KPMG d.o.o. Beograd
Milutina Milankovića 1J
11070 Belgrade
Serbia
+381 (0)11 20 50 500

TRANSLATION

Independent Auditor's Report

To the Shareholders of UniCredit Banka Srbija a.d., Beograd Group

Opinion

We have audited the consolidated financial statements of UniCredit Banka Srbija a.d., Beograd Group (the "Group"), whose parent entity is UniCredit Banka Srbija a.d., Beograd, which comprise:

- the consolidated statement of financial position as at 31 December 2023;

and, for the period from 1 January to 31 December 2023:

- the consolidated statement of profit or loss;
- the consolidated statement of comprehensive income;
- the consolidated statement of changes in equity;
- the consolidated statement of cash flows;

and

- notes, comprising material accounting policies and other explanatory information;

(the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

Basis for Opinion

We conducted our audit in accordance with the Law on Auditing and the Law on Accounting of the Republic of Serbia, the Decision on External Audit of Banks and applicable auditing standards in the Republic of Serbia. Our responsibilities under those regulations are further described in the Auditor's Responsibility for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Serbia and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the consolidated Annual Business Report for the year ended 31 December 2023.

Our opinion on the consolidated financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the consolidated Annual Business Report, we are also required by the Law on Accounting of the Republic of Serbia to express an opinion on whether the consolidated Annual Business Report:

- is consistent with the consolidated financial statements; and
- has been prepared in accordance with the applicable legal requirements.

Based solely on the work required to be undertaken in the course of the audit of the consolidated financial statements, in our opinion, the information given in the consolidated Annual Business Report for the financial year for which the consolidated financial statements are prepared, in all material respects:

- is consistent with the consolidated financial statements; and
- has been prepared in accordance with the applicable legal requirements.

In addition, in the light of the knowledge and understanding of the Group and its environment obtained in the course of our audit, we are required to report if we identify material misstatements in the consolidated Annual Business Report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with IFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with the Law on Auditing of the Republic of Serbia, the Decision on External Audit of Banks and applicable auditing standards in the Republic of Serbia, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

KPMG d.o.o., Beograd

Signed on the Serbian original

Nikola Đenić
Licensed Certified Auditor

Belgrade, 19 February 2024

This is a translation of the original Independent Auditor's Report issued in the Serbian language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail. We assume no responsibility for the correctness of the translation of the Group's consolidated financial statements.

KPMG d.o.o., Beograd

DRUŠTVO ZA KONSALTING I REVIZIJU D.O.O. KPMG 1 * BEOGRAD *

Nikola Đenić
Licensed Certified Auditor

Belgrade, 19 February 2024

UNICREDIT BANK SRBIJA A.D., BEOGRAD
Consolidated Financial Statements
Year Ended December 31, 2023

CONTENTS

All amounts expressed in thousands of RSD, unless otherwise stated.

CONSOLIDATED INCOME STATEMENT
Year Ended December 31, 2023
(Thousands of RSD)

	Note	2023	2022
Interest income	3.d, 7	35,914,759	19,653,118
Interest expenses	3.d, 7	(10,998,408)	(4,015,857)
Net interest income		**24,916,351**	**15,637,261**
Fee and commission income	3.e, 8	12,172,964	11,387,453
Fee and commission expenses	3.e, 8	(3,961,686)	(3,978,066)
Net fee and commission income		**8,211,278**	**7,409,387**
Net gains on changes in the fair value of financial instruments	3.f, 9	112,762	688,600
Net gains on derecognition of the financial instruments measured at fair value	3.g, 10	182,916	-
Net losses on derecognition of the financial instruments measured at fair value	3.g, 10	-	(65,855)
Net gains on risk hedging	3.h, 26	-	17,333
Net losses on risk hedging	3.h, 26	(5,044)	-
Net foreign exchange losses and negative currency clause effects	3.c, 11	(107,678)	(225,929)
Net losses on impairment of financial assets not measured at fair value through profit or loss	3.k, 12	(1,746,337)	(3,449,330)
Net gains on derecognition of the financial assets measured at amortized cost	3.i, 13	-	35,056
Net losses on derecognition of the financial assets measured at amortized cost	3.i, 13	(1,999)	-
Other operating income	14	47,205	6,958
Total operating income, net		31,609,454	20,053,481
Salaries, salary compensations and other personal expenses	15	(4,023,523)	(3,635,777)
Depreciation and amortization charge	3.q, 3.r, 3.t, 16	(1,341,495)	(1,359,333)
Other income	17	896,448	731,063
Other expenses	18	(6,184,982)	(6,388,712)
Profit before tax		20,955,902	9,400,722
Current income tax expense	3.j, 19	(2,441,457)	(993,730)
Deferred tax gains	3.j, 36.2	-	93,298
Deferred tax losses	3.j, 36.2	(107,683)	-
Profit after tax		**18,406,762**	**8,500,290**
Result of the period - profit		**18,406,762**	**8,500,290**
Profit attributable to the parent entity		**18,406,762**	**8,500,290**

Belgrade, February 14, 2024

Signed on behalf of the management of UniCredit Bank Srbija A.D., Beograd by:

Nikola Vuletić
Management Board Chairperson

Stefano Suppressa
Member of the Management Board
Head of Finance

Mirjana Kovačević
Head of Accounting and Regulatory Reporting

UniCredit Bank Srbija a.d. Beograd / Serbia JSC Belgrade 07

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023
All amounts expressed in thousands of RSD, unless otherwise stated.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

Year Ended December 31, 2023
(Thousands of RSD)

	Note	2023	2022
Net profit for the year		18,406,762	8,500,290
Other comprehensive income			
Components of other comprehensive income that cannot subsequently be reclassified to profit or loss:			
- Increase in revaluation reserves based on intangible assets and fixed assets		7,094	45,454
- Actuarial gains		20,122	24,142
- Actuarial losses		-	-
Components of other comprehensive income that may subsequently be reclassified to profit or loss:			
- Positive effects of value adjustments of debt securities measured at fair value through other comprehensive income		2,102,414	-
- Negative effects of value adjustments of debt securities measured at fair value through other comprehensive income		-	(3,596,846)
- Gains on cash flow hedging instruments		350,957	-
- Losses on cash flow hedging instruments		-	(805,337)
Gains on taxes relating to other comprehensive income	36.2	-	649,889
Losses on taxes relating to other comprehensive income	36.2	(372,088)	-
Total positive other comprehensive income for the year	39.2	2,108,499	-
Total negative other comprehensive income for the year	39.2	-	(3,682,698)
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE YEAR		**20,515,261**	**4,817,592**
Total positive comprehensive income for the year attributable to the parent entity		**20,515,261**	**4,817,592**

Belgrade, February 14, 2024

Signed on behalf of the management of UniCredit Bank Srbija A.D., Beograd by:

Nikola Vuletić
Management Board Chairperson

Stefano Suppressa
Member of the Management Board
Head of Finance

"UniCredit Bank Srbija a.d." Beograd
"UniCredit Bank Serbia JSC" Belgrade
07

Mirjana Kovačević
Head of Accounting and Regulatory Reporting

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023
All amounts expressed in thousands of RSD, unless otherwise stated.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2023
(Thousands of RSD)

	Note	2023	2022
Cash and balances held with the central bank	3.l, 20	130,511,716	69,758,831
Pledged financial assets	21	-	7,220,590
Receivables under derivative financial instruments	3.m, 22	2,055,657	2,808,749
Securities	3.k, 3.p, 23	104,445,786	103,771,881
Loans and receivables due from banks and other financial institutions	3.k, 3.o, 24	63,006,391	75,893,639
Loans and receivables due from customers	3.k, 3.o, 25	344,469,707	328,843,714
Receivables under derivatives designated as risk hedging instruments	3.n, 26	636,909	1,083,998
Intangible assets	3.r, 3.u, 27	2,522,455	2,469,691
Property, plant and equipment	3.q, 3.t, 3.u, 28	3,036,516	3,103,911
Investment property	3.s, 29	7,734	7,274
Deferred tax assets	3.j, 36	904.256	1,384,026
Other assets	30	1,918,501	1,996,573
Total assets		**653,515,628**	**598,342,877**
Liabilities under derivative financial instruments	3.m, 31	2,119,142	2,819,396
Deposits and other liabilities due to banks, other financial institutions and the central bank	3.k, 3.v, 32	146,166,777	139,195,655
Deposits and other liabilities due to customers	3.k, 3.v, 33	389,735,404	358,140,581
Liabilities under derivatives designated as risk hedging instruments	3.n, 26	734,550	924,644
Provisions	3.w, 3.y, 35	5,449,407	5,647,543
Current tax liabilities	3.j, 19.4	1,529,868	302,396
Other liabilities	3.t, 37	10,315,537	7,149,535
Total liabilities		**556,050,685**	**514,179,750**
Issued (share) capital	39.1	24,169,776	24,169,776
Profit	39.1	19,760,286	9,732,221
Reserves	39.1	53,534,881	50,261,130
Total equity		97,464,943	84,163,127
Total liabilities and equity		**653,515,628**	**598,342,877**

Belgrade, February 14, 2024

Signed on behalf of the management of UniCredit Bank Srbija A.D., Beograd by:

Nikola Vuletić
Management Board Chairperson

Stefano Suppressa
Member of the Management Board
Head of Finance

Mirjana Kovačević
Head of Accounting and Regulatory Reporting

UniCredit Bank Srbija a.d. Beograd / UniCredit Bank Serbia JSC Belgrade 07

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023
All amounts expressed in thousands of RSD, unless otherwise stated.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2023
(Thousands of RSD)

	Share and other capital	Share premium	Reserves from profit and other reserves	Positive revaluation reserves	Negative revaluation reserves	Profit	Total
Opening balance as at 1 January of the previous year	23,607,620	562,156	53,740,761	203,067	-	7,107,136	85,220,740
Adjusted opening balance as at 1 January of the previous year	23,607,620	562,156	53,740,761	203,067	-	7,107,136	85,220,740
Total negative other comprehensive income for the period	-	-	-	(203,067)	(3,479,631)	-	(3,682,698)
Profit for the current year	-	-	-	-	-	8,500,290	8,500,290
Transfer from reserves to result due to reversal of reserves-increase	-	-	-	-	-	2,545	2,545
Dividend payments	-	-	-	-	-	(5,877,750)	(5,877,750)
Total transactions with owners	-	-	-	-	-	(5,877,750)	(5,877,750)
Balance as at 31 December of the previous year	23,607,620	562,156	53,740,761	-	(3,479,631)	9,732,221	84,163,127
Opening balance as at 1 January of the current year	23,607,620	562,156	53,740,761	-	(3,479,631)	9,732,221	84,163,127
Adjusted opening balance as at 1 January of the current year	23,607,620	562,156	53,740,761	-	(3,479,631)	9,732,221	84,163,127
Total positive other comprehensive income for the period	-	-	-	-	2,108,499	-	2,108,499
Profit for the current year	-	-	-	-	-	18,406,762	18,406,762
Transfer from reserves to result due to reversal of reserves-increase	-	-	-	-	-	2,130	2,130
Distribution of profit - increase	-	-	1,165,252	-	-	-	1,165,252
Distribution of profit, and/or loss provisions - decrease	-	-	-	-	-	(1,165,252)	(1,165,252)
Dividend payments	-	-	-	-	-	(7,215,575)	(7,215,575)
Total transactions with the owners	-	-	1,165,252	-	-	(8,380,827)	(7,215,575)
Balance as at 31 December of the current year	**23,607,620**	**562,156**	**54,906,013**	**-**	**(1,371,132)**	**19,760,286**	**97,464,943**

Belgrade, February 14, 2024

Signed on behalf of the management of UniCredit Bank Srbija A.D., Beograd by:

Nikola Vuletić
Management Board Chairperson

Stefano Suppressa
Member of the Management Board
Head of Finance

"UniCredit Bank Srbija a.d." "UniCredit Bank Serbia JSC" Beograd Belgrade 07

Mirjana Kovačević
Head of Accounting and Regulatory Reporting

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023
All amounts expressed in thousands of RSD, unless otherwise stated.

CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended December 31, 2023
(Thousands of RSD)

	Note	2023	2022
Cash inflows from operating activities		**42,143,699**	**26,915,255**
Interest receipts		29,986,614	15,040,117
Fee and commission receipts		12,139,450	11,344,674
Receipts of other operating income		17,635	530,464
Cash outflows from operating activities		**(22,942,786)**	**(15,923,054)**
Interest payments		(9,143,106)	(2,832,002)
Fee and commission payments		(3,932,531)	(3,928,333)
Payments to, and on behalf of employees		(3,965,103)	(3,675,707)
Taxes, contributions and other duties paid		(716,783)	(652,466)
Payments for other operating expenses		(5,185,263)	(4,834,546)
Net cash inflows from operating activities prior to increases/decreases in financial assets and financial liabilities		**19,200,913**	**10,992,201**
Decrease in financial assets and increase in financial liabilities		**45,860,139**	**45,901,982**
Decrease in receivables under securities and other financial assets not intended for investment		5,214,214	-
Increase in deposits and other liabilities due to banks, other financial institutions, the central bank and customers		40,363,360	45,267,235
Increase in other financial liabilities		129,986	634,747
Increase in liabilities under derivatives designated as hedging instruments and changes in the fair value of hedged items		152,579	-
Increase in financial assets and decrease in financial Liabilities		**(1,814,569)**	**(88,453,002)**
Increase in loans and receivables due from banks, other financial institutions, the central bank and customers		(1,814,569)	(83,773,373)
Increase in receivables under securities and other financial assets not intended for investment		-	(4,638,702)
Decrease in liabilities under derivatives designated as hedging instruments and changes in the fair value of hedged items		-	(40,927)
Net cash inflow by operating activities before income taxes		**63,246,483**	**-**
Net cash outflow by operating activities before income taxes		**-**	**(31,558,819)**
Income tax paid		(1,214,196)	(760,298)
Dividends paid		(7,215,575)	(15,043,750)
Net cash inflow by operating activities		**54,816,712**	**-**
Net cash outflow by operating activities		**-**	**(47,362,867)**
Cash inflows from investing activities		**30,268,560**	**22,255,049**
Proceeds from investing in investment securities		30,266,364	22,251,943
Proceeds from sale of intangible assets, property, plant and equipment		2,196	3,106
Cash outflows from investing activities		**(22,967,956)**	**(18,544,501)**
Cash used for investing in investments securities		(21,960,261)	(17,862,589)
Cash used for the purchases of intangible assets, property, plant and equipment		(1,007,695)	(681,912)
Net cash generated by investing activities		**7,300,604**	**3,710,548**

TRANSLATION NOTE: This is a translation of the original document issued in the Serbian language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail.

All amounts expressed in thousands of RSD, unless otherwise stated.

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
Year Ended December 31, 2023
(Thousands of RSD)

	Note	2023	2022
Cash inflows from financing activities		**16,256,532**	**21,425,049**
Borrowings, inflows		16,256,532	21,425,049
Cash outflows from financing activities		**(16,675,059)**	**(16,882,626)**
Cash outflows from loans taken		(16,171,662)	(16,438,775)
Other outflows from financing activities		(503,397)	(443,851)
Net cash generated by financing activities		-	**4,542,423**
Net cash used in financing activities		**(418,527)**	-
Total cash inflows		**134,528,930**	**116,497,335**
Total cash outflows		**(72,830,141)**	**(155,607,231)**
Net cash increase		61,698,789	-
Net cash decrease		-	(39,109,896)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3.l, 40	**39,123,223**	**78,211,971**
Foreign exchange Gains, net		53,603	21,148
CASH AND CASH EQUIVALENTS, END OF YEAR	3.l, 40	**100,875,615**	**39,123,223**

Belgrade, February 14, 2024

Signed on behalf of the management of UniCredit Bank Srbija A.D., Beograd by:

Nikola Vuletić
Management Board Chairperson

Stefano Suppressa
Member of the Management Board
Head of Finance

"UniCredit Bank Srbija a.d." Beograd / "UniCredit Bank Serbia JSC" Belgrade 07

Mirjana Kovačević
Head of Accounting and Regulatory Reporting

1. BANKING GROUP'S ESTABLISHMENT AND ACTIVITY

The Banking Group (hereinafter: the "Group") is comprised of the parent entity UniCredit Bank Srbija a.d. Beograd (hereinafter: the "Parent Entity" or the "Bank") and its subsidiaries UniCredit Leasing Srbija d.o.o. Beograd and UniCredit Partner d.o.o. Beograd until the end of the liquidation procedure. In January 2016 the Bank became the sole (100%) owner of each of the aforesaid subsidiaries. During 2023, the liquidation procedure of UniCredit Partner d.o.o. was initiated and completed.

(a) Establishment and Activity of the Bank

UniCredit Bank Srbija a.d. Beograd (the: "Bank") was originally established as HVB Banka Jugoslavija ("HVB") in 2001 after obtaining an operating license from the National Bank of Yugoslavia on July 2, 2001. On October 1, 2005, a status change of merger and acquisition of entities HVB Banka Srbija i Crna Gora A.D. Beograd, as the Acquirer and Eksport-Import banka Eksimbank A.D. Beograd as the Acquiree, was registered. The Bank changed its name to UniCredit Bank Srbija a.d. Beograd on March 30, 2007.

The Bank is a member of UniCredit Group. In accordance with the reorganization of the Banking Group's activities in Central and Eastern European countries, under the Demerger and Takeover Agreement executed by and between UniCredit Bank Austria AG and UCG Beteillingsverwaltung GmbH on August 31, 2016 and Merger and Acquisition Agreement executed by and between UCG Beteillingsverwaltung GmbH and UniCredit SpA on September 30, 2016, UniCredit Bank Austria AG transferred its sole (100%) ownership of the Bank to the Austrian holding company UCG Beteillingsverwaltung GmbH. Through merger of UCG Beteillingsverwaltung GmbH with UniCredit SpA, UniCredit SpA became the sole shareholder of UniCredit Bank Srbija a.d., Beograd.

The Bank is registered in the Republic of Serbia to provide banking services associated with payment transfers, lending and depositary activities in the country and abroad and other activities defined by the Law on Banks and the Bank's own Statute.

In January 2016 the Bank became the sole owner of entities UniCredit Leasing Srbija d.o.o., Beograd and UniCredit Partner d.o.o., Beograd.

As of December 31, 2023, the Bank comprises of the Head Office in Belgrade, 72 branch offices and 3 counters located in towns throughout the Republic of Serbia (December 31, 2022: 72 branch offices and 2 counters).

As of December 31, 2023, the Bank has 1,336 employees (December 31, 2022: 1,359 employees).

(b) Establishment and Activity of the Subsidiary UniCredit Leasing Srbija d.o.o. Beograd

The Subsidiary UniCredit Leasing Srbija d.o.o. Beograd (hereinafter: "Leasing") was established under Decision of the Commercial Court in Belgrade, registry card no. 1-92733-00, dated May 18, 2004 under the name of HVB Leasing d.o.o. Beograd. The founder of Leasing was Bank Austria Creditanstalt Leasing GmbH, Vienna. On April 11, 2007, Leasing changed its name into UniCredit Leasing d.o.o. Beograd. Change of the founder was registered with the Serbian Business Registers Agency under no. 4109/2009 dated February 10, 2009 with UniCredit Global Leasing S.p.A, Milan registered as the new founder. In January 2016, in accordance with the Agreement on Sale and Purchase of Equity Interest and upon obtaining the National Bank of Serbia's approval, the Bank became the sole (100%) owner of Leasing. The aforedescribed change in ownership was registered with the Serbian Business Registers Agency on January 26, 2016.

The Leasing Company is principally involved in finance lease activities.

As of December 31, 2023, Leasing has 36 employees (December 31, 2022: 33 employees).

1. BANKING GROUP'S ESTABLISHMENT AND ACTIVITY (Continued)

(c) Establishment and Activity of the Subsidiary UniCredit Partner d.o.o. Beograd

The Subsidiary UniCredit Partner d.o.o. Beograd (hereinafter: "Partner") was founded on May 3, 2006 under the name of HVB Partner d.o.o. za zastupanje u osiguranju Beograd [HVB Partner Limited Liability Company for Insurance Agency Services, Belgrade]. Partner's founder was BA-CA Leasing Versicherungs Service GmbH, Vienna, Austria. The Company's foundation was registered with the Serbian Business Registers Agency under Decision no. BD 3370/2007 on March 13, 2007. On June 2008, Partner Changed its name to UniCredit Partner d.o.o. za zastupanje u osiguranju Beograd [UniCredit Partner Limited Liability Company for Insurance Agency Services, Belgrade]. Change of the founder to a new founder Allegro Leasing Gesellschaft m.b.H. was registered under Decision of the Serbian Business Registers Agency no. BDŽU 30358/2013/01-01 dated April 9, 2013.

In January 2016, in accordance with the Agreement on Sale and Purchase of Equity Interest and upon obtaining the National Bank of Serbia's approval, the Bank became the sole (100%) owner of Partner. The aforedescribed change in ownership was registered with the Serbian Business Registers Agency on January 12, 2016.

Partner is registered to perform the activities of an agent and intermediary in insurance. On April 16, 2007 Partner executed the Agency Agreement with Wiener Staedtische osiguranje a.d. Beograd, (headquartered at no. 1, Trešnjinog Cveta St., Belgrade) as the main insurer. Based on the written approval obtained from the main insurer and other insurance companies, Partner acted as an agent of the following insurers: Generali osiguranje a.d. Beograd, DDOR Novi Sad a.d., Novi Sad, Dunav osiguranje a.d., Beograd, AMS osiguranje a.d., Beograd, Triglav osiguranje a.d., Beograd, Milenijum osiguranje a.d, Begrad, Sava neživotno osiguranje a.d, Beograd, UNIQA osiguranje a.d., Beograd and the insurance company taken acquired by UNIQA osiguranje Basler osiguranje" a.d., Beograd.

During 2023, the liquidation procedure of UniCredit Partner d.o.o. was initiated and completed.

2. BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

(a) Basis of Preparation and Presentation of the Consolidated Financial Statements

Legal entities and entrepreneurs incorporated in Serbia are required to maintain their books of account, to recognize and value assets and liabilities, income and expenses, and to present, submit and disclose financial statements in conformity with the Law on Accounting. As a large legal entity, the Bank is required to apply International Financial Reporting Standards ("IFRS"), which as per the aforementioned law comprise the following: the Framework for the Preparation and Presentation of Financial Statements (the "Framework"), International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRS"), as well as the related interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and additional related interpretations issued by the International Accounting Standards Board ("IASB").

The accompanying consolidated financial statements are presented in the format prescribed under the Decision on the Forms and Contents of the Items in the Forms of the Financial Statements of Banks (Official Gazette of RS no. 93/2020).

These consolidated financial statements were prepared at historical cost principle, except for the measurement of the following significant statement of financial position items:

- financial assets stated at fair value through other comprehensive income,
- financial assets and liabilities at fair value through profit and loss,
- derivative financial instruments stated at fair value, and
- investment property stated at fair value and
- property used for performance of the Group's own business activity that are stated at revalued method
- recognized financial assets and liabilities at amortized cost designated as hedged item in qualifying fair value hedging relationships at amortized cost adjusted for hedging gain or loss.

2. BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(a) Basis of Preparation and Presentation of the Consolidated Financial Statements (Continued)

Historical cost is generally based on the fair value of consideration paid in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between the market participants at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique according to IFRS 13. Upon estimating the fair value of assets or liabilities, the Group takes into account characteristics of assets or liabilities that other market participants would also consider upon determining the price of assets or liabilities at the measurement date. Fair value for measurement and/or disclosure purposes in the accompanying consolidated financial statements was determined in the aforesaid manner, except for share-based payment transactions, which are in the scope of IFRS 2, leasing transactions, which are in the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as the net realizable value in IAS 2 or value in use in IAS 36.

According to IFRS 13, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

In the preparation of the accompanying consolidated financial statements, the Group adhered to the accounting policies described in Note 3.

The Group's consolidated financial statements are stated in thousands of dinars (RSD). Dinar is the official reporting currency in the Republic of Serbia.

Standards/amendments to the existing standards and interpretations issued that came into effect in the current period are disclosed in Note 2(b). Standards/amendments to the existing standards and interpretations in issue but not yet in effect are disclosed in Note 2(c).

(b) Adoption of the New Standards and Revised/Amended Standards Effective for the Current Year

In 2023, the Group has adopted and applied the following new standards and amendments to the existing standards that are effective for annual periods beginning on or after January 1, 2023:

- Amendments to IAS 1 „Presentation of financial statements“ – disclosure of accounting policies
- Amendments to IAS 8 „ Accounting Policies, Changes in Accounting Estimates and Errors - definition of accounting estimates
- Amendments to IAS 12 „ Income Taxes “ – deferred taxes related to assets and liabilities from the same transaction
- Amendments to IFRS 17 „Insurance Contracts“ – initial application of IFRS 17 and IFRS 9 - comparative information
- IFRS 17 „Insurance Contracts “, including changes
- Amendments to IAS 12 „Income Taxes“ – international tax reform

The adoption of these new standards, amendments to the existing standards and interpretation has not led to any material changes in the Group's unconsolidated financial statements.

2. BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(c) New and Revised IFRS Standards in Issue but not yet Effective

At the date of authorization of these financial statements, the following new standards, amendments to existing standards and new interpretation were in issue, but not yet effective:

- Amendments to IAS 1 Presentation of Financial Statements: classification of obligations as current or permanent - postponement of the date of application and current obligations with covenants that are applicable to periods after January 1, 2024
- Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback - leasing obligations in a sale and repurchase transaction applicable to periods after January 1, 2024
- Amendments to IAS 7 "Statement of cash flows" and IFRS 7 "Financial instruments" - disclosure of financial arrangements of suppliers
- Amendments to IAS 21 "Effects of changes in foreign exchange rates" - lack of substitutability

The Group’s management has elected not to adopt these new standards, amendments to the existing standards and new interpretations in advance of their effective dates. The Group anticipates that the adoption of these standards, amendments to the existing standards and new interpretations will have no material impact on the financial statements of the Group in the period of initial application.

(d) Financial reporting under conditions of uncertainty

Despite of geopolitical tensions caused by Russia-Ukraine war and potential energy crises, the total economic activity of the Republic of Serbia in 2023, measured by the real movement of gross domestic product (GDP), that is estimated at RSD 7,097 billion, which is an estimated growth of 2.5% y-o-y. According to latest information, gross investments in fixed assets in 2023 grew 3.5% comparing to last year. Trade in EUR has an upwards trend with exports growing a 4% estimated annual growth rate, while imports fell 6%. According to the latest data agricultural production made the physical volume growth of 9%, with industrial production growing 2.4%. The value of construction works carried out in 2023 was lower by 8.9% comparing to last year. Throughout 2023, unemployment remained unchanged, standing at 9% in Q3 2023 according to Labor Force Survey, unchanged from previous quarter. In the same time, the employment rate in Q3 was 50.7%. Average monthly salary amounted to RSD 86,738, which represents a 15% (nominal) and 1.4% (real) y-o-y growth rate. The largest growth of wages since the beginning of 2023 was recorded in the financial sector.

According to the Statistical Office, y-o-y inflation was 8.0% at the end of November 2023, while m-o-m inflation in November was 0.5%. . Core inflation rose slower than overall inflation (7.0%) mostly due to stability of the exchange rate. Since the start of the Ukraine crisis, NBS hiked its key policy rate by 550 bps in total, bringing the KPR from 1.0% to 6.5% at the end of 2023. Despite the stricter conditions and tighter monetary policy, the liquidity in the banking sector remains high at more than RSD 600 billion surplus. The surplus is mostly the result of NBS interventions on the FX market.

Calculation of the expected credit loss

During 2023, the uncertainties on the economic activities arising from Geo-political situation, increase of energy costs, inflation and interest rates during 2022 are still in focus and intensively analyzed in order to identify potential negative impacts. The spill-over effects of Russian-Ukrainian conflict continued leading to revise the outlook for the euro area economy, also pushing up inflationary pressures and interest rates. In light of interest rates steadily remaining on higher level and plunging of real estate assets value due to contractions of the sector, an increasing Real Estate Risk has been arisen leading Commercial Real Estate financing perimeter as particularly vulnerable in case of stressed severe evolution of scenario, both in terms of default risk due to impacted debt repayment capacity as a consequence of higher interest rates, and recovery risk due to lower values of real estate assets.

All amounts expressed in thousands of RSD, unless otherwise stated.

2. BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(d) Financial reporting under conditions of uncertainty (Continued)

Calculation of the expected credit loss (Continued)

In order to factor-in into the risks underlying the sharp rise in interest rates for both Corporate and private individuals, furthermore the geopolitical overlays which were adopted during 2022, during the 2023 the Group has implemented additional overlay in term of ECL calculation regarding Commercial Real Estate financing (CREF overlay).

In this regard the adoption of this overlay is a complementary measure to the IFRS 9 models that, by their structure, have been already properly and directly proving to recognize the effect of geo-political crises. In this context while IFRS 9 models and in particular delta satellite models which are used to incorporate forward looking information and to capture the effect of macro-economic scenario at portfolio level, the overlays act on specific sub-portfolios considered particularly vulnerable in case contingent situation may evolve to severe stressed conditions

Indeed as of 31 December 2023 overall overlays applied amount to RSD 1,507,918 thousand and is broken-down according to the following components:

- Regarding Geo-political overlay:
  - Corporate energy-intensive industry sectors prone to be more affected by spill-over effects linked to Russian-Ukrainian conflict, specifically impacting the energy supply and related price soaring
  - Retail clients, for: (i) floating rate mortgages (not having overdue instalments), given the sensitiveness in this context of increasing interest rate/inflation, and (ii) at least 1 unpaid instalment on their exposures, considered a perimeter with already difficulties in payments and as such particularly vulnerable in this specific contingency.

- Regarding CREF overlay:
  - Corporate clients rated by IPRE model (Income Produced Real Estate) as well as clients classified within construction industry

Overview of components of managerial overlays	December 31, 2022	2023 effect - addition/(reversal)	December 31, 2023
Overlay - Geo-political	1,218,260	(74,347)*	1,143,913
Overlay - CREF	-	364,005	364,005
Total	1,218,260	289,658	1,507,918

* -245.255 thousand RSD released due to inflow to Default while +170.909 thousand RSD allocated due to recalibration (change of exposure in scope of Geo/political overlay)

As far as the calculation is concerned, credit exposures belonging to the above categories are identified according to their specific features. Starting from this, satellite models are run by applying - as macro-economic conditions - the Multi Year Plan recessive scenario to determine the adjustment to be applied to the default rate. Such adjusted default rate is then applied to the relevant categories to estimate the expected new inflows of defaulted exposure, whose LLPs are then calculated according to the average coverage rate applied to Unlikely to Pay.

(e) Interest Rate Benchmark Reform (IBOR)

A comprehensive reference rates reform is currently taking place following the concerns raised in recent years about the integrity and reliability of major financial market benchmarks. In order to assess the relevant risks associated with the global benchmark reforms mandated by the Financial Stability Board (FSB), and taking appropriate actions to ensure an adequate transition to alternative or reformed benchmark rates ahead of the deadline of the end of 2021 specified in the revised EU Benchmark Regulation BMR, UniCredit Group launched in October 2018 a Group wide project in order to manage the IBORs discontinuation. Accordingly, a multiyear roadmap has been defined based on both Group exposure (mainly focused on Euro) and transition timeline.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

(e) Interest Rate Benchmark Reform (IBOR) (Continued)

To address potential source of uncertainty on the effect of the Interbank offered rates (IBOR) reform on existing accounting hedge relationships the “Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform” (in further text: the Amendments) clarifies that the reform does not require to terminate such hedge relationships. In order to closely follow the developments on IBORs and to proper manage the transition and the discontinuation impacts, UniCredit Group is continuously monitoring the market, participating to the relevant public consultations and working groups.

The Amendments do not have an impact on the financial statements prepared for both 2023 and 2022 bearing in mind that the Group has active contracts of fair value hedging related only to the EURIBOR benchmark.

There are no financial instruments which are yet to transition to alternative rate as of 31st December 2023.

(f) Comparative Information

Comparative information in the accompanying consolidated financial statements represents the data from the Group’s consolidated financial statements for 2022.

(g) Use of Estimates

Preparation of the consolidated financial statements in accordance with IFRS requires the Group’s management to make the best possible estimates and reasonable assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, as well as income and expenses arising during the accounting period. Actual amounts of assets and liabilities may vary from these estimates.

These estimations and underlying assumptions are subject to regular review. The revised accounting estimates are presented for the period in which they are revised as well as for the ensuing periods.

Further explanations have been reported in Note 5.

(h) Statement of Compliance

The Group’s financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS) issued by the International Accounting Standards Board (“IASB”).

All amounts expressed in thousands of RSD, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies presented hereinafter have been consistently applied by the Group for all years presented in the accompanying consolidated financial statements. The Group's main accounting policies applied to the current and previous reporting periods are presented in greater detail hereunder.

(a) *Consolidation*

The Group's consolidated financial statements include the consolidated statement of financial position as of December 31, 2023 and the related consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and notes to the consolidated financial statements.

The Group's consolidated financial statements as of and for the year ended December 31, 2023 include the financial statements of the Parent Entity (the Bank) and financial statements of the following subsidiaries:

	Equity Interest %	
	2023	2022
Subsidiary:		
UniCredit Leasing d.o.o., Beograd	100%	100%
UniCredit Partner d.o.o., Beograd	-	100%

During 2023, the liquidation procedure of UniCredit Partner d.o.o. was initiated and completed. These consolidated financial statements include transactions with the aforementioned subsidiary up to the moment of derecognition. All materially significant amounts, transactions and balances derived from intercompany relationships are eliminated in consolidation.

(b) *Going Concern*

Considering the circumstances caused by COVID-19 pandemic, Russian-Ukrainian conflict and uncertainty related to economic recovery, the Group's management believe with reasonable certainty that the Group will continue to operate profitably in the foreseeable future. As a result, the Group's financial statements have been prepared on a going concern basis, assuming that the Group will continue its operations for an indefinite period in the future.

(c) *Foreign Exchange Translation*

Transactions denominated in foreign currencies are translated into dinars at official middle exchange rates effective at the date of each transaction. Monetary assets and liabilities denominated in foreign currencies, as well as those indexed to a currency clause, are translated into dinars by applying the official middle exchange rates prevailing at the reporting date. Gains and losses incurred in realized transactions of purchase and sale of foreign currency and effective foreign currency with individuals and legal entities during the period are stated in the Group's income statement, within the position "Net fee and commission income". Exchange differences resulting from the translation of one currency into another currency at different exchange rates, including exchange rate differences based on the currency clause, are stated in the Group's income statement under "Net foreign exchange gains/losses and currency clause effects".

Non-monetary assets and liabilities denominated in foreign currencies measured at fair value are translated to the functional currency at the exchange rate effective at the date that the fair value was determined. Non-monetary assets and liabilities that are stated at historical cost in a foreign currency are translated using the exchange rates effective at the dates of the transactions.

The official exchange rates determined by the NBS and applied in the translation of the statement of financial position's components into dinars for the following major currencies were as follows:

	December 31, 2023	December 31, 2022
USD	105.8671	110.1515
EUR	117.1737	117.3224
CHF	125.5343	119.2543

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Interest Income and Expenses

(i) The Effective Interest Method

Interest income and expenses are recognized in the income statement in the period they relate to using the effective interest method for all interest-bearing financial instruments measured at amortized cost (AC) and securities at fair value through other comprehensive income (FVtOCI).

The effective interest rate is the rate that precisely discounts estimated future payments or receipts over the expected life of the financial instrument or over a shorter period, where appropriate, to the net carrying value of the financial asset or financial liability. In calculation of the effective interest rate, the Group estimates cash flows taking into account all the contractually agreed terms of the financial instrument but does not consider future credit losses. The effective interest rate calculation includes all fees and amounts paid or received between the counterparties and transaction costs that form an integral part of the effective interest rate.

Transaction costs are costs directly attributable to the acquisition or the issuance of a financial asset or liability. These include fees and commissions paid to agents, advisers, brokers and dealers, fees from regulatory agencies and stock exchanges, as well as taxes and fees related to the transfer if exist. Transaction costs do not include premiums or discounts, financing costs or internal administrative costs or maintenance costs. Only transaction costs that are certain or determinable are included in the amortized cost at the initial recognition of a financial asset. If the Group receives a fee from a client that offsets similar charges paid by the Group, only the net amount is included in the amortized value of the asset.

Fees that are integral part of the effective interest rate of a financial instrument include:

a) "origination fees" – fees charged by the Group in connection with issuance or acquisition of a financial asset; such fees include fees for evaluation of the financial position of borrowers, for evaluating and recording guarantees, collaterals and other security arrangements, for negotiating the terms of an instrument, preparing and processing documents and closing transactions;
b) "commitment fees" - fees received for the issue of a loan when it is probable that the loan arrangement will be realized,
c) "origination fees" - fees payable based on the issue of financial liabilities that are measured at amortized cost.

Interest income on debt securities at FVtPL is recognized at the nominal coupon interest rate and is included in interest income. Interest income and expense on derivative financial instruments are also included in interest income and expense.

The Group calculates interest income by applying the effective interest rate to the gross carrying amount of financial assets other than those that are credit-impaired. Regular interest income from impaired financial assets is calculated based on the net value of the financial asset using the effective interest method. Calculation of penalty interest income from impaired financial assets is suspended from the moment when the client becomes credit-impaired and is recorded from then on within off-balance sheet items, except for a portion of the legally prescribed penalty interest on written-off loans without debt acquittal, which is recorded when collected.

Impaired loans and receivables are those loans and receivables due from clients who are in the status of default (internal ratings 8-, 9 and 10), i.e., classified in Stage 3 under IFRS 9. If the status of a financial asset is improved so that it is no longer impaired, the Group resumes calculation of interest income on a gross basis. For financial assets classified under IFRS 9 as POCI ("purchased or originated credit-impaired" assets), the Group calculates interest income by applying the credit-adjusted effective interest rate on the amortized cost of an asset. Credit-adjusted effective interest rate is the interest rate that, on initial recognition, discounts expected cash flows including credit losses to the amortized value of the POCI financial asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Interest Income and Expenses (Continued)

(i) Presentation

Interest income and expenses recognized in profit or loss include:

- interest on financial assets and financial liabilities that are measured at amortized cost (AC) calculated using the effective interest rate method;
- interest on securities measured at fair value through other comprehensive income (FVtOCI) calculated using the effective interest rate method; and
- interest on coupon securities held for trading.

(e) Fee and Commission Income and Expenses

Fee and commission income and expenses that are integral part of the effective interest rate of a financial asset or liability are included in the calculation of the effective interest rate and therefore stated within interest income and expenses.

Fees that are not integral part of the effective interest rate of a financial instrument and are therefore accounted for in accordance with IFRS 15 include:

a) “monitoring” or “management” fees – fees charged by the Group for loan servicing;
b) “commitment fees” – fees for issuing a loan when it is unlikely that the loan arrangement will be realized; and
c) syndicated loan fees received by the Group as a transaction agent/arranger.

In accordance with IFRS 15, two approaches for the recognition of fee and commission income are provided: "at a point in time" and "over time" as the related services are performed. Fee and commission income includes revenues from international and domestic payment services, issuance of guarantees, letters of credit and other banking services as well as income from realized transactions of foreign exchange purchases/sales and effective foreign currency transactions.

Fee and commission expenses mostly relate to fees for transactions and services provided and are recorded upon receipt of services. Fee and commission expenses also include expenses from realized transactions of foreign exchange purchases/sales and effective foreign currency transactions.

(f) Net Gains/Losses on Changes in the Fair Value of Financial Instruments

Net gains/losses on the change in the fair value of financial instruments include the effects of fair value adjustment of derivatives, except for derivatives designated as risk hedging instruments and fair value adjustment of financial assets and financial liabilities carried at fair value through profit or loss.

(g) Net Gains/Losses on Derecognition of Financial Instruments Measured at Fair Value

Net gains/losses from derecognition of the financial instruments measured at fair value include the effects of the derecognition of financial assets and financial liabilities measured at fair value through profit or loss, as well as financial assets measured at fair value through other comprehensive income.

(h) Net Gains/Losses on Risk Hedging

Net gains/(losses) on risk hedging include net gains on the value adjustment of financial derivatives designated as risk hedging instruments as well as on the fair value adjustment of loans, receivables and securities as hedged items, these adjustments arising from the risk against which the item is hedged.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Net Gains/Losses on Derecognition of Financial Instruments Measured at Amortized Cost

Net gains/losses from derecognition of the financial instruments measured at amortized cost include the effects arising from derecognition of financial assets at amortized cost.

(j) Income Tax Expenses

Tax expenses comprise current taxes and deferred taxes. Current taxes and deferred taxes are recognized in profit or loss except to the extent that they relate to items recognized directly in equity or in other comprehensive income.

(i) Current Income Tax

Current income tax is an expected tax payable or receivable as per taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to the tax payable in respect of previous years. Current income tax represents an amount calculated in accordance with the Republic of Serbia Corporate Income Tax Law. The prescribed tax rate for 2023 equals 15%. The taxable income is the profit before taxes shown in the income statement, adjusted in accordance with the tax regulations of the Republic of Serbia.

(ii) Deferred Income Taxes

Deferred income tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred taxes are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted by the reporting date.

Based on their future tax consequences, temporary differences can be:

- taxable temporary differences, which will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset is recovered or the liability is settled in accordance with the appropriate tax regime; or
- deductible temporary differences, which will result in amounts that can be deducted in determining the taxable profit (tax loss) of the future period in which the carrying amount of the asset will be recovered or the liability settled in accordance with the appropriate tax regime.

(iii) Other Taxes and Contributions

According to the relevant legislation in the Republic of Serbia, the Group pays various taxes, contributions, and duties payable, such as property tax, payroll contributions charged to the employer and other public duties. These are included under other expenses within the income statement.

(k) Financial Assets and Liabilities

(i) Recognition and Initial Measurement

The Group initially recognizes financial assets and liabilities at the settlement date.

A financial asset or liability is initially measured at fair value plus transaction costs that are directly attributable to its acquisition or issue, except for financial assets and liabilities at fair value through profit or loss, whose measurement does not include such costs.

(ii) Classification and Subsequent Measurement

Financial Assets

Upon initial recognition, the Group classifies its financial assets in one of the following three categories:

- financial assets at amortized cost (AC);
- financial assets at fair value through other comprehensive income (FVtOCI); and
- financial assets through profit or loss (FVtPL).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) *Financial Assets and Liabilities (Continued)*

(ii) Classification and Subsequent Measurement (Continued)

Financial Assets (Continued)

The requirements regarding the classification of debt and equity instruments are described below:

Debt Instruments

Debt instruments are those instruments that meet the definition of a financial liability from the perspective of the issuer, such as loans, securities, and other similar receivables.

Classification and measurement of financial assets depend on the following two main criteria:
a) business model based on which the Group manages a financial asset; and
b) characteristics of the contractual cash flows of a financial assets (the so-called SPPI criterion).

<u>Business Model</u>
The business model reflects the manner in which the Group manages its financial assets in order to generate cash flows therefrom, i.e., the business model determines whether the cash flows will result from holding the assets ("hold to collect" business model) or from their holding as well as sales ("hold to collect and sell" business model). If neither of the aforesaid is applicable (e.g. a financial asset is held for trading), such an asset is held within the "other" business model and classified as measured at fair value through profit or loss (FVtPL). Business model assessment is performed at the level of a group of financial assets such as portfolio or sub-portfolio level, taking into account all the relevant and objective information such as sales of assets that were realized in the past, management's intentions regarding future sales, risk management, valuation the assets' performance and reporting thereon to the management, etc. Business model assessment is based on realistic future expectations. Reclassification of a financial asset is made if the business model within which the asset is managed is changed. The Group does not expect frequent changes of its business models.

<u>SPPI Criterion</u>
In instances of "hold to collect" or "hold to collect and sell" business models, the Group assesses whether the contractual cash flows of the financial asset represent solely payments of the principal and interest payment ("SPPI test"). For the purpose of this assessment, "principal" is defined as the fair value of a financial asset at the date of initial recognition. "Interest" is defined as consideration for the time value of money, the accepted level of credit risk of the borrower, other basic lending risks as well as an appropriate margin. If the contractual terms of a financial asset include exposure to risks that are not in accordance with the underlying loan arrangement, a financial asset is classified and measured at fair value through profit or loss.

Based on the above explained criteria, debt instruments are classified into the following asset categories:

1) <u>Financial Assets at Amortized Cost (AC)</u>

A financial asset that is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and contractual cash flows represent solely payments of principal and interest, and is not irrevocably classified as financial asset at fair value through profit or loss, is measured at amortized cost. The amortized value of these financial assets is subsequently adjusted for estimated impairment as explained in Note 3.(k)(viii). Interest income on these financial assets is recognized using the effective interest method and is included in the item of interest Income within in the income statement.

2) <u>Financial Assets at Fair Value through Other Comprehensive Income (FVtOCI)</u>

A financial asset that is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and whose contractual cash flows represent solely payments of principal and interest, and is not irrevocably classified as financial asset at fair value through profit or loss, is classified and measured at fair value through other comprehensive income. The effects of the change in fair value in the subsequent measurement of these assets are recorded in the other comprehensive income. As with financial assets at amortized cost, the impairment, interest income and foreign exchange

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities (Continued)

(ii) Classification and Subsequent Measurement (Continued)

Financial Assets (Continued)

Debt Instruments (Continued)

gains/losses are recognized in the income statement. The loss allowance is not recognized in balance sheet but in other comprehensive income considering that book value of those assets should be equal to fair value.

Upon derecognition, cumulative gains and losses previously recognized in the other comprehensive income are reclassified and presented within net gains/losses on derecognition of financial assets measured at fair value in the income statement. Interest income on these financial assets is recognized at the effective interest method and is included in the item of interest Income within the income statement.

3) Financial Assets at Fair Value through Profit or Loss (FVtPL)

A financial asset that does not meet the criteria for classification at amortized cost or at fair value through other comprehensive income is measured at fair value through profit or loss. In addition, the following assets are classified as FVtPL:

- held-for-trading financial assets if they are acquired for purpose of sale or repurchase in the near term or when they are initially recognized as part of a portfolio of financial instruments that are managed together in order to achieve short-term profits;
- financial assets that the Group, upon initial recognition, designates as assets at fair value through profit or loss, irrespective of the business model and cash flow characteristics, in order to eliminate or significantly reduce the so-called "accounting mismatch”.

Subsequent changes in the fair value of these assets are recorded through profit or loss within the line item of net gains/losses on the change in the fair value of financial instruments. Interest income on coupon securities held for trading is included in the interest income within the income statement.

Equity Instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective, i.e., instruments that do not contain the contractual obligation of payment and represent a share in the net assets of the issuer.

The Group 's equity instruments are measured at fair value through other comprehensive income, except when they are traded, in which case they are measured at fair value through profit or loss.

Such a classification is performed for each equity instrument individually. Equity instruments at fair value through other comprehensive income are initially recognized at fair value plus transaction costs directly attributable to their acquisition, unless the Group assesses in some cases that the cost is the best estimate of their fair value.

Effects of the changes in the fair value of equity instruments that are measured at FVtOCI in subsequent measurement are recognized in the other comprehensive income and are never reclassified to the income statement, even when the asset is derecognized. The provisions of IFRS 9 regarding impairment of financial assets relate only to debt instruments. For equity instruments at FVtOCI, the effects of impairment are not recognized through the income statement. Instead, all changes in their fair value are recorded within the other comprehensive income. Dividends are recognized within the line item of other operating income in the income statement when the Group 's right to receive a dividend is established. Effects of changes in the fair value of equity instruments at FVtPL are recorded under the item of net gains/(losses) on the change in the fair value of financial instruments in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities (Continued)

(ii) Classification and Subsequent Measurement (Continued)

Financial Liabilities

The Group classifies financial liabilities, except for irrevocable commitments for loans and financial guarantees, as liabilities measured at amortized cost or as fair value through profit or loss (please refer to Note 3.(v)).

Financial liabilities at fair value through profit or loss include derivatives, financial liabilities held for trading (e.g. short positions in a trading book) and other financial liabilities that are designated at FVtPL on initial recognition. However, in respect of the measurement of financial liabilities initially designated at FVtPL, IFRS 9 requires that the changes in the fair value of a financial liability that relate to changes in the Group's own credit risk are presented in the other comprehensive income, unless the presentation of the effect of the change in the liability's credit risk would cause or increase an accounting mismatch in the income statement. Changes in the fair value of liabilities arising from credit risk are not subsequently reclassified to the income statement.

(iii) Derecognition

Financial Assets

The Group derecognizes a financial asset when:

- the contractual rights to the cash flows from the financial asset expire;
- when the Group transfers substantially all the risks and rewards associated with ownership of the financial asset or it neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but does not retain control over a financial asset;
- when contractual terms of a financial asset are significantly modified contractual terms (please refer to Note 3.(k)(iv)).

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset acquired less any new liability assumed) and (ii) any cumulative gain or loss that was previously recognized in other comprehensive income is recognized in profit or loss.

The Group enters into transactions whereby it transfers assets recognized in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion thereof. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized. Transfers of assets with retention of all or substantially all risks and rewards include, for example, repo transactions. When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similarly to repo transactions since the Group retains all or substantially all the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all the risk and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognize the asset to the extent of its continuing involvement in the asset, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial Liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or have expired.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities (Continued)

(iv) Modification

Derecognition due to Significant Modification of Contractual Terms

In instances of amendments to the contractual terms, the Group assesses whether cash flows have been significantly modified. If the cash flows of a financial asset/liability are significantly modified in relation to originally contracted, asset/liability is derecognized and new financial asset/liability is recognized at fair value increased by any transaction costs (referring to new financial asset/liability). Any difference between the carrying amount of the existing asset/liability and fair value of a new financial asset/liability is recognized in the income statement within the net gains/losses on derecognition of the financial instruments recognized at fair value and net gains/losses on derecognition of the financial instruments recognized at amortized cost.

