies = subsidiaries

Subsidiary is an enterprise that is controlled by another enterprise (parent company). Control implies the authority to exercise control over the management and conduct of the company's operations, so as to obtain benefits from its activities. According to the Rules and Regulations for the Executive Secretariat/Participations Management, the Bank always has a controlling influence when:

- it is the majority owner of a subsidiary (> 50%);
- it controls the majority of voting rights either alone or by an agreement concluded with other member/members;
- it can force the appointment or removal of the majority of the management board or other governing bodies of the subsidiary.

Equity shares = Associated companies and other participating interests

- An associated company is an enterprise in which the investor has significant influence, but which is not a subsidiary, which can be a joint venture of investors or a venture in another manner, in accordance with the law. Significant influence implies, among other legally prescribed situations, the authority to participate in making significant decisions (e.g. of a financial nature), usually when the investor directly or indirectly holds 20% or over, but less than 50% of the voting rights in a legal entity.
- **Other equity shares** are strategic investments where the company has neither a controlling interest nor a significant influence (usually with shares below 20%).

In accordance with Group directives: REG 2016-0084 RBI Participations Strategy V.3.0 and REG 2016-0040 RBI Group Equity Investments- Processes and Responsibilities V.3.1., ownership shares of the Bank are classified into four categories, as follows:

- Strategic investments: relate to the core business activity (eg institutions, leasing companies, asset management, pension fund companies) and are usually held permanently.
- Investments for the purpose of support: facilitate implementation of the main business activities and are maintained as long as necessary. After they are no longer necessary for this purpose (e.g. third party can perform the service better) they become opportunity investments.
- Opportunity investments are made for the purpose of gaining profit and they are not related to the main activity. Included only in case of exceptions - period of investment is only a ST to mid-term one. They require a clear exit investment strategy.
- Investments into ownership capital encouraged by collection (e.g. replacement of debt capital): are made only to limit losses of credit exposure (usually they do not fit in the RBI participation portfolio). Therefore, they need to be available as long as they are economically cost-effective.

**In accordance with the above, the strategy regarding the existing ownership shares of the Bank is as follows:**

<b>Strategic investments</b>	<b>Investments for the purpose of support</b>	<b>Opportunity investments</b>	<b>Investments into ownership capital encouraged by collection</b>
Raiffeisen Leasing d.o.o. Sarajevo	SWIFT (Society for Worldwide Interbank Financial		
Raiffeisen Invest Fund Management Company JSC	Telecommunication limited liability Co-operative Society)	/	/
Raiffeisen Capital a.d. Banja Luka	Registar vrijednosnih papira Federacije BiH dd Sarajevo (FB&H Securities Registry)		
Raiffeisen Assistance d.o.o. Sarajevo	Sarajevo Stock Exchange		

**b) overview of implemented accounting policies and valuation methods, including basic assumptions and approaches that affect value determining, and every major change;**

Reference internal documents that regulate the activities above are:

- 1) Accounting Policies no. 1-9-27628-E5-4-NO/2023 of 27.06.2023.
- 2) Participations Management Manual no. 1-9-35614-D2A-UB/2023 of 05.09.2023.
- 3) Instructions for Measurement of Fair Value V 1.0 no. 1-9-33578-11A/2020 of 01.09.2020.

The documents above define the following:

- Method of participation management
- Tasks of the bank unit responsible for participation management
- obligations of other units in the bank regarding participation management
- Obligations of subsidiaries and other legal entities in which the bank has ownership shares,
- Types of ownership shares by amount of investment and subject of investment (investments into affiliates and subsidiaries, investments (not) traded on the stock exchange, other investments)
- The valuation methodology for ownership shares of the Bank,

Which has been described in detail in the reference documents stated above.

The reference documents are aligned with the relevant accounting standard (IFRS 13).

It is important to underline additionally, in terms of the valuation methodology of the bank's ownership shares, that RBBH uses the valuation method at the market price with the following characteristics:



- Approach: Simplified fair value measurement (according to IFRS 13)
- Hierarchical level 3 according to IFRS 13.72
- Valuation technique: Market approach according to IFRS 13.61 and 13.62

For portfolio valuation the Bank uses prices and other relevant information from the market which refers to the same or comparable assets i.e. group of assets.

When valuing investment portfolio for the same assets, the Bank uses the last price which it achieved in the market for that type of assets, taking into consideration events or factors which may occur after the purchase of the assets and which might impact determination of fair value (changes in the market, changes of strategy,...).

For valuing investment portfolio for similar assets, the Bank will implement the same procedure as in case of the same assets. However, first it has to identify all the differences among the assets which are compared and which might affect determination of fair value.

Revaluation effects are booked in the revaluation accounts in balance sheet, measurement option through other comprehensive income FVOCI.

### c) type, nature and amounts of exposures based on:

The Bank has investments in: S.W.I.F.T. Belgium, FBiH Securities Register, Sarajevo Stock Exchange and Velprom d.d. Sanski Most in the total amount of KM 538 thousand, which are held for the purpose of generating capital gains.