Under significant modification of cash flows, the Group considers: changes of contracts due to commercial reasons that are in accordance with market conditions, changes in the currency or debtor, as well as changes that introduce contractual provisions resulting in non-compliance with the SPPI criteria. In accordance with IFRS 9, a new financial asset is classified in Stage 1 for ECL measurement of expected credit losses (in further text: ECL), unless it is a POCI asset (purchased or originated credit-impaired asset).

Modifications of a Financial Asset that do not Lead to Derecognition

Amendments to the contracts due to the financial difficulties of the borrower are not considered a significant modification and do not lead to derecognition of a financial asset.

In accordance with IFRS 9, the Group determines the new gross carrying amount of a financial asset and recognizes a modification gain/loss in the income statement (the line item of net gains/losses on impairment of financial assets not recognized at fair value through profit or loss).

The gross carrying amount of the financial asset is determined as the present value of the modified cash flows discounted at the original effective interest rate. Any transaction costs adjust the carrying amount of a modified financial asset and are amortized over its useful life.

(v) Offsetting

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Group has a legal right to offset the recognized amounts and it intends either to settle the liability on a net basis or to realize the asset and settle the liability simultaneously.

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

(vi) Amortized Cost Measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is subsequently measured, minus principal repayments, plus or minus the cumulative amortization, using the effective interest method, of any difference between the initial amount recognized and the maturity amount, less any reduction for impairment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities (Continued)

(vii) Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Whenever possible, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and other optional models.

The selected valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments.

Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument of based on other available observable market data. Assets and long positions are measured at a bid price and liabilities and short positions are measured at an asking price.

When the Group has position with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group and counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received. However, in some cases, the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, then the difference is recognized in profit or loss on initial recognition of the instrument. Otherwise the difference is not recognized in profit or loss immediately but over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

(viii) Impairment Identification and Measurement

In accordance with IFRS 9, upon impairment of financial instruments existence of objective evidence of impairment is not necessary for recognition of credit losses. Expected credit losses are also recognized for unimpaired financial assets. In other words, the Group calculates provisions for credit losses for all credit exposures other than those already measured at fair value through profit or loss (including both performing and non-performing financial assets).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities (Continued)

(viii) Impairment Identification and Measurement (Continued)

Expected credit losses (ECL) are recalculated on each reporting date in order to reflect the changes occurred in the credit risk since the initial recognition of a financial instrument. Such an approach results in earlier recognition of credit losses as it is necessary to recalculate expected credit losses over a 12-month period for all credit exposures (the so-called Stage 1). It is necessary to recalculate lifetime expected credit losses for all exposures that have significant increase in the credit risk (the so-called Stage 2).

In ECL calculation, the Group uses forward-looking information and macroeconomic factors, i.e., the Group considers not only the historical information adjusted to reflect the effects of the present conditions and information providing objective evidence of the financial asset being impaired or actual losses incurred, but reasonable and supportable information as well, which include projections of future economic conditions in calculation of expected credit losses, both on individual and at collective bases. The amount of provisions for credit losses will increase with deterioration of the projected economic conditions and decrease with their improvement.

<u>The Basic Principles and Rules Used by the Group in Calculation of Allowances under IFRS 9</u>

The Group calculates 12-month expected credit loss or a lifetime expected credit loss of financial instruments depending on the significance of the change in its credit risk occurred since the instrument's initial recognition. For these purposes, the Group uses the following three stages of impairment:

- Stage 1 includes all new financial assets at initial recognition and instruments without significant credit quality deterioration since their initial recognition or low-risk instruments;
- Stage 2 includes financial instruments with significant credit quality deterioration since their initial recognition yet with no objective evidence of impairment based on credit losses;
- Stage 3 includes financial instruments where objective evidence of impairment exists at the reporting date.

Stages 1 and 2 include only performing financial assets. Stage 3 includes only non-performing financial assets

For financial assets in Stage 1, the Group calculates 12-month expected credit losses. For financial assets in Stage 2, the Group calculates lifetime expected credit losses.

For financial assets in Stage 3, the Group calculates lifetime expected credit losses

Financial assets are transferred from Stage 1 to Stage 2 when the credit risk has increased significantly since the instruments' initial recognition. The transfer logic is based on quantitative and qualitative criteria and must be applied to on exposures that are within the scope of the ECL model. Deterioration of the probability of default (PD) is the key parameter underlying the quantitative criterion of the transfer logic. The PD is calculated at counterparty level and also that the staging process takes place by transaction. The transfer logic model in the Group is based on a quantitative approach named "quantile regression model" where 1) the term significant is translated in term of percentile leading to the determination of a transfer threshold (depending on PD at inception, age and residual maturity), representing a theoretical increase reputed by the quantitative model as "significant" from the statistical standpoint; the quantile regression model uses 3 input variables (PD at inception, age and residual maturity) to describe the target variable which is the quantile; 2) the term increase is translated in term of relative increase/decrease in Lifetime PD from the inception date to the reporting date of the financial instruments. Whenever the realized variation of the IFRS 9 Lifetime PD violates the transfer threshold estimated by the model the financial instruments is classified in Stage 2.

The average increase in PD that leads to transfer to Stage 2 for each segment is given in the table below:

Local Portfolio	Average TL Threshold
Retail	3.23x
Business	2.66x
Corporate	5.65x

Note: This is relative change (i.e. threshold given as multiplier) of current period PD in comparison to PD at inception that will move Stage 1 transaction into Stage 2 (and vice versa).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities (Continued)

(viii) Impairment Identification and Measurement (Continued)

The Basic Principles and Rules Used by the Group in Calculation of Allowances under IFRS 9 (Continued)

The following qualitative criteria are applied after the said quantitative parameter:

- Forbearance status classification results in automatic classification to Stage 2 for the following at least 24 months (probation period). After that period, if there are no other significant indicators of credit risk deterioration, the transaction may be reclassified to Stage 1;
- 30 days past due – if a transaction reaches 30 days past due, it should be classified into Stage 2;
- All performing exposures included in Watch List 2 or worsening managerial classification (all performing exposures transferred to the remit of the Loan Restructuring and Workout departments) should be classified into Stage 2;

Watch list 2 means clients with higher risk, showing structural/strategic problems, bad business health, profitability issues. Of course, this Watch list 2 status cannot be assigned to financial instrument at origination, this status is assigned in case of deterioration in credit risk compare to initial credit risk at inception.

In order to improve transfer logic model, Bank has implemented additional quantitative backstop indicators must be classified as Stage 2 :

- facilities with threefold increase in the lifetime credit risk
- facilities related to counterparties with a Basel PD higher than 20%

These backstop indicators are complementing the transfer logic model in sense that at origination no transaction could have a greater Basel PD of 9.222% as that is the upper bound of rating 7 from the master scale which is used as a cutoff in the origination process. The transfer logic model could have a more loose threshold applied on these transactions depending on the age, remaining maturity and initial IFRS9 PD so the 20% Basel PD backstop triggers the Stage 2 allocation before the transfer logic model. Similarly, the threefold increase in the lifetime credit risk is there for the transactions in the better rating groups so that if there is a deterioration in their rating the threefold increase will be triggered before the breach of the transfer logic threshold.

The transfer approach from stage to stage forth and back is symmetrical. Specifically, if in subsequent reporting periods the credit quality of a financial asset assigned to Stage 2 improves such that there is no longer a significant increase in credit risk since initial recognition, then the asset is reassigned to Stage 1. Nevertheless, an additional probation period after an improvement of the credit rating and before a re-transfer to Stage 1 is required and equal to 3 months

In the impairment process, the Group applies a special treatment to the purchases of already impaired assets from the so-called NPL portfolios and to the approval of new loans to the borrowers with already impaired loans within its portfolio, i.e. those already in NPL status. In accordance with the Standard, such assets are defined as POCI (purchased and/or originated impaired credit assets) and are separately measured through cumulative changes in lifetime expected credit losses of the instruments after their initial recognition. Positive changes in the lifetime expected credit losses of the instrument are recognized as gains on the impairment of instruments if the expected credit loss in lower than the amount of expected credit losses included in the estimated cash flows upon initial recognition.

(ix) Write-Off

When certain financial assets are determined to be irrecoverable, these are written off. Write-off of an asset represents derecognition of that asset within the statement of financial position, where write-off of assets without debt acquittal is distinguished from write-off with debt acquittal.

Assets are written off without debt acquittal in instances where the Group has estimated that the assets will not be collected, but does not waive its contractual and legal rights in respect of such assets. In such cases, the Group estimates that it is economically justified to undertake further activities related to the collection of a financial asset. The Group also has the right to calculate legally prescribed penalty interest after write off without debt acquittal, but ceases to record it until collection.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities (Continued)

(ix) Write-Off (Continued)

The Group performs write-offs without debt acquittal (accounting write-offs) based on the decisions of its competent bodies and/or the relevant NBS decision for financial assets with low collectability rates that are fully impaired (100% provided for). Given that the Group does not waive the right to collect financial assets, write-off without debt acquittal, (accounting write-off) represents derecognition of the financial assets in the statement of financial position and recording those within the off-balance sheet items. When the Group estimates that there is no justification for undertaking further activities related to the collection of a financial asset (completed bankruptcy or liquidation procedure, court ruling and the like), the Group's competent bodies enact a decision on derecognition of the asset from the off-balance sheet items.

The Group writes off financial assets with debt acquittal when these are estimated as irrecoverable and that it is not economically justifiable to take further actions toward their collection. In such instances, the written-off financial assets are derecognized from the statement of financial position without any further recording.

In the event that the Group collects a financial asset previously written-off, the income is recognized in the income statement under the net gains/losses on impairment of financial assets not recognized at fair value through profit or loss.

(l) Cash and Balances Held with the Central Bank

Cash and balances held with the central bank include cash on hand, balances held on the Bank's gyro account, other cash funds and the obligatory foreign currency reserve held with the central bank. Cash and balances held with the central bank are stated at amortized cost within the statement of financial position.

For the purposes of cash flow statement preparation, cash and cash equivalents include funds held on the accounts with foreign banks, while the obligatory foreign currency reserve held with the central bank is not included in the cash flow statement.

(m) Receivables and Liabilities under Derivatives

Derivatives are derivative financial instruments or other contracts that have three basic characteristics: their value changes depending on changes in some basic or underlying value, they require no or relatively little initial net investment, and they are settled on a specific future date. Derivatives include forward transactions, currency swaps, interest rate swaps as well as interest options. In the statement of financial position they are presented within assets if their fair value is positive and within liabilities if their fair value is negative. They are initially recognized at fair value and the effects of the change in fair value on subsequent measurement are presented in the income statement, within the line item of net gains/losses on the change in the fair value of financial instruments.

(n) Derivatives Held as Risks Hedging Instruments and Hedge Accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position. The Group has exercised the option to continue applying the existing IAS 39 hedge accounting requirements for all its hedging relationships.

The Group designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument and the hedged item, including the risk management objective and strategy in undertaking the hedge, along with the method that will be used to assess the effectiveness of the hedging relationship. The Group assesses, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instrument is expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item during the period for which the hedge is designated, and whether the actual results of each hedge are within a range from 80% to 125%.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Derivatives Held as Risks Hedging Instruments and Hedge Accounting (Continued)

(i) Fair Value Hedges

When a derivative is designated as the hedging instrument in a hedge against a change in the fair value of a recognized asset or liability that could affect the profit or loss, changes in the fair value of the derivative are recognized immediately in the profit or loss (income) statement, together with changes in the fair value of the hedged item that are attributable to the risk hedged. If only certain risks attributable to hedged items are subject to hedging, the recognized changes in fair value of the hedged items that are not associated with the risk subject to hedging are recognized in accordance with the Group's policy on financial instrument measurement depending on the instrument classification.

(ii) Cash Flow Hedges

When a derivative is designated as the hedging instrument in a hedge against a change in the cash flows of a recognized asset, liability or highly probable future transaction that could affect the profit or loss, changes in the fair value of the derivative are recognized:

- the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognized in other comprehensive income; and
- the ineffective portion of the gain or loss on the hedging instrument shall be recognized in profit or loss.

The recognized changes in fair value of the hedged items are recognized in accordance with the Group's policy on financial instrument measurement depending on the instrument classification.

(o) Loans and Receivables

Line items "loans and receivables due from banks and other financial institutions" and "loans and receivables due from customers" in the Group's statement of financial position include financial assets that are measured at amortized cost or at fair value through profit or loss (please refer to Note 3(k)(ii)). If they are measured at amortized cost, loans and receivables are presented net of allowances for impairment in the statement of financial position (Note 3(k)(viii)). Allowance for impairment is made by reducing the carrying amount of a loan or receivable. If, in a subsequent period, the amount of impairment loss decreases, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of reversal is recognized in the income statement within the line item of net gains/losses on the reversal of impairment/impairment of financial assets not measured at fair value through profit or loss.

(p) Securities

The line item of securities in the statement of financial position includes debt securities that can be classified into all three categories of financial assets depending on the business model and SPPI criteria. For classification and measurement, please refer to Note 3(k)(ii).

(q) Property, Plant and Equipment

(i) Recognition and Measurement

Items of property and equipment are initially measured at cost or purchase price. Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of such equipment. Subsequent to the initial recognition:

- the Group measures equipment at cost net of accumulated depreciation and any accumulated impairment losses,
- while property items are measured at revalued amounts, being their fair values at the revaluation date net of accumulated depreciation and any accumulated impairment losses.

Revaluation is made with sufficient regularity to ensure that the carrying value of the property does not depart materially from the fair value thereof at the end of the reporting period. According to the instructions received from the Group, the "desktop" revaluations should be performed by certified appraisers on a semi-annual basis. If such a revaluation reveals that fair value deviates by more than 10% from the carrying value, the "full" fair value assessment is to be undertaken.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Property, Plant and Equipment (continued)

(i) Recognition and Measurement (continued)

Recording of the revaluation effects depends on whether the difference between the carrying value and the fair value is positive or negative at the revaluation date. Positive revaluation effects are recognized as increase in the revaluation reserves and/or gains on the change in the fair value of the asset to the extent of the of the decrease previously charged for the same property due to revaluation. Negative revaluation effects are recognized as decrease in the previously made revaluation reserves and/or losses on the change in the fair value of the asset. Revaluation reserves made in this respect are fully reclassified to the retained earnings upon derecognition of the property. Revaluation reserves are reclassified/transferred to the retained earnings even during the use of the property, on a straight-line basis. However, revaluation reserves cannot be reclassified to the profit or loss. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Any gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and the difference is recognized net within other income/expenses in the profit or loss statement.

(ii) Subsequent Expenditure

Subsequent expenditure is capitalized only when it is probable that the future economic benefits thereof will flow to the Group. The cost of replacing part of an item of property or equipment is recognized within the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(iii) Depreciation

Items of property and equipment are depreciated from the month following the month when they become available for use. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful life of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives.

The depreciation rates used for the current and comparative periods are as follows:

Assets	**Estimated Useful Life (Years)**	**Minimum Annual Rate %**
Buildings	according to estimated useful life	-
Furniture	Maximum 25	4%
IT equipment and electronic systems	Maximum 15	6.67%
Other	Maximum 10	10%

The base for depreciation calculation is the cost of assets or, in case of property, the revalued amount of property. Depreciation methods, useful lives and residual values are reassessed at each financial year-end and adjusted as appropriate.

(r) Intangible Assets

The Group's intangible assets comprise software, licenses and other intangible assets. Intangible assets are stated at cost less accumulated amortization and any accumulated impairment losses. Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortization is recognized in the profit or loss on a straight-line basis over the estimated useful life of an intangible asset, from the month following the month when the asset becomes available for its intended use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Intangible Assets (continued)

The estimated useful life of intangible assets is five years and amortization rate used equals 20%, except for the assets whose usage periods are contractually defined, when these assets are amortized over the contractually defined periods.

Amortization methods, useful lives and residual values of intangible assets are reassessed at each financial year-end and adjusted as appropriate.

(s) Investment Property

Investment property is property held by the owner either to earn rental income or for capital appreciation or both.

Upon acquisition, investment property is initially measured at cost or purchase price. After initial measurement, Group use the fair value model for investment property measurement. The Group's investment property is no longer depreciated or subject to impairment assessment Gains or losses arising from the fair value adjustment of investment property are recognized as income or expenses in the period when realized/incurred.

(t) Leases

(i) The Group *as the Lessee*

IFRS 16 defines a lease as a contract or a part of a contract that conveys the right to control the use an identified assets for a period time in exchange for a consideration. A right-of-use (ROU) asset is recognized if the following conditions are cumulatively met:
- the underlying assets may be either explicitly or implicitly identified;
- the lessee has the right to obtain substantially all of the economic benefits from the use of the asset throughout the lease period; and
- the lessee has the right to direct the use of the identified asset, i.e., decide about how and for what purpose the asset will be used throughout the period of use.

As allowed by the standard, the Group does not apply the accounting required for lessee to low value leases assets i.e. value up to EUR 5,000 in RSD counter value, to short term leases with lease terms of up to a year and leases of intangible assets. Typical low-value underlying assets are: printers, water dispensers, POS terminals, tablets, computers, telephones and small office furniture items. Such leases are recognized as expenses in the Group's income statement on a straight-line basis.

When a contract is assessed to be/contain a lease, the right-of-use asset is recognized within assets, while the lease liability is recognized within equity and liabilities on the Group's statement of financial position. The right-of-use asset is initially measured at cost, which comprises:
- the amount of the initial measurement of the lease liability;
- any lease payments made and deposits placed at or before the commencement date;
- any initial direct costs incurred by the lessee;
- decrease for any lease incentives received from the lessor; and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located, or restoring the underlying asset to its original condition.

After the initial recognition, the right-of-use (ROU) asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, adjusted for any re-measurement of the lease liability. ROU assets are depreciated on a straight-line basis. Calculation of the depreciation charge commences on the first calendar following the month when the asset became available to the Group.

The lease liability is initially measured at the net present value of the future lease payments (net of value added tax), discounted using the interest rate implicit in the lease, or, if it cannot be readily determined, at the Group's incremental borrowing rate. The incremental borrowing rate is determined based on the cost of financing of liabilities with a similar term and with a similar security to the liability defined by the lease contract.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Leases (Continued)

(i) The Group *as the Lessee (Continued)*

Future lease payments that are included in the amount of the lease liability after discounting encompass:
- fixed lease payments less any lease incentives received;
- variable lease payments, which depend on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the Group, as the lessee, is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group, as the lessee, exercising an option to terminate the lease.

After initial recognition, the lease liability is decreased by the amount of the lease payments made and increased by the interest accrued on the lease liability and adjusted for the following:
- a change in future lease payments resulting from a change in an index or a rate initially used to determine those payments,
- a change in the assessment of an option to purchase the underlying asset;
- a change in the amounts expected to be payable under a residual value guarantee; and
- a change in the lease term.

Adjustment to the amount of the lease liability requires a corresponding adjustment of the right-of-use assets. In respect of each lease, the Group recognizes depreciation charge and interest expenses in its income statement.

(ii) The Group *as the Lessor*

As a lessor, the Group needs to assess whether a lease is a finance or an operating lease. If the Group assesses that a lease contract transfers substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, such a lease is classified as a finance lease. Otherwise, it will be an operating lease. IFRS 16 does not introduce any significant changes for the lessor lease accounting in comparison to IAS 17.

(u) Impairment of Non-Financial Assets

The carrying amounts of the Group's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Intangible assets with indefinite useful life are tested for impairment on annual basis. An impairment loss is recognized in the amount that the carrying value of an asset or a cash-generating unit exceeds its recoverable amount.

The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or a cash-generating unit.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount (as the difference between the two). Impairment losses are recognized in profit or loss. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(v) Deposits, Borrowings and Subordinated Liabilities

Deposits, borrowings and subordinated liabilities are the Group's main source of debt funding.

The Group classifies equity instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Deposits, borrowings and subordinated liabilities are initially measured at fair value increased by directly attributable transaction costs and are subsequently measured at their amortized cost using the effective interest method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The Group does not perform discounting of the future cash flows that are, as per the best estimates, expected to arise in the near term.

(x) Financial Guarantees

Financial guarantees represent contracts whereby the Group is obligated to make the designated payment to the guarantee holder for the loss incurred due to the designated debtor's failure to make the relevant payment in timely manner in accordance with the debt instrument terms.

(y) Employee Benefits

In accordance with regulatory requirements of the Republic of Serbia, the Group is under obligation to pay contributions to tax authorities and state social security funds, which guarantee social security insurance benefits to employees. These obligations involve the payment of contributions by the employer, in amounts computed by applying the specific, legally prescribed rates. The Group is also legally obligated to withhold contributions from gross salaries to employees, and, on behalf of its employees, transfer the withheld portions directly to the government funds. These taxes and contributions payable on behalf of the employee and employer are charged to employee salaries and personal expenses in the period in which they arise.

Pursuant to the Labor Law, the Group has an obligation to disburse an employment retirement benefit to a retiree. Long-term provisions for retirement benefits payable upon fulfillment of the prescribed criteria reported at December 31, 2023 represent the present value of the expected future payments to employees determined by actuarial assessment using actuarial assumptions. In determining provisions for retirement benefits, the Group used data and assumptions such as the official statistical mortality rate tables, employee turnover and disability rates, the projected annual salary growth rate of 7%, and an annual discount rate of 6,1%. In addition, in 2023, the Group accrued expenses for unused annual leaves (vacations).

Liabilities for short-term employee benefits are recognized on undiscounted basis as an expense when the service is provided. Long-term benefits refer to payments based on long-term remuneration schemes of employees which are included in these schemes based on the criteria of contributing to the long-term and growing profitability of the Group. Liabilities for long-term employee benefits are recognized using the appropriate discount rate.

4. RISK MANAGEMENT

(a) Introduction and Overview

The main types of material risks that the Group is exposed to are the following:

- Credit risk;
- Market risk;
- Operational risk
- Liquidity risk,
- Compliance risk;
- AML risk (Money laundering and terrorist financing risks);
- Strategic risk;
- Business risk;
- Reputational risk;
- Interest rate risk in the banking book;
- Model risk and
- Climate and environmental risk.

4. RISK MANAGEMENT (Continued)

(a) Introduction and Overview (Continued)

Risk Management Framework

The most important role in the risk management as a part of internal control system is assigned to the Supervisory Board (SB) of the Bank, which is responsible for risk management system establishing and monitoring. SB is defining strategies and policies for managing key risk types that the Group is exposed to in its operations. Also, SB is in charge of giving prior consent for the bank's exposure to each single person or a group of related persons which exceeds 10% of the bank's regulatory capital, and/or for the increase of this exposure in excess of 20% of bank's regulatory capital. Audit Committee is supporting SB in its functioning by considering the most important internal regulations of the Group before final approval by SB. Management Board of the Bank is responsible for approval and implementation risk strategies and policies and for approval of risk management procedures i.e. procedures for identification, measuring, estimation and managing of risks. Important role in loan approval process is assigned to the Credit Committee, which is in charge of making decisions about credit applications within its competence level, or giving recommendation for higher credit approval competence level.

Internal organization of the Group ensures functional and organizational separation of risk management and other regular business activities. The Group has separate organizational unit that covers risk management – Risk Management.

Risk Management[1] is organized in order to cover risk management, through the work of the following structures:
• Strategic, Credit & Integrated Risks (within which there are structures: Collateral management, Credit risk control & Integrated risks, Credit risk modelling and Credit process & policies);
• Credit Risk Operations (within which there are structures: Retail credit operations, Large corporate underwriting, Small corporates underwriting, Corporate monitoring and Corporate Special credit);
• Financial risks;
• Internal Validation.
All organizational units are directly subordinated to the member of Management Board, who is in charge for risk management, which assures prevention of conflict of interests and separation of risk management and other regular operational activities of the Group.

Internal Audit

The Internal Audit conducts its activities based on the annual operating plan and multi-year internal audit plan approved by the Supervisory Board. Frequency of internal audit (frequency or length of an audit cycle) of a particular process/risk varies from one to five years and directly depends on the assessed risk level, regulatory and/or Group request. Internal Audit regularly monitors implementation of recommendations issued in its reports (action plans) and reports their statuses to the Management Board, Audit Committee and the Supervisory Board including delays in the implementation of the measures.

(b) Credit Risk

Credit risk is the risk of possible negative effects on financial result and capital of the Group caused by the Borrower's default on its obligations to the Group.

Credit process in the Group is based on strict segregation of the competences and responsibilities in credit operations between risk taking activities, "business" function responsibilities on one side and credit risk management function on the other side. Business function is represented with structures that are dealing with client acquisition and relationship management, while credit risk management function is represented by mentioned structures in Risk Management in charge of loan underwriting, monitoring, restructuring and collection. According to "four eye" principle, decision on credit application is proposed by business side (first vote) and final decision or recommendation for credit approval decision is given by risk management function (second vote). Exception can be made for standardized products in retail segment, when due to a large number of relatively small loan amounts and simplification of the procedure, approval process can be completely realized within business function, with mandatory applied "4 eyes principle", in accordance with predefined criteria and parameters, approved by risk management function.

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[1] Within Risk Management there is also a structure in charge of non-financial risks.

4. RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

With the aim to ensure adequate and timely risk management in the area of crediting activity, the Group applies the following internal bylaws: Risk Management Rulebook, Rules on Competences for Credit Business, documents which define rules for internal credit rating assignment, Rules of Procedure for the Credit Committee, Credit Risk Mitigation Policy, Policy, Real Estate Valuation Policy, Guidelines for the Management of Corporate Special Credit Clients, Guidelines for the monitoring of customers with increased risk and rules on management of Special Credit Clients, Rules on the IAS/IFRS Provisioning and other enactments. The Group's goal is to protect itself from the negative impact and to optimize the level of the risks assumed by defining adequate procedures and individual responsibilities in the risk management process.

In order to define consistent guidelines for the credit activity and a general framework for risk management, the Group enacts credit risk management strategies for the retail and corporate segments for each financial year. The strategies include general guidelines for the basic parameters of risk management, principles for analysis of the creditworthiness of each customer segment, and definition of the direction of development of individual products, as well as detailed strategy direction of portfolio development per certain industries. In this manner, the Group ensures that the adopted business policies are implemented resulting in acceptable credit risk exposure at the level of individual loans, as well as adequate diversification and general quality of the loan portfolio. The Group also considers analysis of the money laundering and terrorist financing risk in making decisions on the credit risk assumption.

Competences, responsibilities and authorities of persons involved in the risk management system are defined by the Rules on Competences for Crediting Business. In credit process decision making, the "four eye" principle has to be followed irrespective of the decision-making level in order to ensure that the two sides involved in the credit process check each other – the one proposing and the other approving a loan. The focus of Corporate Monitoring in 2023 was on assessing warning signals induced by overall crisis related to world conflicts but also negative market trends in several industries (e.g. Agriculture, Construction), and its impact on portfolio.

Regarding corporate portfolio monitoring, bearing in mind overall world crisis, the increased monitoring of warning signals, clients and portfolios, and the implementation of various measures aimed at reducing risks in cooperation with clients who are on high-risk client watch lists, is continued. In addition to the existing monitoring list of clients with increased risk ("watch list"). The bank continued with the comprehensive analysis of the existing monitoring process, both on its own initiative and in accordance with audit measures and process changes dictated by the Group, all with the aim of improving its efficiency and effectiveness, in order to recognize risks earlier and to ensure a timely reaction of the Bank. During 2023, the trend of fluctuations of clients to and from watch lists continued, while the number of clients on watch lists is increased along with increased number of clients transferred from Watch list to worse categories.

The main goal in 2023 was to ensure continuity to mitigate potential negative effects of geo political situation through intensive monitoring process where the portfolio was screened in order to identify clients with the negative impact of cooperation with the Russian or Ukrainian market, resulting in negative changes in the fruit export market and grain, as well as potential impact of the Israeli-Palestinian conflict. Quarterly monitoring of previously identified clients sensitive to the Russian-Ukrainian conflict continued in cooperation with sales function, loan approval function and portfolio monitoring function. For Retail clients Bank adopted more conservative criteria (restricted red and yellow zone approvals, restricted LTV, increased consumer bucket).

Credit Risk Reporting

The Group manages credit risk, sets credit risk limits and controls it in all segments of its business and for all relevant types of corporate and retail loans. Timely identification, measuring, monitoring and managing of the credit risk on the Group's portfolio level is supported by the Risk Management Information System ("RMIS"). By reporting at the total portfolio level or at the individual client level, RMIS provides complete, accurate and timely information about the balance, quality and movements of the loan portfolio. RMIS has to fulfil the following four main functions:

1. Collect and process data and credit risk indicators;
2. Analyze movements and changes of the entire loan portfolio and its structural characteristics;
3. Continuously monitor credit risk; and
4. Provide a basis for the process of decision-making on the credit risk management.

4. RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Credit Risk Reporting (Continued)

The scope of credit risk monitoring, management and reporting on a portfolio level includes monitoring of loan loss provisions (impairment allowances of balance sheet assets and provisions for probable losses per off-balance sheet items).

Credit Risk Parameters

Credit risk is quantified by measuring the expected credit losses (ECL). Main indicators that are used to monitor credit risk and to calculate expected credit losses are as follows:

- Exposure of the Group at default (EaD);
- Probability of default (PD); and
- Loss given default (LGD).

The Group uses internal credit rating models. Rating models define specific rating for clients with similar credit risk levels. Each rating grade is related to a certain PD parameter value on the master rating scale. The Group also internally calculates other credit risk parameters. Internal credit risk assessment models, credit risk parameters and collaterals are used for loan loss provisions calculation in line with IFRS, as defined by the Group's special bylaws. In order to fulfil the aforesaid functions, RMIS uses IT systems of UniCredit Group and internally generated databases with information about the portfolio at the individual loan facility level. The Group's systems provide rating and past-due days data as important client's credit risk parameters

Limits

The Group manages credit risk concentration of the portfolio by setting appropriate limits. Limits are defined by the Group's internal bylaws and/or NBS regulations and compliance with those is monitored and reported on an ongoing basis.

Reports

In monitoring of the credit risk on the portfolio level, the following reports are used:

			Report user					
Report	**Responsible organizational unit**	***Frequency***	**CRO Division**	**Credit committee**	**ALCO**	**Management Board**	**Audit committee**	**Supervisory Board**
CRO report/SB presentation	CFO / Risk management	Quarterly (as needed)				+*	+*	+
Credit Risk Dashboard	Credit risk control & Integrated risks	monthly***	+					
Credit portfolio overview	Risk management	quarterly	+	+**		+		
Risk appetite report	Credit risk control & Integrated risks	quarterly			+		+	+
Bank's Risk profile	Financial risks	monthly			+			
Management summary report	Financial risks	daily				+****		
Operational risk report	Non-financial risks	monthly				+*****		
Reputational risk report	Non-financial risks	quarterly				+******		

***report is presented for consideration and analysis, before final presentation on Supervisory Board.*

***report is presented to relevant Credit Committee after analysis on Management Board.*

****the predefined report form is updated monthly according to the availability of the most recent data. The report is made available to the Head of the Risk Management and directors of the structures within the Risk Management function.*

*****Report recipients are the following organizational structures: Members of the Management Board (CEO and structures Heads: Finance, Corporates, Retail, Risk Management), Trading, Investment services, Finance, Financial risks, UCL CEO , but also and UniCredit Group representatives (on demand).*

****** Report recipients are the following organizational structures: Management team of the Bank and CEO Leasing, Internal Audit, Compliance, Banking operations, Digital Governance & Control, Digital & Information, Security , Strategic, credit and integrated risks, the structure which is covering the Fraud Management. The report represents the monthly overview of operational risk events.*

******* Report recipients are the Management team of the Bank. The report represents quarterly overview of the analysis results and effect on reputational risk.*

4. RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Credit Risk Reporting (Continued)

Reports (Continued)

CRO Report to the Supervisory Board is prepared quarterly or more frequently if necessary, depending on the schedule of the Supervisory Board's meetings. All organizational units within the Risk Management participate in preparation of the report while the Strategic, credit and integrated risks is responsible for coordination and delivery of the report. The report is prepared in the form of a presentation and includes, among other things, the following:

- Status overview of the most relevant activities of the Risk Management;
- Information on the structure and movements of the loan portfolio;
- Information on the key indicators of the portfolio quality, balance and movements of non-performing loans (NPLs), provisions for credit losses, risk costs and coverage of NPLs with credit loss provisions;
- Basic information on the portfolio concentration and compliance with the set limits, including the list of 10 largest client groups and 10 largest non-performing clients by their overall exposure.

Credit Risk Dashboard Report is updated on a monthly basis by the Strategic, Credit and integrated risks and delivered to the Management Board member in charge of the Risk Management and Directors of all structures within Risk Management. The information is presented at the sub-segment level (large corporate clients, middle-sized corporate clients, real estate financing, business clients and entrepreneurs and individuals) with comparative data for the previous month and previous year-end. The report includes the following information:

- Loan structure (type and currency);
- Portfolio structure per internal credit rating categories;
- Portfolio structure per (non)-default client status;
- Data on the asset quality at the sub-segment level (exposure, NPL volume and ratio, amount of credit loss provisions, NPLs coverage with credit loss provisions);
- PD and LGD per segment;
- Credit loss provisioning costs per sub-segment (charge and release/reversal as compared to the beginning of year and previous month); and
- cost of risk per sub-segment.

Credit Portfolio Overview is prepared on a quarterly basis and is presented to the Bank's Management Board and thereafter to the Bank's Credit Committees for their information. All organizational units dealing with the credit risk management within the Risk Management participate in preparation of the report. Among other things, the report includes the following information:

- detailed information on the structure and movements of the loan portfolio, overall and per segment;
- data on the key portfolio quality indicators and movements of NPLs, provisions for credit losses, costs of risk, NPLs coverage with credit loss provisions, portfolio distribution per rating, etc.;
- the list of 10 largest client groups and 10 largest non-performing clients by their overall exposure;
- portfolio status and overview of the key activities and results according to the internal portfolio classification (Standard, WL, Restructuring, Workout);
- information on the portfolio concentration and compliance with the set limits.

4. RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Credit Risk Reporting (Continued)

Reports (Continued)

The risk appetite report is compiled on a quarterly basis and presented at the ALCO board meeting. The organizational units of the Group that participate in the development of the risk appetite framework participate in the preparation of the report. The report involves monitoring the behavior of key performance risk indicators over time, which aim to:

- to ensure that business is conducted up to risk tolerance at the level of the Group, which is additionally through the 'bottom up' process agreed with the Holding Company and adopted by the local Supervisory Board;
- to warn of potentially significant negative developments of key indicators and their components, as well as to provide an explanation of the same;
- to support the development of future strategic decisions in accordance with its risk profile.

In addition to the standardized reports, there are many activities undertaken in order to provide accurate parameters used in credit risk monitoring: *ad hoc* analyses and reporting and other activities that contribute to the accuracy of the credit risk parameters.

Ad hoc analyses and reporting are applied in cases of the Group's higher risk exposure, especially if the credit risk level is changing drastically and abruptly and when timely reaction is expected – for example: deterioration of internally assigned rating grades, significant need for additional provisions, signs of mismatching in organization, implemented system or procedures, change of any of the credit risk parameters or in calculation of provisions.

Other activities conducted by the Group include: quality verification of data used in monitoring, managing of and reporting on the credit risk, improvement of the existing systems and procedures, annual process of budgeting and subsequent control and any adjustments of the budgeted parameters.

All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Credit Risk Reporting (Continued)

Credit Risk Exposure

The table below shows the Group's maximum credit risk exposure per financial instrument type:

	Cash and balances held with the central bank (Note 20)		Securities including pledged financial assets (Note 23 and 21)		Loans and receivables due from banks and other fin. institutions (Note 24)		Loans and receivables due from customers (Note 25)		Other financial assets** (Note 30)		Off-balance sheet items	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Individually impaired												
Corporate clients, rating 10	-	-	-	-	-	-	102,153	245,796	1,701	3,994	-	110,965
Corporate clients, rating 9	-	-	-	-	-	-	-	-	-	-	-	-
Corporate clients, restructured loans *	-	-	-	-	-	-	9,134,163	8,192,206	6,421	4,565	460,808	471,747
Retail clients, > 90 days past due	-	-	-	-	-	-	4,533,856	4,350,486	74,132	66,245	4,406	4,423
Gross loans	-	-	-	-	-	-	13,770,172	12,788,488	82,254	74,804	465,214	587,135
Impairment allowance	-	-	-	-	-	-	8,357,800	8,283,019	76,725	63,776	313,283	371,023
Carrying value	-	-	-	-	-	-	5,412,372	4,505,469	5,529	11,028	151,931	216,112
Group-level impaired												
Corporate clients, rating 1 - 6	130,511,724	69,758,834	102,262,512	109,529,196	63,008,821	75,899,871	209,801,628	187,837,320	195,501	163,358	269,035,254	212,423,246
Corporate clients, rating 7	-	-	-	-	-	-	3,938,136	13,876,063	711	158	8,510,136	6,874,784
Corporate clients, rating 8	-	-	-	-	-	-	1,026,004	843,917	2,228	21	29,180	556,903
Retail clients, Stage 1	-	-	-	-	-	-	104,095,792	98,741,751	27,751	1,235	3,432,107	2,781,837
Retail clients, Stage 2	-	-	-	-	-	-	25,284,784	28,904,331	-	25,473	2,363,597	1,927,441
Gross loans	130,511,724	69,758,834	102,262,512	109,529,196	63,008,821	75,899,871	344,146,344	330,203,382	226,191	190,245	283,370,274	224,564,211
Impairment allowance	8	3	271,187	72,397	2,430	6,232	5,089,009	5,865,137	315	401	1,224,641	771,794
Carrying value	130,511,716	69,758,831	101,991,325	109,456,799	63,006,391	75,893,639	339,057,335	324,338,245	225,876	189,844	282,145,633	223,792,417
Carrying value of rated assets	130,511,716	69,758,831	101,991,325	109,456,799	63,006,391	75,893,639	344,469,707	328,843,714	231,405	200,872	282,297,564	224,008,529
Carrying value of non-rated assets	-	-	2,454,461	1,535,672	-	-	-	-	1,267,772	1,397,853	-	-
Total carrying value	**130,511,716**	**69,758,831**	**104,445,786**	**110,992,471**	**63,006,391**	**75,893,639**	**344.469.707**	**328,843,714**	**1,499,177**	**1,598,725**	**282,297,564**	**224,008,529**

* Category "corporate clients – restructured loans" includes corporate customers with internal rating 8-, whose impairment allowance was made on a group-level and not individually.
** Difference compared to total other assets relates to non-financial assets with carrying value of RSD 422,005 thousand (2022: RSD 397,848 thousand) and impairment allowance of RSD 2,681 thousand (2022: RSD 3 thousand)

All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Implementation of Basel Standards

In the area of application of Basel standards related to credit risk models, the focus of activities was on developing new internal rating model for legal entities, development of new exposure at default model, termination of application model for internal rating for cash based entrepreneurs and automatizing the rating approval process in segment of entrepreneurs and small business as well as adjusting the flat rating for leasing.

Internal Rating System (Rating Scale)

The ranking rules for customers are established at the level of UniCredit Group and as such are uniform for each member of the UniCredit Group. The UniCredit Group's rating system was developed and has been in use since 2004 at the group level for clients in the corporate segment. For retail clients and entrepreneurs, the rating system was internally developed and has been in use since 2010. The Group uses the UniCredit Group's rating models for multinational companies, banks, insurance companies and exposures to states/governments. The master rating scale is used as a unique rating assignment method, which ensures that customers with the same rating have the same credit characteristics and the same probability that they will not settle their liabilities, in part or in full, within the period of 1 year.

The master scale is divided into 10 rating classes that are further broken down into a total of 26 rating subgroups.

Rating Notch	Rating	PD min %	PD mid %	PD max %
1	1+	0.000%	0.020%	0.026%
2	1	0.026%	0.030%	0.035%
3	1-	0.035%	0.041%	0.048%
4	2+	0.048%	0.056%	0.065%
5	2	0.065%	0.076%	0.089%
6	2-	0.089%	0.104%	0.121%
7	3+	0.121%	0.141%	0.165%
8	3	0.165%	0.192%	0.224%
9	3-	0.224%	0.262%	0.306%
10	4+	0.306%	0.357%	0.417%
11	4	0.417%	0.487%	0.568%
12	4-	0.568%	0.663%	0.775%
13	5+	0.775%	0.904%	1.056%
14	5	1.056%	1.232%	1.439%
15	5-	1.439%	1.680%	1.961%
16	6+	1.961%	2.289%	2.673%
17	6	2.673%	3.120%	3.643%
18	6-	3.643%	4.253%	4.965%
19	7+	4.965%	5.796%	6.767%
20	7	6.767%	7.900%	9.222%
21	7-	9.222%	10.767%	12.570%
22	8+	12.570%	14.674%	17.131%
23	8	17.131%	20.000%	100%
24	8-	100%	100%	100%
25	9	100%	100%	100%
26	10	100%	100%	100%

The internal master scale is compliant with Basel Standards, meaning that each rating subgroup has a PD parameter associated with it, with probability that a customer with particular characteristics will be unable to settle liabilities toward the Group and enter the default status. For the first 23 subgroups the probability of default ranges between 0.02% and 20.00%, where those clients are rated between 1+ and 8. Their probability of default is based on the statistical analyses of the historical data

Ratings from 1+ to 6-: These rating notches are reserved for customers determined in an internal credit assessment to have a credit standing of very good to just acceptable. For customers with this rating periodic review of creditworthiness is performed once a year.

4. RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Internal Rating System (Rating Scale) (Continued)

Ratings 7+ to 7-: These cover three subgroups for transactions with low credit rating clients. Customers assigned these rating notches have substantially higher risk factors and must be constantly monitored.

Ratings 8+ and 8- cover those clients that are not determined for individual provisioning but are subject to special loan restructuring or debt reduction measures.

Rating 8- relates to customers in default according to the Basel Standards criteria.

Rating 9 refers to customers with loans provided for on an individual basis or those where a portion of the receivables has been written off.

Rating 10 is assigned to the clients in the process of liquidation or bankruptcy.

Ratings 8-, 9 and 10 are by definition assigned to customers in default in accordance with Basel Standards criteria, with special credit loss provisioning calculation.

For IFRS 9 purposes the rating from the master scale is adjusted in such way that clients from the rating notches with the same rating (i.e. 1+, 1 and 1-) are grouped together in one rating class (i.e. rating 1). IFRS 9 PD model creates PD curves for rating classes from 1 to 8 for 3 segments Retail, Business, Corporate. Afterwards these PD curves are adjusted for forward looking information. With FLI the PD values for the first 3 years will be adjusted in accordance with the macroeconomic outlook impacting the PD values to go up or down in value. In addition based on the policies of the Group, PDs need to be client-specific. Therefore, punctual cumulative PDs (cPDs) on a client level are derived from the cPDs on a rating class level. Clients are assigned to rating classes based on their punctual Basel PD at the reporting date. This Basel PD of a client is compared to the PD mid values taken from the master scale, which is shown in the previous page, of the whole rating class and based on that the cPD curve is shifted upwards or downwards depending if the clients Basel PD is above or below the PD mid value.

Methodology for Calculation of Expected Credit Losses

In accordance with the current Rulebook on IFRS Loan Loss Provisioning, the Group calculates 12-month ECL or a lifetime ECL of a financial instruments depending on the significance of the change in its credit risk occurred since the instrument's initial recognition. For these purposes, the Group uses the following three stages of impairment:

- Stage 1 includes all new financial assets at initial recognition (except POCI) and instruments without significant credit quality deterioration since their initial recognition, or instrument with low-level credit risk;
- Stage 2 includes financial instruments with significant credit quality deterioration since their initial recognition yet with no objective evidence of impairment based on credit losses;
- Stage 3 includes financial instruments where objective evidence of impairment exists at the reporting date.

Stages 1 and 2 include only performing financial assets. Stage 3 includes only non-performing financial assets. For financial assets in Stage 1, the Group calculates 12-month expected credit losses. For financial assets in Stage 2, the Group calculates lifetime expected credit losses.

Stage 1 12-month expected credit losses are calculated, except for maturity shorter than 12 months. It applies to all items (from initial recognition) as long as there is no significant deterioration in credit quality.
Allowances are calculated in accordance with the Group methodology the following way:

$$ECL = \sum_{m=1}^{min\,(12;T)} (CPD_m - CPD_{m-1}) \times LGD_m{}^{unsec} \times EAD_m{}^{unsec} \times \left(\frac{1}{1+EIR}\right)^{\frac{m}{12}}$$

4. RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Methodology for Calculation of Expected Credit Losses (Continued)

Where:

- ${EAD_{t_i}}^{unsec}$ Unsecured exposure at default for account at time t_i, namely Exposure at default for account at time m, minus the allocated collateral amount
- ${EAD_{\mathrm{m}}}^{unsec}$ Unsecured exposure at end of month (note: secured part assumed to have LGD 0%, thus ECL 0)
- CPD_m Cumulative punctional PD at month m
- ${LGD_m}^{unsec}$ Unsecured loss given default at month m
- T Maturity in months
- EIR Effective interest rate
- m End of month

Financial instruments, for which significant deterioration in credit quality has occurred since initial recognition are assigned to Stage 2. However, these financial instruments are not in default yet. Lifetime expected credit losses are calculated. Allowances are calculated in accordance with the Group methodology using the following approach:

$$ECL = \sum_{m=1}^{T} (CPD_m - CPD_{m-1}) \times {LGD_m}^{unsec} \times {EAD_m}^{unsec} \times \left(\frac{1}{1+EIR}\right)^{\frac{m}{12}}$$

Where:

- ${EAD_{t_i}}^{unsec}$ Unsecured exposure at default for account at time t_i, namely Exposure at default for account at time m, minus the allocated collateral amount
- ${EAD_{\mathrm{m}}}^{unsec}$ Unsecured exposure at end of month (note: secured part assumed to have LGD 0%, thus ECL 0)
- CPD_m Cumulative punctional PD at month m
- ${LGD_m}^{unsec}$ Unsecured loss given default at month m
- T Maturity in months
- EIR Effective interest rate
- m End of month

LGD is one of the key components of the credit risk parameters based ECL model presented in Equation above. LGD based on IFRS 9 requirement, the LGD parameters are to be adjusted by Forward-looking information are calculated in the following manner:

$$LGD_{unsec} = LGD_{liquidation} * (1 - cure\ rate)$$

Where LGD liquidation is the estimated pool based average values of LGD for default events resolved in liquidation for the 3 segments Retail, Business and Corporate, and the cure rate is the probability that the default event will return to the performing portfolio, thus be cured. The main goal of the FLI is to incorporate in LGD parameters the future macroeconomic tendencies and adjust the predicted portfolio RRs for following years. Specifically, based on a macroeconomic model, the Group forecasts the year-to-year percentage change (Δ) of the yearly recovery rates with respect to the current point in cycle, which is expected to be recovered within a 12-month time horizon, calculated as follows:

$$\Delta_{t_i}^{RR} = \frac{RR\_FL_{t_i} - RR_{t_0}}{RR_{t_0}}, i = 1, 2, 3\mathrm{sv}$$

Where:

- RR_FL_{ti}, corresponding to the forecasted yearly recovery rates in 1 year, 2 years, and in 3 years;
- RR_{t0}, corresponding to the last yearly recovery rates

Multi scenario overlay is applied to fulfill the requirements of IFRS 9 standard and the best practices in the banking industry for including macro-economic effects, based on a range of possible outcomes, into the expected credit losses.

The table containing weights for four alternative scenarios (out of which baseline (BL), negative or contagion (CONT) and positive (POS) were communicated from the Group, and the average (AVG) scenario is simply the weighted average of aforementioned 3) that were applied to November's LLP run is represented below:

All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Methodology for Calculation of Expected Credit Losses (Continued)

Name	Severity	Weight	Comment
Bl	-	60%	Baseline
Cont	downturn	40%	Contagion
Pos	upturn	0%	Positive
Avg	-	-	It has been created taking the weighted average of each "delta" i.e. change in PD/LGD values per segment among all the scenarios above. This is used only for Staging allocation, meaning that the final calculation of multi scenario overlay will take the stage from the average scenario and all other information from the previous 3 scenarios.

The forecasted default rates (as well as recovery rates) represent the input for the point in time (PIT)/FLI adjustment of the lifetime probability of default (and lifetime loss given default) parameters used to calculate the multi scenario overlay.

Sensitivity of EAD and ECL per local segment and stage is given in the following two tables.

Portfolio	EAD Baseline				EAD Negative			
	of which S1	*of which S2*	*of which S3*	*Tot*	*of which S1*	*of which S2*	*of which S3*	*Tot*
Corporate	111,515,788	52,670,903	129,773	164,316,464	82,597,769	81,588,922	129,773	164,316,464
Small Business	21,439,887	8,946,955	1,018,150	31,404,991	21,410,717	8,976,124	1,018,150	31,404,991
Retail - Mortgages	34,674,612	5,237,149	443,657	40,355,418	34,671,703	5,240,057	443,657	40,355,418
Retail - Others	44,130,281	12,617,734	3,159,285	59,907,301	44,058,941	12,689,074	3,159,285	59,907,301
Total	211,760,568	79,472,741	4,750,865	295,984,174	182,739,131	108,494,178	4,750,865	295,984,174

Portfolio	ECL Baseline				ECL Negative				ECL Final			
	of which S1	*of which S2*	*of which S3*	*Tot*	*of which S1*	*of which S2*	*of which S3*	*Tot*	*of which S1*	*of which S2*	*of which S3*	*Tot*
Corporate	467,148	1,155,552	144,351	1,767,051	415,640	2,201,116	145,689	2,762,445	543,663	1,344,822	167,994	2,056,480
Small Business	172,458	317,563	804,111	1,294,132	174,305	329,590	810,721	1,314,617	174,406	321,150	813,194	1,308,749
Retail - Mortgages	121,203	28,766	59,237	209,206	121,446	30,282	59,942	211,670	126,656	30,061	61,902	218,618
Retail - Others	549,041	1,161,190	2,402,302	4,112,532	615,156	1,303,216	2,462,705	4,381,077	573,743	1,213,434	2,510,386	4,297,563
Total	1,309,849	2,663,071	3,410,001	7,382,921	1,326,547	3,864,204	3,479,057	8,669,809	1,418,468	2,909,467	3,553,476	7,881,411

Multi scenario overlay for Q4 2023 and Q4 2022 is given in the table below. Overlay factor is added as a multiplier on top of ECL calculation for all performing transactions.

Local Portfolio	Overlay Factor Q4 2023	Overlay Factor Q4 2022	GW Portfolio	Overlay Factor Q4 2023	Overlay Factor Q4 2022
Business:	1.0113	1.0477	**FI (Banks):**	1.0145	1.0472
Corporate:	1.1638	1.1030	**GPF:**	1.6012	1.5216
Retail:	1.045	1.0830	**MNC:**	1.097	1.0476
			SOV:	1.1589	1.3536

Rules and Principles for ECL Calculation for Non-Performing Financial Assets – Stage 3

In accordance with the current Rulebook on IFRS Loan Loss Provisioning, if there is objective evidence of impairment (default status) on the financial statements' preparation date, all financial assets are classified into Stage 3. According to Art. 178 of the EU regulation n. 575/2013 a 'default' shall be considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place:

4. RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Methodology for Calculation of Expected Credit Losses (Continued)

Rules and Principles for ECL Calculation for Non-Performing Financial Assets – Stage 3 (Continued)

1) the obligor is past due more than 90 days on any material credit obligation or/and 2) the obligor is unlikely to pay at least one of his credit obligations in full without recourse actions to be taken by the respective legal entity. For financial instruments classified into Stage 3, the rule is that impairment is based on the calculation of lifetime ECL. In this process, the Group specifically treats clients in the default status whose exposure is considered significant and such loans or clients are individually assessed by the Group on a case by case basis, whereas the loans that are not individually significant are assessed on a collective basis

A financial asset is impaired and impairment has occurred if there is an evidence of impairment arising from one or more events that occurred after the date of initial recognition of the asset, which have an impact on the estimated future cash flows of that financial asset. If any such evidence exists, the Group is required to calculate the amount of such impairment in order to determine whether the impairment loss should be recognized. In other words, if there is any evidence of impairment, the Group should estimate the amount that can be recovered for that asset or group of assets and recognize the impairment losses. When determining the adequate amount of the provision, the Group must differentiate the need to calculate the specific provision on an individual basis and the specific provision on a collective basis for clients that are grouped into categories with similar risk characteristics, based on the segment to which the client belongs and the total amount of exposure at the client level. The total exposure of the client is comprised of the balance sheet and off-balance sheet receivables, including undrawn loan funds. The process of determining a specific provision on an individual basis is intended to measure the impairment loss at the client level. An individual provision is assessed as the difference between the carrying amount of the receivable and the present value of the expected future cash flows discounted at the effective interest rate of the financial asset (e.g., the effective interest rate specified when upon contract execution). In other words, the provision will be determined in the amount of an individual receivable that is not expected to be recovered.

In the event that the effective interest rate is not available, an alternative interest rate that is defined in accordance with the Group's bylaws will be used to calculate the provision. When determining the present value of the receivables, the discounted cash flow from the repayment of principal, interest or any other cash flow from a loan is calculated first. Thereafter, the discounted cash flow from the net realizable value of collateral for that loan is calculated. The final net present value of future cash flows of the loan is compared to its carrying amount and the amount of provision for impairment losses for the given loan that are recognized in the profit or loss statement is determined.

The calculation of provisions for exposures with impairment that are not classified as individually significant is carried out on a collective basis by grouping the default status clients into homogeneous categories with similar risk characteristics. When defining homogeneous categories, the Group applies the criteria used for segmentation when developing a model for calculating the loss rate due to default status (LGD model). The calculation of collective provisions in Stage 3 is performed for the default status clients that do not meet the requirements for an individual assessment of the provision. Calculation of the provision on the collective basis is made using the following calculation formula:

ECL = unsecEAD x LGDs3 (time in default)

Where:
- unsecEAD designates exposure in default reduced by the value of the collateral, and
- LGDs3 (time in default) designates loss at the moment of default.

If a receivable is fully collateralized and for this reason unsecEAD is equal to 0, the following formula is applied:

ECL = EAD x provisioning weight for Stage 1

The provisioning weight for Stage 1 is determined semi-annually, by recalculating this value based on the average level of provisions per portfolio segments. Values of LGDs3 (time in default) depend on the client segment, number of years the repayment lasts, and the period that the client has spent in the default status.

All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Methodology for Calculation of Expected Credit Losses (Continued)

Rules and Principles for ECL Calculation for Non-Performing Financial Assets – Stage 3 (Continued)

Client support as part of the COVID-19 support package refers to introduction of moratorium defined by the NBS and government guarantee scheme. Following tables present exposures covered by the public guarantee.

Overview of loans and receivables subject of the guarantee scheme as of 31.12.2023

		Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
			of which: forborne*	Public guarantees received	Inflows to non-performing exposures**
1	Newly originated loans and advances subject to public guarantee schemes	4,383,682	520,610	1,045,010	-
2	*of which: Collateralized by residential immovable property*	-			-
3	of which: Non-financial corporations	4,383,682	520,610	1,045,010	526,735
4	*of which: Small and Medium-sized Enterprises*	4,377,433			526,735
5	*of which: Collateralized by commercial immovable property*	322,869			202,589

* Loans and receivables from customers as of December 31, 2023 by the presented categories.
** Category shows increase in Non-performing exposures after new approval under guarantee scheme (as of December 31, 2023).

Overview of loans and receivables subject of the guarantee scheme as of 31.12.2022

		Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
			of which: forborne*	Public guarantees received	Inflows to non-performing exposures**
1	Newly originated loans and advances subject to public guarantee schemes	17,062,666	557,930	4,088,948	550,885
2	*of which: Collateralized by residential immovable property*	17,992			-
3	of which: Non-financial corporations	17,058,867	557,930	4,088,037	550,885
4	*of which: Small and Medium-sized Enterprises*	16,329,335			550,885
5	*of which: Collateralized by commercial immovable property*	452,292			21,792

* Loans and receivables from customers as of December 31, 2022 by the presented categories.
** Category shows increase in Non-performing exposures after new approval under guarantee scheme (as of December 31, 2022).

All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Methodology for Calculation of Expected Credit Losses (Continued)

Rules and Principles for ECL Calculation for Non-Performing Financial Assets – Stage 3 (Continued)

The table below shows a breakdown of gross and net non-performing loans due from banks and customers.

	Securities (Note 23)		Loans and receivables due from banks and other financial institutions (Note 24)		Loans and receivables due from customers (Note 25)		Other assets (Note 30)		Off-balance sheet items	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
December 31, 2023										
Corporate clients, rating 10	-	-	-	-	102,153	26,018	1,701	317	-	-
Corporate clients, rating 9	-	-	-	-	-	-	-	-	-	-
Corporate clients, restructured loans	-	-	-	-	9,134,163	4,012,735	6,421	930	460,808	150,260
Retail clients, > 90 days past due	-	-	-	-	4,533,856	1,373,619	74,132	4,282	4,406	1,671
Total	**-**	**-**	**-**	**-**	**13,770,172**	**5,412,372**	**82,254**	**5,529**	**465,214**	**151,931**
December 31, 2022										
Corporate clients, rating 10	-	-	-	-	245,796	34,231	3,994	1,135	110,965	55,550
Corporate clients, rating 9	-	-	-	-	-	-	-	-	-	-
Corporate clients, restructured loans	-	-	-	-	8,192,206	3,128,272	4,565	550	471,747	158,871
Retail clients, > 90 days past due	-	-	-	-	4,350,486	1,342,966	66,245	9,343	4,423	1,691
Total	**-**	**-**	**-**	**-**	**12,788,488**	**4,505,469**	**74,804**	**11,028**	**587,135**	**216,112**

The aging structure of matured and unimpaired loans as of December 31, 2023 is provided in the table below:

	Up to 30 days past due	31 to 60 days past due	61 to 90 days past due	Over 90 days past due	Total
Loans and receivables due from customers					
Gross carrying value	9,593,022	738,780	238,416	4,349	10,574,567
Impairment allowance	(414,454)	(120,133)	(69,302)	(979)	(604,868)
Net carrying value	**9,178,568**	**618,647**	**169,114**	**3,370**	**9,969,699**

All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Movements of the Gross Carrying Values of Assets per Class of Assets and per Impairment Stage

(i) Cash and balances held with the central bank

		Changes within the Stage			Transfers among Stages								
Stage	January 1, 2023	Increases (+)	Decreases (-)	Total transfers	S1 (-) to S2 (+)	S2 (-) to S1 (+)	S1 (-) to S3 (+)	S3 (-) to S1 (+)	S2 (-) to S3 (+)	S3 (-) to S2 (+)	Exit (-)	Newly approved (+)	December 31, 2023
Stage 1	69,758,834	60,752,890	-	-	-	-	-	-			-	-	130,511,724
Stage 2	-	-	-	-	-	-			-	-	-	-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**69,758,834**	**60,752,890**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**130,511,724**

		Changes within the Stage			Transfers among Stages								
Stage	January 1, 2022	Increases (+)	Decreases (-)	Total transfers	S1 (-) to S2 (+)	S2 (-) to S1 (+)	S1 (-) to S3 (+)	S3 (-) to S1 (+)	S2 (-) to S3 (+)	S3 (-) to S2 (+)	Exit (-)	Newly approved (+)	December 31, 2022
Stage 1	67,572,925	2,185,909	-	-	-	-	-	-			-	-	69,758,834
Stage 2	-	-	-	-	-	-			-	-	-	-	
Stage 3	-	-	-	-			-	-	-	-	-	-	
Total	**67,572,925**	**2,185,909**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**69,758,834**

(ii) Pledged financial assets

		Changes within the Stage			Transfers among Stages								
Stage	January 1, 2023	Increases (+)	Decreases (-)	Total transfers	S1 (-) to S2 (+)	S2 (-) to S1 (+)	S1 (-) to S3 (+)	S3 (-) to S1 (+)	S2 (-) to S3 (+)	S3 (-) to S2 (+)	Exit (-)	Newly approved (+)	December 31, 2023
Stage 1	7,225,280	-	-	-	-	-	-	-			(7,225,280)	-	- ,
Stage 2	-	-	-	-	-	-			-	-	-	-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**7,225,280**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(7,225,280)**	**-**	**-**

		Changes within the Stage			Transfers among Stages								
Stage	January 1, 2022	Increases (+)	Decreases (-)	Total transfers	S1 (-) to S2 (+)	S2 (-) to S1 (+)	S1 (-) to S3 (+)	S3 (-) to S1 (+)	S2 (-) to S3 (+)	S3 (-) to S2 (+)	Exit (-)	Newly approved (+)	December 31, 2022
Stage 1	-	7,225,280	-	-	-	-	-	-			-	-	7,225,280
Stage 2	-	-	-	-	-	-			-	-	-	-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**-**	**7,225,280**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**7,225,280**

All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

(b) *Credit Risk (Continued)*

Movements of the Gross Carrying Values of Assets per Class of Assets and per Impairment Stage (Continued)

(iii) Securities at amortized cost (AC) and at fair value though other comprehensive income (FVtOCI)

	Changes within the Stage				Transfers among Stages								
Stage	January 1, 2023	Increases (+)	Decreases (-)	Total transfers	S1 (-) to S2 (+)	S2 (-) to S1 (+)	S1 (-) to S3 (+)	S3 (-) to S1 (+)	S2 (-) to S3 (+)	S3 (-) to S2 (+)	Exit (-)	Newly approved (+)	December 31, 2023
Stage 1	102,303,916	31,092,551	(24,980,194)		-	-	-	-			(6,153,761)	-	102,262,512
Stage 2	-	-	-	-	-	-			-	-	-	-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**102,303,916**	**31,092,551**	**(24,980,194)**	**-**	**-**	**-**	**-**		**-**	**-**	**(6,153,761)**	**-**	**102,262,512**

	Changes within the Stage				Transfers among Stages								
Stage	January 1, 2022	Increases (+)	Decreases (-)	Total transfers	S1 (-) to S2 (+)	S2 (-) to S1 (+)	S1 (-) to S3 (+)	S3 (-) to S1 (+)	S2 (-) to S3 (+)	S3 (-) to S2 (+)	Exit (-)	Newly approved (+)	December 31, 2022
Stage 1	109,210,970	11,126,574	(28,900,917)	-	-	-	-	-			(79,620)	10,946,909	102,303,916
Stage 2	-	-	-	-	-	-			-	-	-	-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**109,210,970**	**11,126,574**	**(28,900,917)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(79,620)**	**10,946,909**	**102,303,916**

(iv) Loans and receivables due from banks and other financial institutions

	Changes within the Stage				Transfers among Stages including Repayments								
Stage	January 1, 2023	Increases (+)	Decreases (-)	Total transfers and repayments	S1 (-) to S2 (+)	S2 (-) to S1 (+)	S1 (-) to S3 (+)	S3 (-) to S1 (+)	S2 (-) to S3 (+)	S3 (-) to S2 (+)	Exit (-)	Newly approved (+)	December 31, 2023
Stage 1	75,622,390	5,557,015	(22,613,826)	283,009	(13,727)	296,736	-	-			(17,319,945)	21,442,107	62,970,750
Stage 2	277,481	-	(1,808)	(242,006)	12,688	(254,694)			-	-	(681)	5,085	38,071
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Partial repayments				(41,003)	1,039	(42,042)	-	-	-	-			
Total	**75,899,871**	**5,557,015**	**(22,615,634)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(17,320,626)**	**21,447,192**	**63,008,821**

	Changes within the Stage				Transfers among Stages including Repayments								
Stage	January 1, 2022	Increases (+)	Decreases (-)	Total transfers and repayments	S1 (-) to S2 (+)	S2 (-) to S1 (+)	S1 (-) to S3 (+)	S3 (-) to S1 (+)	S2 (-) to S3 (+)	S3 (-) to S2 (+)	Exit (-)	Newly approved (+)	December 31, 2022
Stage 1	42,216,853	391,997	(40,069,923)	(282,572)	(295,665)	13,093	-	-			(216,138)	73,582,173	75,622,390
Stage 2	36,528	-	(1,016)	238,403	250,896	(12,493)			-	-	(912)	4,478	277,481
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Partial repayments				44,169	44,769	(600)	-	-	-	-			
Total	**42,253,381**	**391,997**	**(40,070,939)**	-	-	-	**-**	**-**	**-**	**-**	**(217,050)**	**73,586,651**	**75,899,871**

All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Movements of the Gross Carrying Values of Assets per Class of Assets and per Impairment Stage (Continued)

(v) Loans and receivables due from customers

		Changes within the Stage			Transfers among Stages including Repayments								
Stage	**January 1, 2023**	**Increases (+)**	**Decreases (-)**	**Total transfers and repayments**	**S1 (-) to S2 (+)**	**S2 (-) to S1 (+)**	**S1 (-) to S3 (+)**	**S3 (-) to S1 (+)**	**S2 (-) to S3 (+)**	**S3 (-) to S2 (+)**	**Exit (-)**	**Newly approved (+)**	**December 31, 2023**
Stage 1	223,844,649	6,084,994	(28,757,893)	(22,178,975)	(33,387,009)	12,335,432	(1,170,019)	42,621			(38,441,346)	106,474,403	247,025,832
Stage 2	106,359,367	1,114,433	(12,494,032)	3,320,148	24,633,103	(16,450,832)			(5,252,461)	390,338	(25,055,920)	23,873,342	97,117,338
Stage 3	12,787,854	55,977	(3,559,730)	4,491,133			962,134	(51,896)	4,154,596	(573,701)	(1,550,821)	1,548,933	13,773,346
Partial repayments				14,367,694	8,753,906	4,115,400	207,885	9,275	1,097,865	183,363			
Total	**342,991,870**	**7,255,404**	**(44,811,655)**		**-**	**-**	**-**	**-**	**-**	**-**	**(65,048,087)**	**131,896,678**	**357,916,516**

		Changes within the Stage			Transfers among Stages including Repayments								
Stage	**January 1, 2022**	**Increases (+)**	**Decreases (-)**	**Total transfers and repayments**	**S1 (-) to S2 (+)**	**S2 (-) to S1 (+)**	**S1 (-) to S3 (+)**	**S3 (-) to S1 (+)**	**S2 (-) to S3 (+)**	**S3 (-) to S2 (+)**	**Exit (-)**	**Newly approved (+)**	**December 31, 2022**
Stage 1	264,785,153	4,445,015	(29,982,176)	(55,912,410)	(64,221,400)	9,834,936	(1,558,786)	32,840	-	-	(49,921,088)	90,430,155	223,844,649
Stage 2	56,328,415	149,149	(8,629,882)	33,671,641	48,055,174	(12,004,684)	-	-	(2,484,345)	105,496	(11,637,463)	36,477,507	106,359,367
Stage 3	13,937,931	30,843	(2,936,732)	2,764,729	-	-	1,129,920	(39,630)	1,801,490	(127,051)	(1,831,967)	823,050	12,787,854
Partial repayments				19,476,040	16,166,226	2,169,748	428,866	6,790	682,855	21,555			
Total	**335,051,499**	**4,625,007**	**(41,548,790)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(63,390,518)**	**127,730,712**	**342,991,870**

(vi) Other assets

		Changes within the Stage			Transfers among Stages including Repayments								
Stage	**January 1, 2023**	**Increases (+)**	**Decreases (-)**	**Total transfers and repayments**	**S1 (-) to S2 (+)**	**S2 (-) to S1 (+)**	**S1 (-) to S3 (+)**	**S3 (-) to S1 (+)**	**S2 (-) to S3 (+)**	**S3 (-) to S2 (+)**	**Exit (-)**	**Newly approved (+)**	**December 31, 2023**
Stage 1	1,949,592	38,543	(89,238)	(78,380)	(78,454)	75	(1)	-			(12,343)	5,746	1,813,920
Stage 2	36,356	3,319	(2,091)	70,071	71,816	(69)			(1,911)	235	(23,237)	21,442	105,860
Stage 3	74,805	15,898	(6,616)	4,571			8	-	5,164	(601)	(41,540)	31,324	78,442
Partial repayments				3,738	6,638	(6)	(7)	-	(3,253)	366			
Total	**2,060,753**	**57,760**	**(97,945)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(77,120)**	**58,512**	**1,998,222**

		Changes within the Stage			Transfers among Stages including Repayments								
Stage	**January 1, 2022**	**Increases (+)**	**Decreases (-)**	**Total transfers and repayments**	**S1 (-) to S2 (+)**	**S2 (-) to S1 (+)**	**S1 (-) to S3 (+)**	**S3 (-) to S1 (+)**	**S2 (-) to S3 (+)**	**S3 (-) to S2 (+)**	**Exit (-)**	**Newly approved (+)**	**December 31, 2022**
Stage 1	1,281,791	622,082	(4,671)	67,487	(2,430)	70,063	(146)	-			(27,049)	9,952	1,949,592
Stage 2	158,020	3,550	(1,941)	(124,941)	2,516	(122,787)			(4,996)	326	(17,901)	19,569	36,356
Stage 3	67,958	14,891	(5,393)	8,225			301	-	8,674	(750)	(47,584)	36,708	74,805
Partial repayments				49,229	(86)	52,724	(155)	-	(3,678)	424			
Total	**1,507,769**	**640,523**	**(12,005)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(92,534)**	**66,229**	**2,060,753**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023
All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Movements of the Impairment Allowance of Assets per Class of Assets and per Impairment Stage

(i) Cash and balances held with the central bank

		Changes within the Stage			Transfers among Stages								
Stage	January 1, 2023	Increases (+)	Decreases (-)	Total transfers	S1 (-) to S2 (+)	S2 (-) to S1 (+)	S1 (-) to S3 (+)	S3 (-) to S1 (+)	S2 (-) to S3 (+)	S3 (-) to S2 (+)	Exit (-)	Newly approved (+)	December 31, 2023
Stage 1	3	5	-	-	-	-	-	-			-	-	8
Stage 2	-	-	-	-	-	-			-	-	-	-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**3**	**5**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8**

		Changes within the Stage			Transfers among Stages								
Stage	January 1, 2022	Increases (+)	Decreases (-)	Total transfers	S1 (-) to S2 (+)	S2 (-) to S1 (+)	S1 (-) to S3 (+)	S3 (-) to S1 (+)	S2 (-) to S3 (+)	S3 (-) to S2 (+)	Exit (-)	Newly approved (+)	December 31, 2022
Stage 1	2	1	-	-	-	-	-	-			-	-	3
Stage 2	-	-	-	-	-	-			-	-	-	-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**2**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3**

(ii) Pledged financial assets

		Changes within the Stage			Transfers among Stages								
Stage	January 1, 2023	Increases (+)	Decreases (-)	Total transfers	S1 (-) to S2 (+)	S2 (-) to S1 (+)	S1 (-) to S3 (+)	S3 (-) to S1 (+)	S2 (-) to S3 (+)	S3 (-) to S2 (+)	Exit (-)	Newly approved (+)	December 31, 2023
Stage 1	4,690	-	-	-	-	-	-	-			(4,690)	-	-
Stage 2	-	-	-	-	-	-			-	-	-	-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**4,690**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(4,690)**	**-**	**-**

		Changes within the Stage			Transfers among Stages								
Stage	January 1, 2022	Increases (+)	Decreases (-)	Total transfers	S1 (-) to S2 (+)	S2 (-) to S1 (+)	S1 (-) to S3 (+)	S3 (-) to S1 (+)	S2 (-) to S3 (+)	S3 (-) to S2 (+)	Exit (-)	Newly approved (+)	December 31, 2022
Stage 1	-	4,690	-	-	-	-	-	-			-	-	4,690
Stage 2	-	-	-	-	-	-			-	-	-	-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**.**	**4,690**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,690**

All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Movements of the Impairment Allowance of Assets per Class of Assets and per Impairment Stage (Continued)

(iii) Securities at amortized cost (AC) and at fair value though other comprehensive income (FVtOCI)

		Changes within the Stage			Transfers among Stages								
Stage	**January 1, 2023**	**Increases (+)**	**Decreases (-)**	**Total transfers**	**S1 (-) to S2 (+)**	**S2 (-) to S1 (+)**	**S1 (-) to S3 (+)**	**S3 (-) to S1 (+)**	**S2 (-) to S3 (+)**	**S3 (-) to S2 (+)**	**Exit (-)**	**Newly approved (+)**	**December 31, 2023**
Stage 1	67,707	205,844	(51)	-	-	-	-	-			(2,313)	-	271,187
Stage 2	-	-	-	-	-	-			-	-	-	-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**67,707**	**205,844**	**(51)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2,313)**	**-**	**271,187**

		Changes within the Stage			Transfers among Stages								
Stage	**January 1, 2022**	**Increases (+)**	**Decreases (-)**	**Total transfers**	**S1 (-) to S2 (+)**	**S2 (-) to S1 (+)**	**S1 (-) to S3 (+)**	**S3 (-) to S1 (+)**	**S2 (-) to S3 (+)**	**S3 (-) to S2 (+)**	**Exit (-)**	**Newly approved (+)**	**December 31, 2022**
Stage 1	79,515	5,680	(21,854)	-	-	-	-	-			(5)	4,371	67,707
Stage 2	-	-	-	-	-	-			-	-	-	-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**79,515**	**5,680**	**(21,854)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(5)**	**4,371**	**67,707**

(iv) Loans and receivables due from banks and other financial institutions

		Changes within the Stage			Transfers among Stages								
Stage	**January 1, 2023**	**Increases (+)**	**Decreases (-)**	**Total transfers**	**S1 (-) to S2 (+)**	**S2 (-) to S1 (+)**	**S1 (-) to S3 (+)**	**S3 (-) to S1 (+)**	**S2 (-) to S3 (+)**	**S3 (-) to S2 (+)**	**Exit (-)**	**Newly approved (+)**	**December 31, 2023**
Stage 1	4,976	1,461	(3,329)	1,129	(3)	1,132	-	-			(1,578)	595	3,254
Stage 2	351	-	(17)	(1,129)	3	(1,132)			-	-	(5)	194	(606)
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total transfers				-	-	-	-	-	-	-			-
Change*	905			(1,123)	(1)	(1,122)	-	-	-	-			(218)
Total	**6,232**	**1,461**	**(3,346)**	**(1,123)**	**(1)**	**(1,122)**	**-**	**-**	**-**	**-**	**(1,583)**	**789**	**2,430**

		Changes within the Stage			Transfers among Stages								
Stage	**January 1, 2022**	**Increases (+)**	**Decreases (-)**	**Total transfers**	**S1 (-) to S2 (+)**	**S2 (-) to S1 (+)**	**S1 (-) to S3 (+)**	**S3 (-) to S1 (+)**	**S2 (-) to S3 (+)**	**S3 (-) to S2 (+)**	**Exit (-)**	**Newly approved (+)**	**December 31, 2022**
Stage 1	3,661	175	(2,595)	112	(19)	131	-	-			(507)	4,130	4,976
Stage 2	463	-	-	(112)	19	(131)			-	-	(82)	82	351
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total transfers				-	-	-	-	-	-	-			-
Change*				905	1,035	(130)	-	-	-	-			905
Total	**4,124**	**175**	**(2,595)**	**905**	**1,035**	**(130)**	**-**	**-**	**-**	**-**	**(589)**	**4,212**	**6,232**