#### 1. equity investments traded on stock exchange

Data on equity investments that are traded on stock exchange as of 31.12.2023:

Simbol / Symbol	ISIN kod / ISIN code	Vrsta vrijednosnog papira / Securities type	Nominalna vrijednost (u valuti) / Nominal value (in currency)	Valuta / Currency	Broj/Number	Ukupna nominalna vrijednost u KM/Total nominal value in KM	Klasifikacija prema MSFI 9/IFRS 9 classification	Pozicija u bilansu stanja / Balance sheet position	Knjigovodstvena vrijednost/Book value	Naziv emitenta (puni naziv)/Issuer name (full name)
2	3	4	5	6	7	9	14	15	16	18
B0016790090	SWIFTBELGIUM	Dionice	125	EUR	12	2,933.75	FVOSD	Finansijska imovina po fer vrijednosti kroz ostali ukupni rezultat	182,127.00	SWIFT

#### 2. equity investments that are not traded on stock exchange, which are in sufficiently diversified portfolios,

Data on equity investments that are not traded on stock exchange as of 31.12.2023:

Simbol / Symbol	ISIN kod / ISIN code	Vrsta vrijednosnog papira / Securities type	Nominalna vrijednost (u valuti) / Nominal value (in currency)	Valuta / Currency	Broj/Number	Ukupna nominalna vrijednost u KM/Total nominal value in KM	Klasifikacija prema MSFI 9/IFRS 9 classification	Pozicija u bilansu stanja / Balance sheet position	Knjigovodstvena vrijednost/Book value	Naziv emitenta (puni naziv)/Issuer name (full name)
2	3	4	5	6	7	9	14	15	16	18
VPRMR	BAVPRMR00008	Dionice	1	BAM	1763	1,763.00	FVOSD	Finansijska imovina po fer vrijednosti kroz ostali ukupni rezultat	1,181.00	VELPROM D.D. SANSKI MOST
RVPSR	BARVPSR00005	Dionice	100	BAM	282	28,200.00	FVOSD	Finansijska imovina po fer vrijednosti kroz ostali ukupni rezultat	32,263.00	REGISTAR VRIJEDNOSNIH PAPIRA U FBiH DD SARAJEVO
SBRZR	BASBRZR00006	Dionice	320	BAM	644	206,080.00	FVOSD	Finansijska imovina po fer vrijednosti kroz ostali ukupni rezultat	321,994.00	SARAJEVSKA BERZA BURZA VRIJEDNOSNIH PAPIRA DD

### 3. other equity investments;

Equity investments held in the banking book have been made with the intention of holding for an indefinite period. Shares in capital of other legal entities may be sold depending on liquidity needs or if market prices change.

On the reporting date of 31.12.2023, the Bank has equity investments in subsidiaries and affiliates, as follows:

Subsidiary	Core business	% share	Equity investments amount
Raiffeisen Leasing d.o.o. Sarajevo	Leasing	100%	10,051
Raiffeisen Invest Fund Management Company JSC	Fund Management Company	100%	945
Raiffeisen Capital a.d. Banja Luka	Mediation in securities business	100%	53
Raiffeisen Assistance d.o.o. Sarajevo	Mediation in insurance	50%	2
<b>Total:</b>			<b>11.051</b>

#### **d) total actual loss/gain from the previous period generated from the sale or closing of positions related to equity investments.**<sup>5</sup>

Based on the changed market value of the SWIFT share in terms of increase from EUR 6,055 to EUR 7,760, RBBH posted revaluation effects in the amount of KM 11,382.92. As of the reporting date of 31.12.2023, the investment in SWIFT amounts to KM 182,126.88.

On the basis of unprofitable operations and due to years of losses of ESP d.o.o, the Bank made a Decision on the Reduction of the Value of Investments into the Company ESP BH doo (13.09.2022 and 15.11.2022), and recorded a reduction in the book value of the investment in the total amount of KM 2,201,610.66 and reduced the deposit amount to KM 1.00.

On the basis of the finality of the Decision of the Sarajevo Municipal Court no. 65 0 L 1015145 23L of 31.10.2023, which concluded the liquidation proceedings against the legal entity ESP d.o.o., whereby the said legal entity was erased from the register, on 05.12.2023, the Bank wrote off the remaining book value of the deposit amount of 1.00 KM.

<sup>5</sup> Amounts in nominal value.

## 1.10 Interest rate risk in the banking book

**The Bank discloses the following data and/ or information on its exposure to interest risk based on the banking book position as well as data on the approach to the interest risk measurement i.e. its assessment:**

**a) the sources of this risk and frequency of its assessment;**

**b) basic assumptions for measurements and assessments of interest risk exposure, including the assumptions on loan prepayments and a vista deposits trends;**

**c) changes in income, economic value or other factors due to interest rate shocks in accordance with the method established for measuring interest rate risk inherent to major currencies.**

### **Sources of interest rate risk and frequency of its measurement**

Interest Rate Risk in the banking book is the risk of possible negative effects on the financial result and capital of the bank based on positions from the banking book due to changes in interest rates.

Interest rate risk is the possibility of interest rate change in the future which will cause an economic loss i.e. it can pose a significant threat to the Bank's earnings and its CET1 capital, through a decrease of interest income or increase of interest costs. The risk of interest rate risk change affects the present value of future cash flows, thus also the net interest income and other cash flows sensitive to such change-

The Bank defines a framework for identification, measurement, monitoring and reporting through the Risk Management Strategy and Policy, as well as the Rulebook with a special part on market risk management and the Program for Interest Rate Risk Management in the Banking Book. It is based on the existing assets and liabilities products and limited by both group and internal restrictions (appetite and tolerance) and restrictions defined by the local regulator.