All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

(b) *Credit Risk (Continued)*

Movements of the Impairment Allowance of Assets per Class of Assets and per Impairment Stage (Continued)

(v) *Loans and receivables due from customers*

		Changes within the Stage			Transfers among Stages								
Stage	January 1, 2023	Increases (+)	Decreases (-)	Total transfers	S1 (-) to S2 (+)	S2 (-) to S1 (+)	S1 (-) to S3 (+)	S3 (-) to S1 (+)	S2 (-) to S3 (+)	S3 (-) to S2 (+)	Exit (-)	Newly approved (+)	December 31, 2023
Stage 1	2,571,387	172,987	(724,525)	219,341	(325,942)	558,658	(46,008)	32,633	-	-	(432,623)	907,788	2,714,355
Stage 2	2,641,485	381,535	(935,469)	(475,283)	325,942	(558,658)	-	-	(416,621)	174,054	(602,086)	847,808	1,857,990
Stage 3	7,160,562	510,747	(2,773,651)	255,942	-	-	46,008	(32,633)	416,621	(174,054)	(1,103,680)	1,152,944	5,202,864
Total transfers		-	-	-	-	-	-	-	-	-	-	-	-
Change*	1,774,722	-	-	1,896,878	521,192	(470,874)	440,656	(31,594)	1,595,175	(157,677)	-	-	3,671,600
Total	**14,148,156**	**1,065,269**	**(4,433,645)**	**1,896,878**	**521,192**	**(470,874)**	**440,656**	**(31,594)**	**1,595,175**	**(157,677)**	**(2,138,389)**	**2,908,540**	**13,446,809**

		Changes within the Stage			Transfers among Stages								
Stage	January 1, 2022	Increases (+)	Decreases (-)	Total transfers	S1 (-) to S2 (+)	S2 (-) to S1 (+)	S1 (-) to S3 (+)	S3 (-) to S1 (+)	S2 (-) to S3 (+)	S3 (-) to S2 (+)	Exit (-)	Newly approved (+)	December 31, 2022
Stage 1	1,883,111	377,244	(422,621)	88,600	(443,385)	583,580	(79,173)	27,578			(325,112)	970,165	2,571,387
Stage 2	2,487,511	246,775	(427,409)	(511,944)	443,385	(583,580)			(442,721)	70,972	(358,952)	1,205,504	2,641,485
Stage 3	8,086,036	491,758	(1,687,339)	423,344			79,173	(27,578)	442,721	(70,972)	(549,116)	395,879	7,160,562
Total transfers				-	-	-	-	-	-	-			
Change*				1,774,722	1,215,415	(482,656)	450,989	(25,765)	671,468	(54,729)			1,774,722
Total	**12,456,658**	**1,115,777**	**(2,537,369)**	**1,774,722**	**1,215,415**	**(482,656)**	**450,989**	**(25,765)**	**671,468**	**(54,729)**	**(1,233,180)**	**2,571,548**	**14,148,156**

(vi) *Other assets*

		Changes within the Stage			Transfers among Stages								
Stage	January 1, 2023	Increases (+)	Decreases (-)	Total transfers	S1 (-) to S2 (+)	S2 (-) to S1 (+)	S1 (-) to S3 (+)	S3 (-) to S1 (+)	S2 (-) to S3 (+)	S3 (-) to S2 (+)	Exit (-)	Newly approved (+)	December 31, 2023
Stage 1	365	6,072	(4)	(20)	(16)	-	(4)	-			(18)	1	6,396
Stage 2	1,032	43	(48)	526	16	-			(39)	549	(212)	146	1,487
Stage 3	56,622	16,597	(2,642)	(506)			4	-	39	(549)	(36,614)	28,370	61,827
Total transfers				-	-	-	-	-	-	-			-
Change*	6,161			3,850	-	-	4	-	4,394	(548)			10,011
Total	**64,180**	**22,712**	**(2,694)**	**3,850**	**-**	**-**	**4**	**-**	**4,394**	**(548)**	**(36,844)**	**28,517**	**79,721**

		Changes within the Stage			Transfers among Stages								
Stage	January 1, 2022	Increases (+)	Decreases (-)	Total transfers	S1 (-) to S2 (+)	S2 (-) to S1 (+)	S1 (-) to S3 (+)	S3 (-) to S1 (+)	S2 (-) to S3 (+)	S3 (-) to S2 (+)	Exit (-)	Newly approved (+)	December 31, 2022
Stage 1	36	39	(4)	295	(8)	305	(2)	-			(14)	13	365
Stage 2	580	67	(41)	345	8	(305)			(76)	718	(131)	212	1,032
Stage 3	61,877	15,866	(5,089)	(640)			2	-	76	(718)	(44,269)	28,877	56,622
Total transfers				-	-	-	-	-	-	-			-
Change*				6,161	14	(294)	179		6,978	(716)			6,161
Total	**62,493**	**15,972**	**(5,134)**	**6,161**	**14**	**(294)**	**179**	**-**	**6,978**	**(716)**	**(44,414)**	**29,102**	**64,180**

All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

(b) *Credit Risk (Continued)*

Movements of off-balance sheet exposures

		Changes within the Stage		Transfers among Stages									
Stage	**January 1, 2023**	**Increases (+)**	**Decreases (-)**	**Total transfers**	**S1 (-) to S2 (+)**	**S2 (-) to S1 (+)**	**S1 (-) to S3 (+)**	**S3 (-) to S1 (+)**	**S2 (-) to S3 (+)**	**S3 (-) to S2 (+)**	**Exit (-)**	**Newly approved (+)**	**December 31, 2023**
Stage 1	181,287,432	10,420,760	(11,767,741)	(17,492,793)	(29,244,813)	11,984,285	(232,339)	74			(65,251,519)	117,344,369	214,540,508
Stage 2	43,276,780	2,426,331	(1,429,042)	21,410,554	29,593,675	(8,194,032)			(1,388)	12,299	(23,406,537)	26,551,680	68,829,766
Stage 3	587,134	1,002	(57,979)	73,692			86,061	(55)	1,366	(13,680)	(338,548)	199,913	465,214
Partial repayments				(3,991,453)	(348,862)	(3,790,253)	146,278	(19)	22	1,381			
Total	**225,151,346**	**12,848,093**	**(13,254,762)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(88,996,604)**	**144,095,962**	**283,835,488**

		Changes within the Stage		Transfers among Stages									
Stage	**January 1, 2022**	**Increases (+)**	**Decreases (-)**	**Total transfers**	**S1 (-) to S2 (+)**	**S2 (-) to S1 (+)**	**S1 (-) to S3 (+)**	**S3 (-) to S1 (+)**	**S2 (-) to S3 (+)**	**S3 (-) to S2 (+)**	**Exit (-)**	**Newly approved (+)**	**December 31, 2022**
Stage 1	190,361,996	10,990,178	(11,618,256)	(9,693,246)	(16,813,878)	7,461,582	(340,950)	-			(73,859,881)	75,106,641	181,287,432
Stage 2	24,708,004	245,123	(403,346)	11,395,335	18,677,631	(7,285,199)			(1,249)	4,152	(11,993,303)	19,324,967	43,276,780
Stage 3	145,269	321	(2,711)	186,685			189,119	-	1,331	(3,765)	(92,226)	349,796	587,134
Partial repayments				(1,888,774)	(1,863,753)	(176,383)	151,831	-	(82)	(387)			-
Total	**215,215,269**	**11,235,622**	**(12,024,313)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(85,945,410)**	**94,781,404**	**225,151,346**

Movements of provision for off-balance sheet exposures

		Changes within the Stage		Transfers among Stages									
Stage	**January 1, 2023**	**Increases (+)**	**Decreases (-)**	**Total transfers**	**S1 (-) to S2 (+)**	**S2 (-) to S1 (+)**	**S1 (-) to S3 (+)**	**S3 (-) to S1 (+)**	**S2 (-) to S3 (+)**	**S3 (-) to S2 (+)**	**Exit (-)**	**Newly approved (+)**	**December 31, 2023**
Stage 1	406,425	16,627	(107,100)	(26,448)	(70,300)	44,741	(918)	29			(147,552)	199,339	341,291
Stage 2	156,583	120,223	(24,425)	33,183	70,300	(44,741)			(117)	7,741	(218,549)	267,467	334,482
Stage 3	265,578	24,393	(32,716)	(6,969)			918	(29)	(117)	(7,741)	(203,950)	128,466	174,802
Partial repayments													-
Change*	314,231			373,118	380,639	(32,889)	32,180	(29)	621	(7,404)			687,349
Total	**1,142,817**	**161,243**	**(164,241)**	**372,884**	**380,639**	**(32,889)**	**32,180**	**(29)**	**387**	**(7,404)**	**(570,051)**	**595,272**	**1,537,924**

All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Movements of provision for off-balance sheet exposures (Continued)

		Changes within the Stage					Transfers among Stages						
Stage	January 1, 2022	Increases (+)	Decreases (-)	Total transfers	S1 (-) to S2 (+)	S2 (-) to S1 (+)	S1 (-) to S3 (+)	S3 (-) to S1 (+)	S2 (-) to S3 (+)	S3 (-) to S2 (+)	Exit (-)	Newly approved (+)	December 31, 2022
Stage 1	119,431	186,542	(7,559)	3,740	(8,115)	12,138	(283)	-			(46,787)	151,058	406,425
Stage 2	56,874	20,765	(13,410)	(857)	8,115	(12,138)			(35)	3,201	(23,447)	116,658	156,583
Stage 3	82,855	327	(1,127)	(2,883)			283	-	35	(3,201)	(53,426)	239,832	265,578
Total transfers				-	-	-	-	-	-	-			-
Change*				314,231	218,098	(6,498)	104,712	-	733	(2,814)			314,231
Total	**259,160**	**207,634**	**(22,096)**	**314,231**	**218,098**	**(6,498)**	**104,712**	**-**	**733**	**(2,814)**	**(123,660)**	**507,548**	**1,142,817**

In the migration overviews above, by position, the following are shown:

- "Changes within the Stage" represent increases and decreases exposures for receivables that exist at the beginning and end of the period;
- The part of the table "Transfers among Stages" shows the exposures with changed Stage at the end of the period compared to the beginning of the period;
- In the "Exit" part of the table, fully repaid exposures are shown, i.e exposures that exist at the beginning of the period but do not exist at the end of the period;
- The "Newly approved" category shows the exposures created during the period;
- Change* means net re-measurement of loss allowances

4. RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Security Instruments - Collaterals

Credit risk is mitigated through adequate collateral management process. The purpose of acquiring all available collaterals, proper booking, assessment and monitoring is to minimize the risk as much as possible. Therefore, the Group is especially dedicated to the management of collaterals in order to maintain the acceptable relationship between the undertaken risk and the realistic rate of the collateral recovery, control and mitigation of risks related to quality, concentration, or securitization of the receivables, maturity, currency, etc. Aiming at further enhancement of processes and systems with regards to credit risk mitigation, the Group set up a special organizational unit, whose activities include collateral appraisal, process of collateral monitoring, accurate reporting, management of the relationships with external associates (licensed certified valuers and appraisers, insurance companies and supervisors), preparations of expert opinions, internal appraisal reports and the overall legal and economic collateral assessment, improvement of data quality and statistical monitoring of collaterals.

The Group uses relevant policies and procedures for collateral management. The most significant collaterals accepted and used by the Group for minimizing credit risk comprise:

- financial collaterals (cash deposits), allowed to be recognized in full amounts;
- payment guarantees issued by first-class banks and governments, allowed to be recognized at full amounts;
- mortgages on residential or commercial property, recognized up to 70% and 60%, respectively, of the appraised value of the property; and
- securities issued by governments, central banks or institutions with adequate credit rating.

In the event that the currency of a security instrument differs from the currency of the loan for which it provides security, the value of the security instrument must be further reduced using a factor defined for every currency combination, as prescribed by the Group's internal bylaws governing the process of credit risk mitigation.

All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Security Instruments – Collaterals (Continued)

Appraised fair values of collaterals securitizing the Group's loans up to the credit risk exposure level as of December 31, are presented in the table below:

	Loans and receivables due from banks and other financial institutions		Loans and receivables due from customers		Off-balance sheet assets	
	2023	2022	2023	2022	2023	2022
Corporate clients, rating 10	-	-	**29,830**	**4,465**	**-**	**137**
Real estate	-	-	28,227	-	-	-
Cash deposit	-	-	-	-	-	137
Guarantee	-	-	1,603	4,465	-	-
Pledge	-	-	-	-	-	-
Other	-	-	-	-	-	-
Corporate clients, rating 9	-	-	**-**	**-**	**-**	**-**
Real estate	-	-	-	-	-	-
Cash deposit	-	-	-	-	-	-
Guarantee	-	-	-	-	-	-
Pledge	-	-	-	-	-	-
Other	-	-	-	-	-	-
Corporate clients, restructured loans	-	-	**6,063,521**	**5,675,278**	**79,253**	**27,758**
Real estate	-	-	5,108,591	5,290,116	31,497	18,991
Cash deposit	-	-	72,803	179,705	47,756	8,767
Guarantee	-	-	229,296	149,304	-	-
Pledge	-	-	652,831	56,153	-	-
Other	-	-	-	-	-	-
Retail clients, > 90 days past due	-	-	**478,558**	**429,666**	**-**	**-**
Real estate	-	-	446,256	392,721	-	-
Cash deposit	-	-	630	5,281	-	-
Guarantee	-	-	31,672	31,664	-	-
Pledge	-	-	-	-	-	-
Other	-	-	-	-	-	-
Group-level impairment allowance based on collateral appraisal	**294,589**	**1,266**	**120,178,361**	**115,362,621**	**21,294,837**	**17,761,035**
Real estate	-	-	99,930,722	96,692,170	10,833,957	6,124,208
Cash deposit	293,989	-	2,830,307	2,741,287	5,581,018	5,245,716
Guarantee	600	1,266	14,980,087	12,957,068	4,810,639	6,358,446
Pledge	-	-	1,937,605	2,708,734	36,696	32,665
Other	-	-	499,640	263,362	32,527	-
Total	**294,589**	**1,266**	**126,750,270**	**121,472,030**	**21,374,090**	**17,788,930**

All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

(c) Market Risks

Market risks represent the possibility of adverse effects on the financial performance and the Group's capital due to changes in the value of on-balance sheet and off-balance sheet items that arise from the fluctuations of market prices. The market risks include foreign exchange risk and price risks in respect of debt and equity securities.

The set-up system of limits for the Group's exposure to the market risks establishes threshold for the total absorption of economic capital as well as the acceptable level of economic loss both for the activities carried out through the trading book and for the overall business activity of the Group in accordance with its risk-taking capacities.

One of the basic indicators for monitoring of the Group's exposure to the market risks during 2023 is:

- VaR (Value at Risk) – a potential loss of portfolio value in one day with 99% confidence interval; VaR is calculated based on the historical simulation approach and is monitored daily. The main risk factors that are covered by this calculation are: interest rate risk, credit spread risk, foreign exchange risk, volatility and inflation,

In addition to these basic indicators, when monitoring and managing exposure to market risks, the Group also uses some additional granular limits - aimed at preventing increased exposure within individual risk factors, as well as in risk factors that are not sufficiently taken considered in VaR analyses. The most important of these indicators are sensitivity analyses – BPV (Basis Point Value Sensitivity) and CPV (Credit Point Value Sensitivity).

During 2023, the Group's exposure to market risks was within defined limits and in accordance with its risk-taking capacities.

Breakdown of VaR position of the trading portfolio:

	At December 31	Average	Maximum	Minimum
2023				
Foreign exchange risk	1,014	1,949	7,229	138
Interest rate risk	29,310	23,479	41,427	3,237
Credit spread risk	29,907	24,982	37,299	5,801
Covariance	(26,465)	-	-	-
Total	33,766	32,238	53,916	5,954
2022				
Foreign exchange risk	3,581	2,006	7,460	247
Interest rate risk	7,750	6,077	15,296	598
Credit spread risk	7,462	2,508	8,800	518
Covariance	(4,874)	-	-	-
Total	13,919	7,402	18,902	2,425

Retroactive testing (back-testing) of the VaR model is monitored on a monthly basis and reported to the ALCO. If the realized loss is higher than the loss shown by the VaR model, it is considered as overdraft. Retroactive testing refers to the period of last 250 working days in relation to the date of observation.

Climate risk exposure is gradually introduced in Market risk monitoring, currently only for information purposes. The effect on which climate-related risks potentially affect Group market risk is reflected in the change in fair value of the Group's positions due to volatility in market factors (interest rates, exchange rates) caused by: transition risk (due to more restrictive regulatory requirements to control the economy leading to global warming) and physical risk (due to the economic impact of increased emissions).

All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

(c) Market Risks (Continued)

There were no strategic changes relating to liquidity and market risk management compared to 2022. Basic updates in internal policies relate to the revision of existing process roles and activities, updating of appropriate limits for indicators and implementation of deposit modeling without agreed maturity (from the point of view of liquidity and interest rate risk).

Foreign Exchange (Currency) Risk

Foreign exchange (currency) risk is the risk of potential negative effects on the Group's performance and capital due to fluctuations in the foreign currency exchange rates.

The foreign currency risk ratio is the total open foreign currency position relative to the Group's capital, calculated in accordance with the relevant regulator's decision on the capital adequacy of banks. The Group is under obligation to maintain the ratio between assets and liabilities in such a way that its total open foreign currency position at the end of a working day must not exceed 20% of its capital. The Financial Risk prepares a report on the Group's foreign exchange risk position for the purposes of NBS on an intraday basis (the report is sent at noon and at 2 p.m.), as well as on daily and monthly bases.

The Group is exposed to the effects of exchange rate fluctuations for major foreign currencies on its financial position and cash flows. The Group's management sets limits for the risk exposure per foreign currencies and constantly monitors whether balances (positions) in various foreign currencies are within the prescribed limits. Limits apply to all the relevant foreign currency products within the Trading. They cover trading items as well as selected strategic foreign currency of ALM & Funding. All sensitivities that result from foreign currency balances are limited by the general VaR limit set level, both at the Group aggregate level and for the Trading and ALM & Funding.

In order to protect itself against the risk of fluctuations in the foreign currency exchange rates, the Group executes derivative contracts and loan contracts with a foreign currency index clause.

The Group's foreign currency risk management at the operating level is the responsibility of the Trading organizational structure within Client Risk Management & Treasury.

Foreign exchange risk ratio is calculated as ratio between the total Net open FX position and the Bank's capital.

	2023	2022
Foreign exchange risk ratio:		
- as at December 31	3.78	2.07
- maximum for the period – December*	4.38	5.12
- minimum for the period – December*	0.12	0.33

*The max and min ratios are provided for the Bank only.

All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

(c) Market Risks (Continued)

Foreign Exchange (Currency) Risk (Continued)

The Group's net currency position as at December 31, 2023:

	USD	EUR	CHF	Other currencies	RSD	Total
Cash and balances held with the central bank	203,066	37,916,047	288,177	102,701	92,001,725	130,511,716
Receivables under derivative financial instruments	-	2,049,563	-	-	6,094	2,055,657
Securities	-	18,750,155	-	-	85,695,631	104,445,786
Loans and receivables due from banks and other financial institutions	20,800,185	13,578,484	49,580	372,249	28,205,893	63,006,391
Loans and receivables due from customers	-	242,141,830	102,530	-	102,225,347	344,469,707
Receivables under derivatives designated as risk hedging instruments	-	636,909	-	-	-	636,909
Other assets	9,267	533,736	-	1	1,375,497	1,918,501
Total assets	**21,012,518**	**315,606,724**	**440,287**	**474,951**	**309,510,187**	**647,044,667**
Liabilities under derivative financial instruments	-	2,098,367	-	-	20,775	2,119,142
Deposits and other liabilities due to banks, other financial institutions and the central bank	416,148	124,936,758	280	4,819	20,808,772	146,166,777
Deposits and other liabilities due to customers	15,574,859	175,289,217	4,555,947	1,120,358	193,195,023	389,735,404
Liabilities under derivatives designated as risk hedging instruments	-	734,550	-	-	-	734,550
Other liabilities	445,701	6,506,670	18,157	136,104	3,208,905	10,315,537
Total liabilities	**16,436,708**	**309,565,562**	**4,574,384**	**1,261,281**	**217,233,475**	**549,071,410**
Off-balance sheet financial instruments (FX swap, forward and spot)	(4,613,291)	(8,065,070)	4,119,213	831,675	7,698,114	(29,359)
Net currency position as of December 31, 2023	**(37,481)**	**(2,023,908)**	**(14,884)**	**45,345**	**99,974,826**	**97,943,898**

**Note: Assets and liabilities with a currency clause index are stated within currency to which they are indexed*

All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

(c) Market Risks (Continued)

Foreign Exchange (Currency) Risk (Continued)

The Group's net currency position as at December 31, 2022:

	USD	EUR	CHF	Other currencies	RSD	Total
Cash and balances held with the central bank	288,224	35,032,983	218,665	154,942	34,064,017	69,758,831
Pledged financial assets	-	-	-	-	7,220,590	7,220,590
Receivables under derivative financial instruments	-	2,784,580	-	-	24,169	2,808,749
Securities	-	14,774,282	-	-	88,997,599	103,771,881
Loans and receivables due from banks and other financial institutions	15,705,894	24,673,820	48,612	374,452	35,090,861	75,893,639
Loans and receivables due from customers	-	220,572,904	110,680	-	108,160,130	328,843,714
Receivables under derivatives designated as risk hedging instruments	-	1,083,998	-	-	-	1,083,998
Other assets	20,238	155,399	-	4	1,820,932	1,996,573
Total assets	**16,014,356**	**299,077,966**	**377,957**	**529,398**	**275,378,298**	**591,377,975**
Liabilities under derivative financial instruments	-	2,805,207	-	-	14,189	2,819,396
Deposits and other liabilities due to banks, other financial institutions and the central bank	139,217	106,181,017	1,191	1,503	32,872,727	139,195,655
Deposits and other liabilities due to customers	13,025,879	176,704,806	4,382,291	1,192,366	162,835,239	358,140,581
Liabilities under derivatives designated as risk hedging instruments	-	924,644	-	-	-	924,644
Other liabilities	411,882	3,911,385	17,703	68,247	2,740,318	7,149,535
Total liabilities	**13,576,978**	**290,527,059**	**4,401,185**	**1,262,116**	**198,462,473**	**508,229,811**
Off-balance sheet financial instruments (FX swap, forward and spot)	(2,201,018)	(10,584,789)	4,018,870	751,008	8,028,381	12,452
Net currency position as of December 31, 2022	**236,360**	**(2,033,882)**	**(4,358)**	**18,290**	**84,944,206**	**83,160,616**

**Note: Assets and liabilities with a currency clause index are stated within currency to which they are indexed*

4. RISK MANAGEMENT (Continued)

Non-Financial Risks Strategy (Operational and Reputational risk) is stirring instrument for UniCredit Bank Serbia that represent the comprehensive structured approach for risk reduction and minimization, prepared annually, with a set of actions defined, in order to prevent/mitigate the identified risks.

Non-Financial Risks Strategy is based on analysis done by Non-financial Risks function in cooperation with relevant process owners (RCSA, Preliminary analysis, Scenario analysis, recorded op risk losses etc) and on Group Non-Financial Risks Strategy (Operational and Reputational) through specific relevant actions and deadlines defined by the Group Non-Financial Risks function over the year.

The monitoring of implementation of identified Non-financial risks mitigation actions is done on a quarterly basesis on Non Financial Risk Committee- NFRC.

(d) Operational Risks

Operational risk is the risk of possible adverse effects on financial result and capital of the bank caused by omissions (unintentional and intentional) in employees' work, inadequate internal procedures and processes, inadequate management of information and other systems, as well as by unforeseeable external events. Operational risk includes legal risk and compliance risk while strategic risks, business risks and reputational risks are different from operational risk. Operational events are those resulting from inadequate or failed internal processes, personnel and systems or from systemic and other external events: internal or external fraud, employment practices and workplace safety, clients claims, products distribution, fines and penalties due to regulation breaches, damage to Company's physical assets, business disruption and system failures, process management.

(e) Liquidity Risk

Liquidity risk is a risk of adverse effects on the Group's financial performance and capital caused by the Group's inability to settle its matured liabilities due to drawdown of the existing sources of financing, i.e., the Group's inability to obtain new sources of financing or difficult conversion of assets into liquid funds because of market disruptions. The main objective of the overall liquidity management of the Group is to maintain adequate liquidity and financing position, which will enable the Group to fulfil its payment obligations not only in regular business, but in stressful circumstances as well.