The primary sources of interest rate risk are:

- The risk of maturity mismatch of redetermination of interest rates is the risk to which the bank is exposed due to maturity mismatch (for fixed interest rates) and revaluation (for Variable interest rates) of asset positions, liabilities, and long and short off-balance sheet positions in the banking book.
- Yield curve risk is the risk that results from changes in the shape and slope of the yield curve.
- Base risk is the risk to which a bank is exposed to due to a difference between reference interest rates for instruments with similar features vs. maturity or time until the next IR change.
- Option risk arises from options, including embedded options in interest-sensitive positions (e.g. loans with early repayment option, deposits with early withdrawal option).

According to local regulations, the Bank measures exposures to IRR in the banking book according to simple calculation when assessing economic value of the banking book, and it can be maximum 20% of regulatory capital, thus applying standard interest rate shock of 200 basis points to the banking book positions across all key currencies individually and for other currencies aggregately.

Additionally, the Bank established the internal limits where the exposure to IRR of the banking book is measured as follows:

- Potential changes of economic value are measured on daily through BPV and VaR reports

- Expected changes in net interest income (Earnings at risk) measure the effects of re-pricing according to the group methodology. Calculations are done quarterly.
- Expected changes in net interest income (Earnings at risk) measure the effects of re-pricing according to local/internal assumptions defined by ALCO. Calculations are done quarterly.

Control of interest risk through monitoring the use of BPV and VaR limits for the total position as well as major currencies (BAM, EUR, USD) is monitored daily, and reported monthly to ALCO, and quarterly to the Management Board and Supervisory Board. Reports on interest risk exposure defined according to local regulations are prepared on a monthly basis and submitted to ALCO, the Management Board, Supervisory Board and Risk Committee, as well as to the FBiH Banking Agency on a quarterly basis.

### **Basic assumptions for measurements and assessments of interest risk exposure, including the assumptions on loan prepayments and a vista deposits trends**

Measurement of interest rate risk is based on measuring potential changes of economic value (BPV) as well as expected changes of net interest income (ISI) according to the internal methodology, and measuring the ratio of changes in the economic value of the banking book to regulatory capital according to regulations and methodology of the local regulator. For the calculation of the banking book's economic value within the measurements for regulatory purposes, a simplified calculation is used i.e. standard interest shock approach as parallel positive and negative movement of interest rates on the reference yield curve by 200 basis points.

In accordance with the internal methodology, identification of interest-sensitive products means establishing whether the products relate to categories of assets or liabilities, establishing their granularity, type of interest rate (fixed or variable), next IR determination date, currency, term and options (e.g. loans with a possibility of prepayment, deposits with an option of automatic prolongation, deposits with a possibility of preliminary withdrawal of funds and amendments, all products with floors and caps defined).

Pursuant to the "FBA Instructions for Interest Risk in the Banking Book", the settings for the treatment of interest risk positions which are reported are defined as follows:

- ✓ received/given a vista funds of the money market participants: transaction accounts and a vista deposits are allocated to the time zone up to 1 month;
- ✓ received/given a vista funds against transaction accounts and revolving loans are allocated to the time zone from 6 to 12 months; legal reserve funds set aside at CBBH are included in the form BA 01.00 in the time zone from 6 to 12 months, while the excess over the legal reserves is not considered interest-sensitive;
- ✓ financial derivatives from Article 8 of the Decision are included pursuant to the requirements of the Capital Calculation Decision related to credit risk mitigation techniques;
- ✓ Investments into debt securities are allocated into time zones in nominal principal amounts according to the agreed schedule;
- ✓ investments in other debt securities include securities held in loan and receivables portfolio;
- ✓ investments in investment funds are allocated based on the fund's investment structure into interest-sensitive instruments; and if the fund's investment structure is unknown to the bank, it shall assess the share in the structure of interest-sensitive positions, based on the fund's prospectus;
- ✓ assets and liabilities with repayment in annuities are allocated into time zones in accordance with agreed repayment schedule in the amount of principal or annuity of principal;

- ✓ repo/reverse repo deals and security lending to/borrowing from another counterparty are included as positions in loans given/taken;
- ✓ non-performing exposures are treated as interest rate sensitive positions on a net basis, after deduction for expected credit losses, the allocation of which to appropriate time zones should reflect the planned amount and period of inflow of expected cash flows;
- ✓ common off-balance sheet items: guarantees, letters of credit, issued bills of exchange and other guarantees, framework loans, financing obligations and other classic off-balance sheet items are not considered interest sensitive items;
- ✓ matured positions shall not be treated as interest sensitive.

### **Changes in income, economic value or other factors due to interest rate shocks in accordance with the method established for measuring interest rate risk in significant currencies**

In 2023, the Bank was within the regulatory and internal limits. At the end of Q4 2023, the Bank recorded utilisation of an internal BPV limit for ALM segment in the amount of KM 117.62 ths out of the total limit of KM 342.27 ths, which is total limit utilisation for all currencies of 34.37%, while within CM segment in the amount of KM 6.07 ths out of the total limit of KM 52.8 ths, which is a total limit utilisation for all currencies of 11.49%.