The liquidity risk that the Group is faced with in everyday business may have different forms:

- Intraday liquidity risk – the liquidity risk during the day occurs when the Group is unable to meet its payment obligations in a timely manner, both under normal and stress conditions;
- Short-term liquidity risk refers to a risk of mismatch between the amounts and/or the maturities of cash inflows and outflows over a short period of time (up to one year);
- Market liquidity risk is a risk that the Group may face a significant loss of its liquid assets' value whenever it is necessary to liquidate them through sales or repo transactions;
- Structural liquidity risk is defined as the inability to obtain the necessary funds to maintain an adequate relationship between mid-term and long-term (over one year) assets and liabilities at reasonable price levels, in a stable and sustainable manner, without affecting the daily operations or the financial position of the Group;
- The risk of unforeseen or stressful circumstances relates to future and unexpected obligations that could require the Group to maintain higher liquidity than what is considered a sufficient amount for conducting regular business operations;
- Financing concentration risk occurs when the Group uses a limited number of sources of financing, so that they become such that a withdrawal of one or more of them could cause liquidity problems;
- Foreign currency liquidity risk (FX risk) arises from the current and projected liquidity mismatch between the cash inflows and outflows in foreign currencies, or a different allocation of assets and liabilities in foreign currencies within a time horizon.

4. RISK MANAGEMENT (Continued)

(e) Liquidity Risk (Continued)

Within the liquidity risk management, the Group addresses each of the above listed sources of liquidity risk through the appropriately set up system of limits.

The limit system used in daily liquidity risk management ensures that the Group maintains liquidity and financing position that is strong enough to bear the potential effects of unfavorable scenarios in which the above listed risks can be materialized. The limit system for the Group is defined in the Risk Appetite Framework (RAF) as well as other granular limits.

RAF defines the level of risk that the Group is willing to take in achieving its strategic goals and business plan, considering the interest of its shareholders, as well as capital and other regulatory and legal requirements. As such, RAF is approved by the Supervisory Board, while the granular limits (or other form of limitation) are derived from RAF: their approval and escalation process, however, includes other Group's committees or functions that are set at a lower hierarchy level in the Group's organization.

Some of the main liquidity indicators included in RAF for 2023 were:

- the Bank's liquidity ratio and narrow liquidity ratio,
- the liquidity coverage ratio (LCR) - consolidated, and
- the net stable funding ratio (NSFR).

During 2023, there was no breach of any of the defined limits.

The Group's liquidity ratio and narrow liquidity ratio

The liquidity ratio of the Group is the ratio of the sum of level 1 and level 2 liquid receivables of the Bank and the sum of liabilities payable on demand or with no agreed maturity and liabilities falling due within a month from the date of liquidity ratio calculation.

In the context of this report, based on Decision of NBS on Liquidity Risk Management by Banks, Level 1 liquid receivables are: cash and balances with Central Bank, balances on the accounts with banks that have been rated at least BBB in the Standard & Poor`s or Fitch-IBCA rating or at least Baa3 in the Moody`s rating and Securities portfolio. Level 2 are other receivables due within a month after the liquidity ratio was calculated.

The Group is obliged to maintain the level of liquidity so that:

- at least 1.0 – when calculated as an average of all working days in a month;
- not below 0.9 – for over three consecutive working days; and
- at least 0.8 – when calculated for one working day.

The narrow liquidity ratio is the ratio of level 1 liquid receivables of a Bank and the sum of liabilities payable on demand or with no agreed maturity and liabilities falling due within a month from the date of liquidity ratio calculation.

The Group is obliged to maintain the level of liquidity so that narrow liquidity ratio is:

- at least 0.7 – when calculated as an average of all working days in a month;
- not below 0.6 – for over three consecutive working days; and
- at least 0.5 – when calculated for one working day.

The Group is under obligation to report to the NBS if the liquidity ratios are non-compliant with the prescribed parameters for two consecutive working days and must do so on the next working day. If the Bank determines a critically low liquidity ratio, it must report this to the NBS at the latest by the next working day. Such a report should contain information on the amount of shortfall liquid assets, on the reasons for the lack of liquidity and on the activities planned for resolving the causes of illiquidity.

Financial Risk prepares a report on daily liquidity for the National Bank of Serbia daily.

All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

(e) Liquidity Risk (Continued)

Realized values of the liquidity and narrow liquidity ratios during 2022 and 2023:

	2023	2022
The Bank's liquidity ratio		
- as at 31 December	2.29	2.00
- average for the period – December	2.24	1.98
- maximum for the period – December	2.34	2.10
- minimum for the period – December	2.15	1.89

	2023	2022
The Bank's narrow liquidity ratio		
- as at 31 December	1.70	1.27
- average for the period – December	1.38	1.32
- maximum for the period – December	1.70	1.44
- minimum for the period – December	1.20	1.19

Liquidity Coverage Ratio (LCR)

This indicator represents the ratio of the Group's high quality liquid assets (liquidity buffer) to the net outflows of its liquid assets that would occur during the next 30 days from this indicator calculation date under the assumed stress conditions. This ratio is calculated monthly for the Group and twice annually for at the Group's consolidation level.

The Group is required to maintain the liquidity coverage ratio observing the total in all currencies at a level not lower than 100%.

The Group's realized LCR values indicate a high level of liquidity maintained during 2022 and 2023:

As at December 31	2023	2022
Liquidity buffer	185,698,171	145,269,360
Net outflows of liquid assets	112,732,451	91,449,099
LCR	165%	159%

Net Stable Funding Ratio (NSFR)

This ratio is calculated based on UniCredit Group's methodology, due to the fact that there was no regulatory requirements in Republic Serbia. In 2023, NBS has announced introduction of this report as of June 2024. During 2023, Group was in the targeted range which was defined in RAF process.

The liquidity risk management system also defines specific limits that ensure that the liquidity reserves are high enough to cover even the intense stress periods. The liquidity risk stress test is carried out on a monthly basis and is based on the scenario analyses. If necessary, frequency of stress testing can be increased to weekly basis. The objective of the scenario analysis is testing of the Group's ability to continue its business activities while facing a stressful event.

Three basic scenarios are analyzed:

- Market scenario (stressful circumstances caused by market events);
- The name crisis (stressful circumstances caused by unfavorable news in the media or events related to the Group); and
- Combined scenario (combination of the above two scenarios).

Given the banking turmoil and financial distress of Silicon Valley Bank (SVB) and First Republic Bank in US and of Credit Suisse in Europe, the Group has introduced a new ad hoc scenario in the liquidity stress test, called Extreme scenario, on top of our regular scenarios. Compared to the combined scenario, the main changes in the extreme scenario are in the positions of financial and interbank deposits, which have a full run-off profile. Extreme scenario is not applied on consolidated level, but only considering Bank positions.

4. RISK MANAGEMENT (Continued)

(e) Liquidity Risk (Continued)

To ensure timely and adequate actions in cases of increased liquidity risk, the Group has adopted the Business Continuity Plan, which is tested on an annual basis and which:

- Precisely defines procedures for early detection of the Group's liquidity problems, including a list of early warning indicators;
- Clearly defines activities, obligations and responsibilities in liquidity crisis management; and
- Precisely defines the manner of accessing available or potential sources of liquidity, as well as procedures for securing access to supplementary sources of financing, or sources that are not used in regular business.

The effect on which climate-related risks potentially affect Group liquidity risk. it can occur through transitional risk (increased liquidity needs in high-CARBON companies that have difficulty adapting to a carbon neutral economy) and physical risk (increased need for 'I' liquidity due to severe weather events).

Contingency liquidity or capital policy was not activated (nor was there a need for it). With a stable and adequate liquidity potential, the Group has not experienced an outflow of retail and corporate deposits, nor restrictions on the money market due to the reduction of limits by other financial institutions. Early warning indicators EWI indicators, both for the Group and the market, are set at an appropriate distance from the RAF or the level of regulatory limits, leaving time for the Group to respond in a timely manner during potential or actual crises.

All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

(e) Liquidity Risk (Continued)

The following table provides breakdown of relevant maturity groups of the Group's financial assets and liabilities as of December 31, 2023:

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and balances held with the central bank	130,511,716	-	-	-		130,511,716
Receivables under derivative financial instruments	-	-	2,055,657	-		2,055,657
Securities	2,767,554	-	71,367,819	1,370,346	28,940,067	104,445,786
Loans and receivables due from banks and other financial institutions	63,455,102	337,441	(620,425)	(174,190)	8,463	63,006,391
Loans and receivables due from customers	29,852,095	20,016,829	87,223,187	113,898,432	93,479,164	344,469,707
Receivables under derivatives designated as risk hedging instruments	-	-	636,909	-	-	636,909
Other assets	1,548,717	-	369,784	-	-	1,918,501
Total assets	**228,135,184**	**20,354,270**	**161,032,931**	**115,094,588**	**122,427,694**	**647,044,667**
Liabilities						
Liabilities under derivative financial instruments	-	-	2,119,142	-	-	2,119,142
Deposits and other liabilities due to banks, other financial institutions and the central bank	21,282,132	8,938,059	69,228,458	28,622,697	18,095,431	146,166,777
Deposits and other liabilities due to customers	306,648,764	4,779,323	50,740,688	21,449,322	6,117,307	389,735,404
Liabilities under derivatives designated as risk hedging instruments	-	-	734,550	-	-	734,550
Other liabilities	7,277,783	73,932	1,923,821	921,290	118,711	10,315,537
Total liabilities	**335,208,679**	**13,791,314**	**124,746,659**	**50,993,309**	**24,331,449**	**549,071,410**
Off-balance sheet items	5,972,394	2,070,959	5,194,941	-	-	13,238,294
Net liquidity gap as at December 31, 2023	**(113,045,889)**	**4,491,997**	**31,091,331**	**64,101,279**	**98,096,245**	**84,734,963**

In the analysis of liquidity risk, the Group also takes into account off-balance sheet positions. Using the historical analysis of the time series and the application of the VAR model with a 95% confidence interval, the percentages of potential outflows that can be expected up to 1 month, up to 3 months and up to 1 year cumulatively were calculated. The percentages calculated in this way are applied to the following off-balance sheet positions: revocable and irrevocable credit lines, guarantees and credit cards, and the calculated potential outflows are included in the liquidity risk analysis.

The structure of asset and liability maturities as at December 31, 2023 is indicative of maturity mismatch between the outstanding maturities of assets and those of liabilities in the time buckets, with marked negative mismatch in the buckets of up to a month. This mismatch is primarily due to maturity structure of deposits, i.e., a significant share of demand deposits in the total deposits. This negative gap decreased compared to December 31, 2022, bearing in mind that with the increase in interest rates, a certain amount of demand deposits was redirected to time deposits in accordance with the increase in interest rates. Based on historical data and experience, a significant portion of demand deposits may be considered a long-term source of financing given their stability, growth rate and withdrawal rate. At the same time, we underline that the Group is in possession of liquid instruments, i.e., securities and other liquidity reserves, that can be pledged with the National Bank of Serbia at any time, or sold on a secondary market, and has at its disposal funds from the parent bank (in line with funding plan) and international financial institutions in accordance with the adopted financing plan for the current year, all of which can be used to cover potential outflows of funds at any time, even in the stress scenarios. The stress scenario analyses are performed and analyzed by the relevant Group's units and teams on an ongoing basis.

All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

(e) Liquidity Risk (Continued)

The following table provides breakdown of relevant maturity groups of the Group's financial assets and liabilities as of December 31, 2022:

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and balances held with the central bank	69,758,831	-	-	-	-	69,758,831
Pledged financial assets	-	-	7,220,590	-	-	7,220,590
Receivables under derivative financial instruments	-	-	2,808,749	-	-	2,808,749
Securities	5,923,770		19,036,529	39,696,638	39,114,944	103,771,881
Loans and receivables due from banks and other financial institutions	75,138,031	158,608	390,225	198,461	8,314	75,893,639
Loans and receivables due from customers	22,084,394	27,002,273	80,145,135	100,781,492	98,830,420	328,843,714
Receivables under derivatives designated as risk hedging instruments	-	-	1,083,998	-	-	1,083,998
Other assets	1,727,638	-	268,935	-	-	1,996,573
Total assets	**174,632,664**	**27,160,881**	**110,954,161**	**140,676,591**	**137,953,678**	**591,377,975**
Liabilities						
Liabilities under derivative financial instruments	-	-	2,819,396	-	-	2,819,396
Deposits and other liabilities due to banks, other financial institutions and the central bank	15,512,981	19,295,159	59,852,094	27,567,594	16,967,827	139,195,655
Deposits and other liabilities due to customers	297,882,400	4,292,463	39,571,122	15,608,351	786,245	358,140,581
Liabilities under derivatives designated as risk hedging instruments	-	-	924,644	-	-	924,644
Other liabilities	4,452,477	68,348	1,381,425	1,075,917	171,368	7,149,535
Total liabilities	**317,847,858**	**23,655,970**	**104,548,681**	**44,251,862**	**17,925,440**	**508,229,811**
Off-balance sheet items	4,139,101	5,725,430	10,029,451	-	-	19,893,982
Net liquidity gap as at December 31, 2022	**(147,354,295)**	**(2,220,519)**	**(3,623,971)**	**96,424,729**	**120,028,238**	**63,254,182**

All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

(e) Liquidity Risk (Continued)

The following table provides breakdown of relevant maturity groups of the derivative financial instruments for liquidity risk monitoring purposes:

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
FX derivative financial instruments – receive side	24,855,011	-	1,274,008	-	-	26,129,019
FX derivative financial instruments – pay side	24,887,139	-	1,269,986	-	-	26,157,125
Net maturity gap as at December 31, 2023	**(32,128)**	**-**	**4,022**	**-**	**-**	**(28,106)**

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
FX derivative financial instruments – receive side	22,201,476	64,006	3,034,531	-	-	25,300,013
FX derivative financial instruments – pay side	22,191,689	63,321	3,034,572	-	-	25,289,582
Net maturity gap as at December 31, 2022	**9,787**	**685**	**(41)**	**-**	**-**	**10,431**

The maturity structure of FX derivative financial instruments which is relevant from the aspect of monitoring and managing liquidity risk does not indicate a significant existence of maturity mismatch of the remaining maturity period by time baskets. FX derivative financial instruments are included in all indicators used to monitor both short-term and structural liquidity, thus ensuring adequate management of potential liquidity risk that may arise from these positions.

All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

(e) Liquidity Risk (Continued)

Structural FX Gap

Structural FX Gap is calculated as the difference between the liabilities over 1 year in a specific foreign currency and the assets over 1 year on the same currency, mapped according to the criteria for calculation of the Structural Liquidity Gap. Behavioral models on non-maturing deposits were also considered which led to revision of trigger due to change of the maturity profile on liability side.

	2023	2022
EUR FX Gap >1Y		
Liabilities in time baskets >1Y	164,196,103	135,697,466
Receivables in time baskets >1Y	187,913,625	167,795,543
Trigger (max)	(49,915,996)	(76,259,560)
FX Gap	**(23,717,522)**	**(32,098,077)**

	2023	2022
Other FX Gap >1Y		
Liabilities in time baskets >1Y	-	-
Receivables in time baskets >1Y	96,946	103,837
Trigger (max)	(585,869)	(12,905,464)
FX Gap	**(96,946)**	**(103,837)**

The trigger on Structural FX Gap is intended to reduce the imbalance between the structural funding and assets over 1 year in a specific currency, and it is defined as maximum allowed negative difference.

(f) Compliance Risks

Compliance risk represents a possibility of adverse effects on the Group's financial performance and capital due to the failure of the Group to align its operations with the effective laws and regulations, professional standards, procedures for prevention of money laundering and terrorist financing and other procedures, best business practices, business ethics and the Group's internal bylaws and other enactments governing banking operations. It particularly relates to the risk of regulatory sanctions, the risk of financial losses and reputational risk. The Group has organized a special organizational unit whose competence covers compliance review.

The primary task of the Compliance is to identify and asses the Group's compliance risk and report thereon to the Management Board and Audit Committee and, as appropriate, the Supervisory Board and to propose plans on management of the main compliance risks. The Compliance assess risks in accordance with the adopted Methodology and Annual Activity Plan.

Moreover, the Group's compliance function supports other organizational units of the Group in defining procedures, introducing new products or modifying the existing ones, in implementation of the laws and bylaws, rules, standards and the Group's internal bylaws and enactments specifically governing the following areas: prevention of money laundering and terrorist financing, financial sanctions, banking secrets, protection of personal data, insider information and market abuse, professional market conduct standards, conflict of interests, corruption, loansharking, professional conduct with clients and provision of adequate advice to clients in accordance with the Code of Conduct and Ethical Principles, application of standards on the protection of financial service users and transparency in behavior, protection of competition and other regulatory areas in accordance with the rules of UniCredit Group and the adopted program for the Group's compliance function.

4. RISK MANAGEMENT (Continued)

(g) The Risk of Money Laundering and Terrorist Financing

The risk of money laundering and terrorist financing is a risk of possible adverse effects on the Group's financial performance, capital or reputation due to the use of the Group for money laundering and/or terrorist financing.

The risk of money laundering and terrorist financing arises particularly as a result of the failure of the Group to align its business operations with the effective legislation, regulations and internal bylaws governing prevention of money laundering and terrorist financing, or as a result of mutual non-alignment of the Group's internal bylaws governing this matter.

The Group has in place policies and procedures for identification, measurement, assessment and management of the risk of money laundering and terrorist financing. The Group protects itself from this risk by means of an internal control system in place in its organizational units, timely information and training and education as well as testing of its employees, which is a key factor in the management of the risk of money laundering and terrorist financing.

Within the Compliance a separate organizational unit has been formed – Anti Financial Crime Compliance – to take care of the improvement and continuous implementation of the policies and procedures for managing the risk of money laundering and terrorist financing. The Group has provided the staff of the Anti-Financial Crime Compliance with appropriate HR, material, technical , IT and other resources for work as well as with ongoing professional education and trainings.

(h) Strategic Risks

Strategic risk is the possibility of adverse effects on the Group's financial result or capital due to absence of adequate policies and strategies, or due to their inadequate implementation, and due to changes in the environment in which the Group operates or failure of the Group to adequately respond to these changes.

Strategic risk management is the responsibility of every employee of the Group within the risk management system, along with the most important role of Supervisory Board of the Bank which is responsible for risk management system establishing, as well as the Management Board which is responsible for its implementation, as well as the identification, measurement and risk assessment. The Group's corporate bodies carry out, among other things, the monitoring of strategic risk through establishing and monitoring of the annual budget, as well as the multi-annual strategic plan, which is monitored at least quarterly. In that way corporate bodies are in a situation to respond to all changes in the environment in which the Group operates. The Group's management reporting system, established in all business segments, provides an adequate and timely set of information needed for the Group's decision-making process in order to respond to business changes.

Organizational structure of the Group, established by relevant governance bodies, is defined to ensure adequate resources involved in preparation and implementation of risk policies and strategies, as well as methodologies, guidelines, working instructions and other documents. The Group continually monitors, assesses and updates relevant internal regulations and improves processes in order to actively manage changes in the business environment and mitigate their influence on Group's financial result and capital.

An important element in the management of strategic risk is the Group's internal control system, described in the Rulebook on risk management, which provides continuous monitoring of the risks to which the Group is exposed or which may be exposed in its business. This system ensures implementation of appropriate policies and strategies in practice and elimination of possible shortcomings, by which strategic risk to which the Group is exposed is additionally monitored and managed

4. RISK MANAGEMENT (Continued)

(i) Business Risk

Business risk is defined as a measure of the difference between unexpected and expected unwanted changes in future revenues of the Group.

Business risk may result from extremely unfavorable developments in the market environment, changes in competition or client behavior, as well as changes in the legal framework. Sources of such information represent a series of financial statements that include items whose variability is assessed within other types of risk (credit, market, operational risks). Therefore, in order to avoid overlapping with the assessment of other types of risks (e.g. credit, market, operational), the focus here is on specific types of income and expenses of the Group, which, after assessment, are identified and aggregated with other types of risks in order to obtain the total assessment of the risk profile through the economic capital of the Group.

(j) Reputational Risk

Reputational Risk is defined as the current or prospective risk to earnings and capital arising from the adverse perception of the image of the financial institution on the part of customers, counterparties (including also debt-holders, market analysts, and other relevant party), shareholders / investors, regulators or employees (stakeholders).

Reputational Risk is a secondary risk generated as a "knock-on effect" from risk categories, such as credit, market, operational and liquidity risks and all others risks types (e.g. business risk, strategy risk).

Reputational risk evaluation of clients / initiatives / transactions / projects / and other topics for which there is an identification of potential high reputational risk is performed within the Committee on Non-Financial Risks (NFRC) - Reputation Risk Sub-committee.

(k) Interest Rate Risk in the Banking Book

Interest rate risk is defined as a possibility of adverse effects on the Group's financial performance and equity per items in the Group's banking book due to changes in interest rates.

The Group's exposure to the interest rate risk is considered from two perspectives:

- Impact on the economic value - when changes in interest rates affect the basic value of assets. liabilities and off-balance sheet instruments, because the economic value of future cash flows changes (and in some cases. The cash flows themselves); and
- Impact on the financial result - when changes in interest rates affect earnings by changing the net interest income.

The system of limits for measuring exposure to the interest rate risk is used for monitoring potential changes in the economic value (EV) and changes in the expected net interest income (NII) or profit, addressing all the material sources of risk, in particular:

- Repricing risk - arises from the structure of the banking book and relates to timing mismatch in the maturity and repricing period of assets and liabilities;
- Yield curve risk - arising from changes in the yield curve shape and or slope;
- Basis risk to which the Group is exposed due to different reference interest rates applicable to the interest-sensitive items with similar characteristics in terms of maturity or repricing; and
- Optionality risk to which the Group is exposed due to embedded options in relation to interest rate-sensitive positions (loans with the option of early repayment, deposits with the option of early withdrawal).

All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

(k) Interest Rate Risk in the Banking Book (Continued)

The Group has implemented the framework of interest rate risk scenarios that address all the aforesaid sources of interest rate risk and, depending on the strength of the assumptions used, those can be divided into two basic groups:

- regular business scenarios, and
- stress test scenarios.

The scenarios vary depending on the specific risk generator, whose parameters are changed or stressed:

- assumptions of stress on interest rates (parallel, non-parallel changes in interest rates);
- assumptions of stress on the balance sheet (dynamic balance sheet, constant balance sheet);
- single-factor analysis; and
- multifactor analysis.

The effects of all scenarios are analyzed from the viewpoint of the change in the economic value and net interest income.

Interest rate risk scenarios included in RAF 2023:

- Economic value (EV) sensitivity, and
- Sensitivity of net interest income (NII).

One of the tasks of the Group's ALM & Funding is to establish procedures for the Group to comply with the defined limits for the interest rate risk. This is accomplished through activities in the financial markets (through interbank transactions, securities transactions) conducted in cooperation with the Client Risk Management & Treasury as well as other ALM & Funding activities used to manage interest gaps for protection against the interest rate risk, in line with the Group's preferred risk profile. At the same time, those organizational units are involved in the management of the Group's investment portfolio, which, together with the approved instruments, enables the achievement of a strategic position that ensures stability of interest income from the banking book. For protection against the interest rate risk, Group undertake hedging transactions to hedge certain portfolios or transactions.