The IRR Report based on local regulations shows the result of a change in economic value regarding regulatory capital of 8.52% as of 31.12.2023.

The utilization of RBBH StdVarHistAllIEC limit amounted to KM 1,362 ths out of the total limit of KM 13,691 ths, which is the total utilization of the limit of 9.95%.

## 1.11 Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) Exposures based on equity investments of the bank

**The Bank publishes the following data i.e. information regarding ICAAP and ILAAP of the Bank:**

**a) a summary description of ICAAP;**

Based on the Decision on Internal Capital Adequacy Assessment Process and Internal Liquidity Assessment Process in Banks ("FBiH Official Gazette" no. 16/19 and 30/20), the Reporting Guidelines on ICAAP and ILAAP Implementation in Banks and the amendments to them and by the Decision on Internal Governance in Banks ("FBiH Official Gazette" no. 39/21), the Bank has established an internal capital adequacy assessment process, ICAAP, with the primary objective of ensuring a sufficient level of capital to cover the risks to which the Bank is or might be exposed in its business operations.

The Bank continuously, throughout the year, implements a documented process of internal capital adequacy assessment, i.e. determines the amount of internal capital in accordance with the risk management strategy and policies as well as the capital management strategy.

The ICAAP process includes the following activities:

a) Identifying material risks in ICAAP - Risk assessment;

Based on its risk profile, the Bank defines material i.e. significant risks to which it is/might be exposed to in its business. In the process of material risk definition, the Bank shall consider the type, scope and complexity of its activities and respective markets. The assessment shall include its entire portfolio to cover all activities, exposures, internal indicators and external factors.

b) Defining Risk Taking and Management Strategy and Risk Appetite Framework (capacity, risk tolerance, risk appetite);

The main task of the Risk-Taking and Management Strategy is the establishment of binding standards and risk management procedures in the Bank, as well as the connection between risk management and business activities, by determining risk management goals based on mid-term business goals and an established environment for making business decisions related to risks. A document that arises from the Risk-Taking and Management Strategy is the Risk Appetite Framework, which articulates, that is, sets forth the internal goals for risk taking, which ensures the achievement of the Bank's risk strategy and business goals.

c) Methodology for measurement of material risks and the process of calculating capital requirements;

The main goal of the established methodologies for calculating internal capital requirements is to adequately measure significant risks and provide sufficient level of capital to cover the risks that the Bank takes in its operations.

a. The process of calculating regulatory capital requirements

In the process of calculating regulatory capital requirements for credit, market and operational risk, all steps are strictly harmonized with laws and regulations.

b. The process of calculating internal capital requirements

In the process of calculating internal capital requirements, the Bank uses different approaches to internal calculation process, i.e. assessments for different types of risks, and it must define appropriate methodology for measurement or assessment of every risk and document the entire process.

d) Process of determination, planning and distribution of the bank's capital:

The key precondition for achieving its strategic goals is sound regulatory capital adequacy, i.e. a proper share of own capital in the funding structure. Determining and allocating capital to cover risk, the Bank defines within the capital planning process and planning of capital required for achieving business objectives within the time horizon of the next three years. The structure of available internal capital may be aligned with the regulatory capital structure, or in case of deviations they need to be explained, with due consideration of all defined regulatory limitations.

e) Stress testing for ICAAP and ILAAP requirements (the so called integrated stress test)

The Bank uses stress-testing results to identify appropriate measures regarding risk-mitigation methods, contingency plans, capital plans and other measures within the range of possible stress conditions. These results are a significant part of the ICAAP report since the results of stress testing are used in the calculation of internal capital requirements.

f) Audit of ICAAP processes and reports;

The audit process, performed by the Bank's Internal Audit, controls the efficiency and adequacy of general risk management processes. Upon completed examination, the Internal Audit team submits a Report on internal capital adequacy assessment process with a detailed description of actions, departments responsible for the implementation, as well as the deadline for closing the actions.

g) Assessment and self-assessment of the ICAAP process adequacy.

The Bank must conduct an internal self-assessment of ICAAP, which provides arguments for the level of compliance with prescribed elements of risk management. Control functions and bodies that are part of the management and internal control system are included in the preparation of this self-assessment, and the conclusion contains an explicit statement on the adequacy of the ICAAP process in relation to the Bank's risk profile.

The final obligatory steps of the ICAAP annual cycle are discussion and harmonization of the Report with the involved participants, especially the Accounting, Taxes and Financial Reporting with unit in terms of comparing regulatory and economic (internal) capital, and capital position of the Bank, presentation and harmonization of the Report with the management functions, and submission of the Report to the FBA.

***b) short description of approaches that the bank uses for measurement and assessment of all material risks;***

Within the ICAAP process, and at least once a year, the Bank performs an overall assessment of risks to identify their structure and levels of their materiality. The assessment is done annually, but it can be done more often in case of major changes to the risk profile. The Bank uses a defined methodology to determine qualitative and quantitative criteria, as well as expert assessment on the basis of which materially significant risks are determined, which are further included in the process of internal capital adequacy assessment. For the measurement and calculation of internal capital requirements the bank includes the following:

- a) risks, for which minimum capital requirements are calculated (credit risk, market risk, operational risk)
- b) material risks, which are not fully covered by the minimum capital requirements (underestimation is possible in the amount of the coverage due to incompleteness in calculation of the minimum capital requirements for the credit, market and operational risk),
- c) material risks, for which minimum capital requirements are not calculated
- d) factors, arising from the economic, regulatory or business environment, if not included in the risks, specified above

The Bank uses different approaches to the internal calculation process i.e. the assessment of internal capital requirements for different types of risks, where the Bank decisively defines and documents the appropriate methodology for measuring or assessing each risk.

Total internal capital requirement is the sum of determined internal capital requirements for individual material risks including stress testing results which contain the impact of risks arising from external environment factors testing. For material risks for which the Bank in its internal methodology did not establish the manner of assessing internal capital requirements, the Bank shall allocate 5-15% of the total amount of the Bank's exposure to risk multiplied by the rate of 12%, which is the prescribed regulatory capital rate.

### ***Credit risk including the risk of credit risk concentrations***

To determine internal capital requirement for the credit risk, the Bank uses the regulatory method for definition of the minimum capital requirements for credit risks, without any modifications whatsoever. Defining the internal capital requirement for credit risk requires determining of the risk weighted exposure amount (as per the Decision on Capital Calculation in Banks) and implementation of the regulatory ratio when calculating the minimum capital requirement.

In terms of concentration risk, the Bank pays special attention to the management of exposures to a single entity, i.e. a group of related entities, or group of exposures related by mutual risk factors, such as the same industry sector, geographical area, same-type products.

The Bank uses the HHI indices for the sector and individual/group concentration to determine the internal capital requirement for the concentration risk. Depending on the amount of both HHI indices, a percentage share of the internal capital requirement for credit risk is determined as an internal capital requirement for the concentration risk. The percentages for the sector and individual/group concentrations are summed without any reductions whatsoever as a result of possible interdependence of these two types of concentrations, and the obtained percentage is applied to the internal capital requirement for the credit risk in order to calculate the internal capital requirement for the concentration risk.

### ***Market risks***

To determine the internal capital requirement for currency risk, the Bank uses the regulatory method for the determination of the minimum capital requirements for currency risks, without modifying the regulatory method. The definition of the internal capital requirement for currency risk requires determining of the risk weighted exposure amount (as per the Decision on Capital Calculation in Banks) and implementation of the regulatory ratio when calculating the minimum capital requirement.

Currency risk is measured by measuring the open FX position.



### **Operational risks**

For determining Internal capital requirement for operational risk the Bank uses the basic approach defined in Article 108 of the Decision on Capital Calculation in Bank. of the Decision on Capital Calculation in Banks.

Therefore, definition of the internal capital requirement for operational risk requires determining 15% of three-year average of the relevant indicator amount (as per the Decision on Capital Calculation) and implementation of the regulatory ratio when calculating the minimum capital requirement. The Bank calculates the three-year average based on the data for the last three 12-month periods at the end of a financial year.

### **Interest rate risk in the banking book**

Since interest risk in banking book is not included in minimum capital requirements under the Decision on Banks' Capital Calculation, and by taking into account that when the risk appraisal determined that interest risk in banking book is significant risk, the Bank calculates the Internal capital requirement for this risk against its own methodology.

The determination of the internal capital requirement for interest rate risk in the banking book is based on the calculation of the estimated amount of the effect on the Bank's net interest income that would arise as a result of changes in the amount of interest rates.

### **Other material risks**

For risks determined to be material under annual risk assessment process, but are hard to measure or non-measurable by their nature, the Bank calculates internal capital requirement as a percentage of the total amount of the total bank's exposure to risk multiplied by the rate of 12%, which is the prescribed regulatory capital rate, in accordance with the Decision on Amendments to the Decision on ICAAP and ILAAP in Banks issued by the Banking Agency of the Federation BiH on 04.05.2020 and taking into account regulatory requirements and materiality level from the Risk Assessment.

### **Summary of ILAAP procedure**

Based on the Decision on Internal Capital Adequacy Assessment Process and Internal Liquidity Assessment Process in Banks ("FBiH Official Gazette" no. 16/19 and 30/20), the Reporting Guidelines on ICAAP and ILAAP Implementation in Banks and the amendments to them and the Decision on System of Internal Governance in Banks ("FBiH Official Gazette" no. 39/21), the Bank has established internal process of liquidity adequacy assessment, ILAAP, with the aim of ensuring an adequate level of liquidity and funding sources, for the purpose of timely meeting all payment obligations, both in regular operations and in stressful conditions.

Internal Liquidity Adequacy Assessment Process (ILAAP) includes the following:

a) Determining the responsibilities of individual departments in the ILAAP process

The Bank has established a robust liquidity risk management framework which ensures that sufficient liquidity is maintained, including the protection of unencumbered, high-quality liquid assets, in order to withstand a series of stressful events. The main pillar in the process of forming a solid framework for liquidity risk management is a clear determination of the responsibilities of individual departments in the ILAAP process, interdependence, exchange of information, and taking strategically important decisions by relevant business functions.

b) Identification of material risks - Risk Assessment

The Bank initiates a Risk Assessment on an annual basis, which is preceded by the process of taxonomy/determining the risks to which the Bank is exposed or could be exposed, from the aspect of liquidity profile. Identified risks are included in the assessment process, with the aim of determining their significance, internal liquidity requirements, and further control and monitoring, during shorter and longer time intervals. The Bank uses the results of the Risk Assessment in strategic and operational management, for examining its risk appetite and its business strategies.

c) Defining the Risk-Taking and Management Policy and the Risk Appetite Framework

The Bank has defined an umbrella Risk Taking and Management Strategy, liquidity risk management policies and procedures in line with the Risk Appetite Framework that ensures that the bank will retain a sufficient liquidity buffer.

The main task of the Risk-Taking and Management Strategy is the establishment of binding standards and risk management procedures in the Bank, as well as the connection between risk management and business activities, by determining risk management goals based on mid-term business goals and an established environment for making business decisions related to risks. A document that arises from the Risk-Taking and Management Strategy is the Risk Appetite Framework, which articulates, that is, sets forth the internal goals for risk taking, which ensures the achievement of the Bank's risk strategy and business goals.

d) Methodology for risk quantification in the ILAAP process

As a part of ILAAP, the Bank has quantified the risks to which it is or may be exposed. The risk quantification methodology is aligned with the risk appetite, market expectations, business model, risk profile, size and complexity of the Bank. Sufficiently conservative values related to the identified risks have been established, taking into account all relevant information and achieving appropriateness and consistency in the selection of risk quantification methodologies.

e) The process of liquidity planning and the plans for the bank's funding sources

The bank ensures access to funding from different sources in the financial market and manages available market sources of liquidity. When creating the general annual funding plan, the following is considered:

- the need for funding arising from the planned/budgeted strategic balance sheet development, i.e. planned business activities in the lending area,
- planned activities regarding the deposit base,
- Maintaining liquidity within the regulatory frameworks and Group framework,
- the need for funding from supra-national institutions (credit lines).
- Changes in financial market

The liquidity management process is integrated into the overall management of the Bank through the established components of ILAAP such as the strategy and plan of funding sources, liquidity contingency plan, distribution mechanism (FTP).

f) Liquidity Monitoring

The Bank has established a stable process for identifying, measuring, monitoring and controlling liquidity risk. This process contains a solid framework for the complex projection of cash flows

arising from assets, liabilities and off-balance sheet items vs. corresponding set of timeframes. This also includes a framework for internal reporting, which is aligned with internal policies and limits.

g) Conducting an Integral Stress Test

In order to examine sustainability of a business model, and its important component the optimal level of internal liquidity requirements, the Bank initiates regular annual process of testing liquidity resilience to stress. The obtained results aim to identify the most vulnerable areas of business, and to identify measures to strengthen and mitigate the identified weaknesses, in order to ensure the smooth continuation of business activities. The range of adverse scenarios includes significant business downturn, severe market disruptions and financial shocks, weaknesses specific to the institution and reliance on major funding providers, as well as possible combinations of these factors. The Bank considers its key weaknesses in defining adverse scenarios. Liquidity stress-test results are analysed by the Bank in accordance with the funding source profile, liquid assets, internally developed models, and obtained effects are observed compared to the Risk Appetite Framework for the purpose of assessing continuity of business activities and maintenance of the business model.

h) Audit of ILAAP processes and reports

The audit process, performed by the Bank's Internal Audit, controls the efficiency and adequacy of general risk management processes.

i) Assessment and self-assessment of the ILAAP process adequacy

The Bank must conduct an internal self-assessment of ILAAP, which provides arguments for the level of compliance with prescribed elements of risk management. All control functions and bodies that are part of the management and internal control system are included in the preparation of this self-assessment, and the conclusion contains an explicit statement about adequacy of ILAAP process in relation to the Bank's risk profile. In order for the ILAAP process to remain permanently complete and proportionate to the type, scope and complexity of its segments, and resilient to market turbulences, the Bank conducts an annual Self-assessment which includes all its components. Pursuant to the provisions of the Decision on Liquidity Risk Management, the Guidelines for the preparation of reports on ICAAP and ILAAP, and the recommendations of the regulator, the Bank identifies areas for improving the process of internal liquidity adequacy assessment. During regular self-assessment of ILAAP, the Bank specifies areas that have been improved in the past year, and states the areas in which deficiencies were successfully implemented.

*The Bank did not receive a request from FBA to publish the results of the ICAAP and ILAAP procedures and additional capital requirements set by FBA in controlling the bank's operations, based on the assessment of the adequacy and reliability of the ICAAP procedure, its consistent implementation and results.*

## 1.12 The bank's unencumbered (unpledged) and encumbered (pledged) assets

**The Bank publishes the following data i.e. information referring to the following:**

**a) Bookkeeping amount of unencumbered (pledged) and encumbered (pledged) assets**

If we look at the the Bank's total securities portfolio, we recognize that at the reporting date, part of the portfolio was encumbered, i.e. used as collateral for the funding source, two credit lines of supranational financial institutions: European Investment Bank (hereinafter: EIB) and European Bank for Reconstruction and Development - EBRD).

Out of the total portfolio of the Bank's securities (Treasury and Markets segments), of total nominal value of BAM is 344.51 mio, the value of the encumbered part is BAM 17.11 mio (4.97% of the total portfolio). The stated amount of the encumbered assets consists of BAM 880 ths, where the collateral is the issue of the Government of Poland in favour of EIB and a total of BAM 16.23 mio, where the collateral is the issues of the Government of the Kingdom of the Netherlands and Austria in favour of EBRD, which is the basis for securing the outstanding amount of the stated credit lines (one line of creditor EIB with the debt balance of BAM 793 ths and two lines of creditor EBRD, with the debt balance of BAM 13.69 mio) as of 31.12.2023.

Type of assets	Gross book value of encumbered assets	Gross book value of unencumbered assets
Loans granted		
Investments in debt instruments	17.113	
Investments in equity instruments		
Other		

**b) the composition of encumbered (pledged) assets, by the asset types, indicating separately**

**changes after the last public disclosure;**

The part of the securities portfolio that is the subject of the EIB credit line is represented by the issue of the Government of Poland, with a nominal value of BAM 880 ths (EUR 450 ths). The issue is denominated in EUR, classified in the portfolio of the Treasury function as hold to maturity position (investments kept until maturity). In addition, the stated issue is marketable by the European Central Bank.

The part of the securities portfolio that is the subject of the EBRD credit line is represented by the issues of the Government of the Kingdom of the Netherlands, with a nominal value of BAM 9.78 mio (EUR 5.0 mio), as well as the issues of Austria of a nominal value of BAM 6,45 mio (EUR 3,3 mio). Both issues are denominated in EUR, classified in the portfolio of the Treasury function as hold to maturity positions (investments kept until maturity). Both issue are also marketable by the European Central Bank.

In relation to the previous period, the change in the amount of assets that are the subject of collateral for credit lines is the result of additional withdrawal of funds from them and regular repayments.

**c) the structure of encumbered (pledged) assets within the banking group;**

At the reporting date, the Bank had no encumbered, pledged securities with any other member bank of the Group.

**d) descriptive information on the impact of its business model on the level of encumbrance and importance of encumbrance for its financing model;**

The Bank's business model anticipates a possibility to ensure alternative, additional funding sources:

- Contracting Repo deals
- arranging credit lines with securities pledging

The Bank has a stable structure of its funding sources, primarily the deposit base, on which it mostly bases its business plans. By planning a portfolio of securities that represents an additional liquidity buffer, primarily in the Treasury segment, the Bank ensures an adequate basis for providing additional funding sources by pledging them (from creditors and other members of the group).

The level of encumbrance of the securities portfolio is directly proportional to the Bank's business plans and needs, but to a lesser extent to the issuer and the type of security (in order to define the correction factor). The encumbrance of a part of the securities portfolio at the reporting date is in line with the business plan and expected values.

**e) on excessive collateral, i.e. on cases when the value of the pledged property is higher than the book value of the assets;**

The book value of encumbered, pledged securities on the reporting date is higher than the amount of required collateral, which is a result of decrease in outstanding amount of the credit line due to regular repayments and haircut (correction factor) that is calculated by the clearing company on the market of pledged securities. At the same time, the book value of encumbered securities does not deviate from their market value.

**f) a description of the general terms and conditions of the collateral insurance agreements concluded to secure the bank's liabilities and**

On the basis of the three credit lines, a pledge of securities was agreed as a security instrument. It is a credit line with the European Investment Bank (signed on 3.5.2006) and two credit lines of the European Bank for Reconstruction and Development (signed on 19.10.2022, i.e. 04.12.2023).

In addition to the Financing Agreement, the Framework Pledge Agreement was signed with the European Investment Bank. The agreement defines the details of pledging securities, keeping them, replacing them, as well as the rights and obligations of both the pledgor and the pledgee, and the institution - clearing house where the pledged securities are kept. The costs of keeping pledged securities are also defined.

In addition to the Framework Pledge Agreement with the Creditor, a Collateral Management Agreement (pledged securities) was signed between the Bank and the clearing house where the securities are kept (Clearstream).

With the European Bank for Reconstruction and Development, the details of the pledge of securities, their preservation, their exchange, and the rights and obligations of the parties regarding the pledge and holding of securities are defined by a special clause of the financing agreement. According to the financing agreement, the pledged securities are held with the European Bank for Reconstruction and Development.

**g) other information relevant to the assessment of its encumbered assets.**

In the above text, the Bank provided all the information it considered important regarding the encumbered assets.

## 1.13 Non-performing and restructured exposures and repossessed collaterals.

a) *Quality of exposures is distributed into the credit risk levels with the relevant amounts of ECL;*

Pregled izloženosti razvrstanih u nivoe kreditnog rizika sa pripadajućim iznosima očekivanih kreditnih gubitaka	Nivo kreditnog rizika 1	Nivo kreditnog rizika 2	Nivo kreditnog rizika 3	Očekivani kreditni gubici za Nivo 1 kreditnog rizika	Očekivani kreditni gubici za Nivo 2 kreditnog rizika	Očekivani kreditni gubici za Nivo 3 kreditnog rizika
1. Gotovina i gotovinski ekvivalenti (1.1 + 1.2 + 1.3 + 1.4)	1,158,112	25,387	-	1,121	1,269	-
2. Finansijska imovina po amortizovanom trošku (2.1 + 2.2 + 2.3. + 2.4. + 2.5)	3,570,878	282,394	128,045	23,102	29,788	105,395
3. Finansijska imovina po fer vrijednosti kroz bilans uspjeha (3.1 + 3.2 + 3.3 + 3.4)	10,468	1,359	125	-	-	-
4. Finansijska imovina po fer vrijednosti kroz ostalu sveobuhvatnu dobit (4.1 + 4.2 + 4.3 + 4.4)	537	-	1	-	-	-
5. Potraživanja po finansijskim najmovima	-	-	-	-	-	-
6. Derivatni finansijski instrumenti	-	-	-	-	-	-

b) *Credit quality of loans according to their sector structures;*

Pregled kreditnog kvaliteta kredita prema sektorskoj strukturi kredita	Nivo kreditnog rizika 1		Nivo kreditnog rizika 2		Nivo kreditnog rizika 3	
		Od čega: restrukturirani krediti		Od čega: restrukturirani krediti		Od čega: restrukturirani krediti
1. Ukupni krediti pravna lica (1.1. do 1.21.)	954,424	52	79,040	1,477	5,534	3,250
1.1. A Poljoprivreda, šumarstvo i ribolov	10,128	-	294	29	8	-
1.2. B Vađenje ruda i kamena	2,496	-	-	-	19	-
1.3. C Prerađivačka industrija	201,020	3	26,348	287	3,084	2,717
1.4. D Proizvodnja i opskrba električnom energijom, plinom, parom i klimatizacija	10,890	-	76	-	-	-
1.5. E Opskrba vodom, uklanjanje otpadnih voda, upravljanje otpadom te djelatnosti sanacije okoliša	11,414	3	440	148	-	-
1.6. F Građevinarstvo	20,199	29	2,447	-	29	11
1.7. G Trgovina na veliko i malo; popravak motornih vozila i motocikala	492,397	4	28,366	875	1,979	156
1.8. H Prijevoz i skladištenje	42,384	13	3,559	41	315	302
1.9. I Djelatnosti pružanja smještaja te pripreme i usluživanja hrane (hotelijerstvo i ugostiteljstvo)	1,502	-	850	31	-	-
1.10. J Informacije i komunikacije	51,529	-	2,479	-	-	-
1.11. K Finansijske djelatnosti i djelatnosti osiguranja	49,232	-	5,295	-	-	-
1.12. L Poslovanje nekretninama	2,739	-	422	-	-	-
1.13. M Stručne, znanstvene i tehničke djelatnosti	6,505	-	1,908	37	78	41
1.14. N Administrativne i pomoćne uslužne djelatnosti	3,470	-	1,267	19	22	23
1.15. O Javna uprava i obrana; obavezno socijalno osiguranje	43,071	-	4,510	-	-	-
1.16. P Obrazovanje	1,203	-	29	-	-	-
1.17. Q Djelatnosti zdravstvene zaštite i socijalne skrbi	3,353	-	566	-	-	-
1.18. R Umjetnost, zabava i rekreacija	272	-	-	-	-	-
1.19. S Ostale uslužne djelatnosti	614	-	184	10	-	-
1.20. T Djelatnosti kućanstva kao poslodavca; djelatnosti kućanstva koja proizvode različita dobra i oba	-	-	-	-	-	-
1.21. U Djelatnosti izvanteritorijalnih organizacija i tijela	6	-	-	-	-	-
2. Ukupno stanovništvo (2.1 + 2.2 + 2.3)	1,574,812	3,563	173,732	5,655	17,100	1,168
2.1. Opća potrošnja	1,277,121	3,440	154,261	5,407	16,158	1,167
2.2. Stambena izgradnja	277,604	103	18,196	118	910	1
2.3. Obavljanje djelatnosti (obrtnici)	20,087	20	1,275	130	32	-
3. Ukupni krediti (1. + 2.)	2,529,236	3,615	252,772	7,132	22,634	4,418

c) *Credit quality of restructured exposures;*

Pregled kreditnog kvaliteta restrukturiranih izloženosti	Nivo kreditnog rizika 1 - restrukturirane izloženosti	Nivo kreditnog rizika 2 - restrukturirane izloženosti	Nivo kreditnog rizika 3 - restrukturirane izloženosti
Finansijska imovina po amortizovanom trošku	3,632	7,168	4,420


**d) Change in status of non-performing exposures and relevant ECL during the reporting period, which includes an initial balance, changes during reporting period and final balance;**

Promjene stanja nekvalitetnih izloženosti	Početno stanje	Novi nekvalitetni krediti u izvještajnom periodu (+)	Oporavak (-)	Naplata (-)	Računovodstveni otpis (-)	Trajni otpis (-)	Ostalo (+/-)	Krajnje stanje
Pravna lica	4,499	13,183	-1,295	-8,831	0	0	-2,022	5,534
Stanovništvo	18,199	21,247	-5,679	-15,590	0	0	-1,077	17,100
Ukupno	22,697	34,430	-6,974	-24,421	0	0	-3,098	22,634

**e) Data on the total amount of collateral repossessed by takeover and implementation of enforcement proceedings.<sup>6</sup>**

In the Corporate segment, Raiffeisen bank dd Bosna i Hercegovina had twelve cases of repossessed tangible assets in Bank books as of 31.12.2023. These are properties with a book value of 1 KM per registered property.

In the Retail segment, four cases of repossessed tangible assets were recorded in Bank books as of 31.12.2023. These are two properties recorded at a book value of 1 KM and two properties at a total book value of 22,900.33 KM.

  
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**Peter Jacenko**

**Chairman of the Supervisory Board**



No. 1-9-20946-02-49

Date: 29.5.2024.

<sup>6</sup> Amounts in nominal value.