An analysis of the Group's sensitivity (EV loss or gain) coming from parallel shifts of 200 bps on market interest rates in respect of the positions in the banking book (EV), assuming no asymmetric trends in yield curves, is presented as follows:

	Parallel increase of 200 bp	Parallel decrease of 200 bp
2023		
As at December 31	(2,295,961)	2,361,549
Average for the year	(1,826,735)	1,912,037
Maximum for the year	(252,496)	3,029,295
Minimum for the year	(2,684,186)	(174,185)
2022		
As at December 31	(298,215)	(107,390)
Average for the year	(544,244)	(26,829)
Maximum for the year	387,074	1,212,293
Minimum for the year	(1,808,157)	(969,894)

All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

(k) Interest Rate Risk in the Banking Book (Continued)

The Group's exposure to interest rate changes as at December 31, 2023 is presented for the entire interest-bearing portion of the statement of the financial position:

	Carrying amount	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Non-interest bearing
Cash and balances held with the central bank	130,511,716	40,327,414	-	-	-	-	90,184,302
Receivables under derivative financial instruments	2,055,657	-	-	-	-	-	2,055,657
Securities	104,445,786	5,227,861	13,467	1,370,346	70,619,660	27,214,452	-
Loans and receivables due from banks and other financial institutions	63,006,391	61,869,584	292,723	296,425	927	-	546,732
Loans and receivables due from customers	344,469,707	39,638,361	157,165,921	82,450,453	42,057,489	20,239,850	2,917,633
Receivables under derivatives designated as risk hedging instruments	636,909	-	-	-	-	-	636,909
Other assets	1,918,501	-	-	-	-	-	1,918,501
Total assets	**647,044,667**	**147,063,220**	**157,472,111**	**84,117,224**	**112,678,076**	**47,454,302**	**98,259,734**
Liabilities under derivative financial instruments	2,119,142	-	-	-	-	-	2,119,142
Deposits and other liabilities due to banks, other financial institutions and the central bank	146,166,777	14,041,801	72,953,474	40,793,211	9,238,385	-	9,139,906
Deposits and other liabilities due to customers	389,735,404	42,335,861	30,877,233	33,376,473	15,004,404	2,601,264	265,540,169
Liabilities under derivatives designated as risk hedging instruments	734,550	-	-	-	-	-	734,550
Other liabilities	10,315,537	-	-	-	-	-	10,315,537
Total liabilities	**549,071,410**	**56,377,662**	**103,830,707**	**74,169,684**	**24,242,789**	**2,601,264**	**287,849,304**
Net interest rate risk exposure at December 31, 2023	**97,973,257**	**90,685,558**	**53,641,404**	**9,947,540**	**88,435,287**	**44,853,038**	**(189,589,570)**

All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

(k) Interest Rate Risk in the Banking Book (Continued)

The Group's exposure to interest rate changes as at December 31, 2022 is presented for the entire interest-bearing portion of the statement of the financial position:

	Carrying amount	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Non-interest bearing
Cash and balances held with the central bank	69,758,831	27,301,207	-	-	-	-	42,457,624
Pledged financial assets	7,220,590	-	-	-	-	7,220,590	-
Receivables under derivative financial instruments	2,808,749	-	-	-	-	-	2,808,749
Securities	103,771,881	7,493,623	20,094	25,488,141	39,006,043	31,763,980	-
Loans and receivables due from banks and other financial institutions	75,893,639	73,011,153	351,496	257,433	504	-	2,273,053
Loans and receivables due from customers	328,843,714	48,700,846	149,670,252	93,646,498	19,885,181	14,423,243	2,517,694
Receivables under derivatives designated as risk hedging instruments	1,083,998	-	-	-	-	-	1,083,998
Other assets	1,996,573	-	-	-	-	-	1,996,573
Total assets	**591,377,975**	**156,506,829**	**150,041,842**	**119,392,072**	**58,891,728**	**53,407,813**	**53,137,691**
Liabilities under derivative financial instruments	2,819,396	-	-	-	-	-	2,819,396
Deposits and other liabilities due to banks, other financial institutions and the central bank	139,195,655	5,542,608	71,531,522	45,666,504	6,900,316	304,111	9,250,594
Deposits and other liabilities due to customers	358,140,581	33,311,947	34,472,718	24,932,351	1,742,989	7,966,050	255,714,526
Liabilities under derivatives designated as risk hedging instruments	924,644	-	-	-	-	-	924,644
Other liabilities	7,149,535	-	-	-	-	-	7,149,535
Total liabilities	**508,229,811**	**38,854,555**	**106,004,240**	**70,598,855**	**8,643,305**	**8,270,161**	**275,858,695**
Net interest rate risk exposure at December 31, 2022	**83,148,164**	**117,652,274**	**44,037,602**	**48,793,217**	**50,248,423**	**45,137,652**	**(222,721,004)**

All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

(k) Interest Rate Risk in the Banking Book (Continued)

An analysis of the interest rate gap sensitivity to an interest rate increase/decrease, assuming a parallel change in the yield curve and static banking book is shown in the table below:

	December 31, 2023 The effect of a parallel change in the interest rate by 1 bp	December 31, 2022 The effect of a parallel change in the interest rate by 1 bp
RSD	(22,439)	(12,248)
EUR	10,771	11,087
USD	223	126
GBP	3	6
CHF	(20)	(28)
Other currencies	-	-
Total effect*	**33,456**	**23,495**

* The total effect is equal to the sum of the absolute values by currencies.

Exposure based on the sensitivity analysis of the interest rate gap during 2023 was within the defined limits.

(l) Model Risk

The model risk pertains to potential errors in modeling for the main types of risks the Group is exposed to (credit risk, market risks and operational risk), such as inadequate modelling methodology, improper model application, lacking parameters and inputs.

Model risk analysis is based on the assessment of the risk model components arising from various types of risks. In order to ensure adequate model risk management and define and implement measures for risk mitigation in this area, the Group applies and regularly evaluates an appropriate set of internal bylaws.

(l) Climate and environmental risk

UniCredit Group, including local bank, defined ESG strategy which is presented in publicly available document, Integrated report. This document is covering details of quantitative and qualitative targets and initiatives. Implementation of group strategy and its integration in local processes is expected in the following period.
In line with UniCredit Group's strategy significant attention during financing process is devoted to environmental protection and by defining financial targets bank is focused on green financing. Additionally, Group has signed Net Zero alliance initiative covering greenhouse gas emission with additional focus to financing sectors with significant GHG emissions and their transition to clean energy. In this respect Group is in process of seeing specific financial goals per each GHG intensive industry with the idea to steer investments and support clients in their transition path. Group has also defined sensitive industries for which specific instructions were made.

Following Group strategy, which is leaning on EU Taxonomy, bank has implemented internal documents defining criteria to be met in case of green financing. Apart from this there is also defined process for assessment of clients transition risk which is included in credit process. ESG aspect is included in credit process trough specific questionnaire covering area of environment and climate changes and client analysis in respect of climate and environment focusing on specific dimension (i.e. GHG emission and other metrics which can influence environment). Questionnaire is based on scaling, trough list of key indicators which are positioning the client related to risk, vulnerability and exposure, adding also potential economic/financial influence. Questionnaire has to be filled at list once per year except in case that new relevant information are available. At the end of process client is provided with final classification of ESG risk which can be low, medium or high.

4. RISK MANAGEMENT (Continued)

(l) Climate and environmental risk (Continued)

In the following period, in line with Group request, implementation of group framework for climate related risks are expected to implemented for clients in Corporate segment. Namely, apart from ESG classification of smaller scope of clients, being subject of mentioned questionnaire, all other clients in Corporate segment will be classified including also influence on future strategy toward the client. We are currently in process of defining steps and parties to be involved in this process which will be activated with the end of 2024.

(n) Capital Management

As the Group's regulator, the NBS defines the method of calculating capital and capital adequacy based on Basel III Regulatory Framework. The regulatory capital, capital adequacy ratios and calculation of risk-weighted assets are defined by the Decision on Capital Adequacy of Banks, including all amendments, effective as from June 30. 2017 (the "Decision"). The Group monitors its capital adequacy ratio on a quarterly basis using the standardized approach.
The Group is required to calculate the following capital adequacy ratios:

1. the Common Equity Tier 1 capital ratio (CET 1 ratio) represents the common equity tier 1 capital relative to the risk-weighted assets, expressed as percentage. The minimum CET 1 ratio defined by the Decision is 4.5%;
2. the Tier 1 capital ratio (T1 ratio) is the core capital adequacy ratio, representing the core capital relative to the risk-weighted assets, expressed as percentage. The minimum T1 ratio defined by the Decision is 6%;
3. the total capital adequacy ratio (CAR) represents the capital relative to the risk-weighted assets, expressed as percentage. The minimum CAR defined by the Decision is 8%.

The Group is required to maintain its core capital in RSD equivalent amount of EUR 10,000,000 at all times, using the official middle exchange rate of NBS effective as at the calculation date. In addition, the Group is required to maintain at all times its capital in the amount necessary for coverage of all risks the Group is or may be exposed to in its operations, yet no less than the amount required to maintain the minimum capital adequacy ratios or increased capital adequacy ratios – in case NBS orders the Group to achieve and maintain capital adequacy ratios higher than the prescribed ones.

In 2023, the NBS maintained capital adequacy ratios higher than prescribed.

The Group's capital is the sum of the core capital (Tier 1) and supplementary capital (Tier 2). The core capital is the sum of the common equity Tier 1 capital (CET1) and additional Tier 1 capital (AT1).

The Group's common equity Tier 1 capital is the sum of the following items adjusted for the regulatory adjustments less deductible items:
- shares and other equity instruments;
- relevant share premium with the common equity Tier 1 instruments;
- the Bank's profit;
- revaluation reserves and other unrealized gains;
- reserves from profit and other reserves of the Bank;
- reserve funds for general banking risks.

Regulatory adjustments – When calculating the value of its capital components, the Group is bound to exclude from any capital component any increase in equity determined under IFRS/IAS resulting from securitization of exposures. Since the Republic of Serbia has no regulations enacted to govern this area, the said regulatory adjustment is not applicable.

4. RISK MANAGEMENT (Continued)

(n) Capital Management (Continued)

The Group does not include in its capital the following:

- fair value reserves relating to gains or losses in cash flow hedging instruments for financial instruments measured at other than fair value, including the projected cash flows;
- gains or losses on the Group's liabilities measured at fair value, resulting from the changes in the Group's credit quality;
- gains or losses arising from the credit risk for liabilities per derivatives measured at fair value, where the Group may not offset such gains or losses against those arising from its counterparty credit risk.

Unrealized gains or losses on assets or liabilities measured at fair value, except for the above listed gains or losses, are included in the calculation of capital.

Deductible from the Common Equity Tier 1 capital are:

- current and prior year's losses and unrealized losses;
- intangible assets, including goodwill, decreased for the amount of deferred tax liabilities that would be derecognized in case of impairment or derecognition of intangible assets under IFRS/IAS;
- deferred tax assets dependable on the Group's future profitability in line with the effective regulations;
- defined benefit pension fund assets on the Group's balance sheet;
- the Group's direct, indirect and synthetic holdings of its own common equity Tier 1 instruments, including those that the Group is under an actual or contingent obligation to repurchase by virtue of a constructive obligation;
- the Group's direct, indirect and synthetic holdings of common equity Tier 1 instruments of FSI entities where those entities have reciprocal holdings in the Group, designed to artificially inflate the Group's capital;
- the Group's applicable direct, indirect and synthetic holdings of common equity Tier 1 instruments of FSI entities where the Group holds no significant investments in accordance with Articles 19 and 20 of the Decision;
- the Group's applicable direct, indirect and synthetic holdings of common equity Tier 1 instruments of FSI entities where the Group holds significant investments in accordance with Sections 19 and 20 of the Decision;
- the amount for which the Group's additional Tier 1 capital deductible items exceed the Group's additional Tier 1 capital;
- the amount of exposures qualifying for application of a risk weight of 1.25%, where the Group decides to deduct the exposure from the common equity Tier 1 rather than apply the said risk weight, such as:
  - holdings in non-FSI entities exceeding 10% of their capital and/or holdings enabling effective exertion of significant influence on the management of such entities or their business policies;
  - securitized items in accordance with Section 201, paragraph 1, item 2), Section 202, paragraph 1, item 2), and Section 234 of the Decision;
  - free deliveries, if the counterparty has failed to settle its liability within four working days from the agreed delivery/payment date, in accordance with Section 299 of the Decision;
- any tax charge relating to the common equity Tier 1 items foreseeable at the moment of its calculation, except where the Group has previously suitably adjusted the amount of common equity Tier 1 items insofar as such tax charges reduce the amount up to which those items may be used to absorb risks or losses;
- gross amount of receivables due from a private individual debtor (other than a farmer and sole trader/entrepreneur) for consumer loans, cash or other loans recorded on accounts 102, 107 and 108 in accordance with NBS decision prescribing the chart of accounts and contents of the accounts within the chart of accounts for banks, where the credit indebtedness of the debtor prior to the loan approval was higher than the percentage rate defined in line with NBS decision governing classification of the balance sheet assets and off-balance sheet items of banks, or the said percentage rate will be higher due to the loan approval, where this item will be deducted regardless of whether after the loan approval, the debtor's credit indebtedness decreased below the said percentage rate;

4. RISK MANAGEMENT (Continued)

(n) Capital Management (Continued)

- gross amount of receivables due from a private individual debtor (other than a farmer and sole trader/entrepreneur) for consumer loans, cash or other loans approved, except for the loans specified under the bullet above, which are recorded on accounts 102, 107 and 108:
  - for which the contractually defined maturity is over 2,920 days, if such loans were approved from January 1, 2019 up to December 31, 2019;
  - for which the contractually defined maturity is over 2,555 days, if such loans were approved from January 1, 2021 up to December 31, 2021;
  - for which the contractually defined maturity is over 2,190 days, if such loans were approved from January 1, 2022.
- gross amount of receivables due from a private individual debtor (other than a farmer and sole trader/entrepreneur) for consumer loans approved for purchase of motor vehicles, which are recorded on account 102, for which the contractually defined maturity is over 2,920 days, if such loans have been approved as from January 1, 2019; and
- amount of the required reserve for estimated losses in accordance with NBS regulations, if such regulations prescribe the Group's obligation to form such a reserve.

From the calculation of deductible items from indents 13 and 14 of the previous paragraph, the period in which the moratorium on the basis of approved loans defined by those indents lasted is not included in the number of days of agreed maturity for the purposes of application of these provisions. The moratorium means a delay in the repayment of obligations in accordance with the provisions of the decision which regulates the temporary measures for preserving the stability of the financial system in the Republic of Serbia in the conditions of the pandemic caused by COVID-19. The deductibles refer to indents 13, 14 and 15 of previous paragraph shell does not apply to receivables restructured in accordance with the decision governing the classification of bank balance sheet assets and off-balance sheet items if following conditions are meet: the receivables have been incurred under loans refer to indents 13,14 and 15 which deductibles from those provisions had not been applied, the restructuring is carried out based on the bank's offer, the restructuring does not increase the outstanding loan amount, the agreed maturity of the loan after the restructuring is no longer than 3,285 days for loans refer to indents 13 and 14, and no longer than 4,015 days for loans form intents 15 and receivables have not been restructured accordance with the provisions.

Upon determining deductible deferred tax assets items and the Group's applicable direct, indirect and synthetic holdings of common equity Tier 1 instruments of FSI entities where the Group holds significant investments, the Group is not required to deduct from the common equity Tier 1 capital the amounts of items that in the aggregate are equal to or lower than the limit which is arrived at by multiplying the common equity Tier 1 items remaining after the regulatory adjustments and decrease for deductible items by 17.65%:

- deferred tax assets dependable on the Group's future profitability, arising from the temporary differences in the amount lower than or equal to 10% of the Group's common equity Tier 1 capital calculated in accordance with Section 21, paragraph 2 of the Decision;
- the Group's direct, indirect and synthetic holdings of common equity Tier 1 instruments of FSI entities where the Group holds significant investments in the amount lower than or equal to 10% of the Group's common equity Tier 1 capital calculated in accordance with Section 21, paragraph 2 of the Decision.

As of December 31, 2023, the Group did not reduce its common equity Tier 1 capital for the amount of direct holdings of common equity Tier 1 instruments or for deferred tax assets dependable on the Group's future profitability, arising from the temporary differences since their aggregate amount was below the defined limit.

According to the Decision on the temporary measure related to the calculation of the Group's capital, the Group has decided to apply the measure starting from the report for the second quarter of 2022. During the period of application of the temporary measure related to the calculation of capital from the bank's Common Equity T1 capital calculations, the Group may exclude the amount of the temporary regulatory adjustment obtained by the reduction factor of 0.70.

4. RISK MANAGEMENT (Continued)

(n) Capital Management (Continued)

The Group's additional Tier 1 capital consists of the sum of the following items less respective deductibles:

- shares and other equity instruments that meet the requirements referred to in Section 23 of the Decision;
- relevant share premium.

As of December 31, 2023, the Group had no additional Tier 1 capital.

The Group's supplementary (Tier 2) capital consists of the sum of the following items less respective deductibles:

- shares and other Tier 2 instruments and liabilities under subordinated loans;
- the relevant share premium, i.e., amounts paid in above the par value of such instruments;
- general credit risk adjustments gross of tax effects, of up to 1.25% of the risk-weighted credit risk exposures for banks calculating the risk-weighted exposures amounts by applying the standardized approach.

The amount in which the supplementary Tier 2 capital instruments, i.e., subordinated liabilities, are included in the calculation of the supplementary Tier 2 capital during the final five years before they mature, is calculated as follows: the quotient their nominal value and/or the principal amount on the first day of the final five-year period before their mature and he number of calendar days in that period is multiplied by the number of the calendar days remaining to maturity of the instruments or subordinated liabilities at the calculation date.

As of December 31, 2023, the Group had no supplementary Tier 2 capital.

All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

(n) Capital Management (Continued)

The following table presents the Group's balance of capital and total risk-weighted assets as of December 31, 2023 and 2022:

	2023	2022
Common equity Tier 1 capital - CET1		
Paid in common equity Tier 1 instruments	23,607,620	23,607,620
Relevant share premium with the common equity Tier 1 instruments	562,156	562,156
Current year's profit qualifying for inclusion into CET 1 capital	1,078,092	1,221,576
Revaluation reserves and other unrealized gains	103,671	97,641
(-) Unrealized losses	(766,876)	(1,618,408)
Other reserves	54,906,013	53,740,761
(+) Fair value of reserves related to gains (-) or losses (+) from cash flow hedging instruments not valued at fair value, including projected cash flows	455,249	753,562
(-) Intangible assets, including goodwill, decreased for the amount of deferred tax liabilities)	(2,522,455)	(2,469,691)
(-) Gross amount of receivables due from a private individual debtor (other than a farmer and sole trader/entrepreneur) for consumer loans, cash or other loans recorded on accounts 102, 107 and 108 in accordance with NBS decision prescribing the chart of accounts and contents of the accounts within the chart of accounts for banks, where the credit indebtedness of the debtor prior to the loan approval was higher than the percentage rate defined in line with NBS decision governing classification of the balance sheet assets and off-balance sheet items of banks, or the said percentage rate will be higher due to the loan approval, where this item will be deducted regardless of whether after the loan approval, the debtor's credit indebtedness decreased below the said percentage rate	(78,532)	(88,445)
(-) Gross amount of receivables due from a private individual debtor (other than a farmer and sole trader/entrepreneur) for consumer loans, cash or other loans approved, except for the loans specified under the bullet above, which are recorded on accounts 102, 107 and 108 in accordance with NBS decision prescribing the chart of accounts and contents of the accounts within the chart of accounts for banks, which based on the maturity criterion meet condition for deduction from CET 1 capital:	(762,452)	(503,739)
of which (-) whose contractual maturity is longer than 2920 days – if these loans are approved in period from January 1 to December 31 2020	*(27,202)*	*(38,887)*
of which (-) whose contractual maturity is longer than 2920 days – if these loans are approved in period from January 1 to December 31 2021	*(14,546)*	*(25,398)*
of which (-) whose contractual maturity is longer than 2190 days – if these loans are approved in period from January 1 to December 31 2022	*(720,704)*	*(439,454)*
Total common equity Tier 1 capital - CET1	**76,582,486**	**75,303,033**
Additional Tier 1 capital - AT1	-	-
Total core Tier 1 capital - T1 (CET1 + AT1)	**76,582,486**	**75,303,033**
Supplementary capital - T2	-	-
Total regulatory capital (T1 + T2)	**76,582,486**	**75,303,033**

In both 2023 and 2022 the Group achieved capital adequacy ratios within the limits prescribed by NBS Decision on Capital Adequacy of Banks and Decision on Risk Management.

5. USE OF ESTIMATES AND JUDGMENTS

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

These disclosures supplement the comments on financial risk management (Note 4).

Critical Accounting Estimates and Judgments in Applying the Group's Accounting Policies

(i) Provisions for Expected Credit Losses

Impairment of financial assets is assessed in the manner escribed in note 3(k)(viii).

Under IFRS 9, measurement of ECL for all categories of financial assets requires estimates and judgements to be made, particularly those relating to determining the amount and expected timing of the future cash flows, both from operation and from collateral foreclosure upon determining the ECL and assessing whether there has been a significant credit risk increase. The said estimates are based on a number of factors, the combination and interaction of which may result in different amounts of expected credit loss provisions in different scenarios analyzed.

The Group's ECL calculations are a result of complex models involving a number of assumptions concerning a selection of input variables and their interdependence. Elements of ECL models that are included in the accounting judgments and estimates include the following:

- the internal model for assessing credit quality, which is used to assign PD values to individual credit rating categories;
- the Group's criteria for assessing whether there has been a significant credit risk increase, which consequently result in lifetime ECL calculation using the quantitative criteria (a change in PD compared to the initial recognition date of a financial asset) as well as qualitative assessments (forbearance or restructuring classification, 30 days past due or watch list 2 classification);
- segmentation of the financial assets when their ECL need to be assessed on a collective basis;
- development of ECL models, including various formulas and inputs to be selected;
- establishing relations between macroeconomic scenarios and economic inputs, such as GDP movements, movements in unemployment rates, salaries and interest rates and modelling of their relations and impacts on the used PD and LGD; and
- selection of macroeconomic forward-looking scenarios in collaboration with UniCredit Group and probability-weighting of those scenarios in order to arrive at the relation between the ECL models and possible economic trends.

In line with its internal policies, the Group regularly reviews, maintains and adjusts its models within the context of its actually experienced credit losses.

The Group assess impairment of financial assets and probable losses per off-balance sheet items for individually significant receivables on an individual basis. The individual impairment assessment involves determining whether there is objective evidence of impairment, i.e., whether the default status exists. The amount of impairment of financial assets is determined as the difference between the carrying value of each receivable and the present value of the expected future cash flows from the receivable, while the assessment of ECL per off-balance sheet items entails assessing recoverability of the future cash flows for each off-balance sheet commitment.

The Group assess impairment of financial assets and ECL per off-balance sheet items on a collective basis for all receivables where the impairment losses cannot be directly linked to the receivables, but may be estimated to be present in the loan portfolio based on the experience.

5. USE OF ESTIMATES AND JUDGMENTS (Continued)

Critical Accounting Estimates and Judgments in Applying the Group's Accounting Policies (Continued)

(i) Provisions for Expected Credit Losses (Continued)

Upon performing the said assessment, the Group groups receivables according to their similar credit risk characteristics, which reflect the ability of the borrowers to settle their liabilities in accordance with contractual terms (portfolio segments, rating categories, etc.). collective impairment assessment represents a joint estimate of the future cash flows for a group of receivables based on the historical information on the losses incurred in prior periods per receivables with credit risk characteristics similar to those in that group, in accordance with the Group's methodology.

(ii) Measurement of Financial Instruments at Fair Value (Note 3 (k)(vii)

Determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(k)(vii). For financial instruments that are traded infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

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

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices. For all other financial instruments the Group determines fair values using valuation techniques.

Valuation techniques include the net present value and discounted cash flows, comparison to similar instruments for which observable market prices are available and other methods. Assumptions and inputs used in valuation techniques include risk-free and key policy interest rates, credit spreads and other factors used in estimating discount rates, prices of bonds or equity, foreign exchange rates, equity and equity price indexes and the expected instability of prices and correlations. The objective of the use of valuation techniques is to determine the fair value that reflects the price of a financial instrument at the reporting date, which would be determined by market participants in an arm's length transaction.

The Group uses generally accepted models for determining the fair values of regular and common financial instruments such as interest rate and currency swaps, for which exclusively observable inputs are used, requiring less estimates and assumptions to be made by the management. Observable model inputs are mostly available on the market of the quoted debt and equity instruments, trading derivatives and simple derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for estimates and assumptions made by management and reduces uncertainty associated with determining fair value. Availability of observable market prices and inputs varies depending on the products and market; it is prone to changes caused by various events and general conditions prevailing in the future markets

5. USE OF ESTIMATES AND JUDGMENTS (Continued)

Critical Accounting Estimates and Judgments in Applying the Group's Accounting Policies (Continued)

(ii) Measurement of Financial Instruments at Fair Value (Note 3 (k)(vii) (Continued)

Level 2 securities are measured based on internally developed valuation model which basically relies on quoted market prices in active markets for similar instruments. Portfolio consists of T-bills issued by Ministry of Finance and denominated in RSD and EUR currency. Output of the model is RSD and EUR valuation curve which is further used for calculation of Fair value of securities. Since secondary market for RSD denominated securities is relatively active, RSD valuation curve is constructed by using quoted yields on the secondary market for benchmark (the most liquid) securities with different maturities. On the other side, for EUR denominated securities curve is constructed based on EURIBOR money market curve with add-on spread realized on primary market auctions.

Both models for RSD and EUR curves are regularly back tested on yearly basis.

Level 3 securities are municipality bonds which are not liquid or tradable on the market and it is valued by using discounted cash flow approach.

(iii) Estimated Useful Lives of Intangible Assets, Property and Equipment and Amortization/Depreciation Rates Used (Note 3 (q), 3 (r), 27 i 28)

The calculation of amortization/depreciation charge and amortization/depreciation rates applied are based on the estimated useful lives of intangible assets, property and equipment, which are subject to an ongoing review. The estimated useful lives are reviewed for adequacy at least annually, or more frequently if there is any indication that significant changes have occurred to the factors determining the previously defined estimated useful lives or other events affecting the estimated useful lives. Useful life estimates require the management to make significant estimates and judgments based on the historical experience with similar assets, as well as anticipated technical advancement and changes in economic and industrial factors that may affect the useful lives of assets.

(iv) Impairment of Non-Financial Assets (Note 3 (u))

At each reporting date, the Group's management reviews the carrying amounts of the its non-financial assets other than investment property and deferred tax assets in order to determine the indications of impairment losses. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss. If the estimated recoverable amount of an asset is below its carrying value, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is immediately recognized as an expense of the current period. Assessment of indicators and objective evidence of impairment requires the management to make significant estimates regarding the expected cash flows, discount rates and usage capacity of the assets subject to review.

(v) Fair value of property and investment property (Notes 3 (k)(vii), 3 (q), 3 (s), 28 and 29)

The Group uses the fair value model for the valuation of investment property and the revaluation model for real estate that it uses for its own business purposes. Fair value measurement is performed regularly to reconcile the carrying amount at the end of the reporting period.

(vi) Deferred Tax Assets (Notes 3 (j) and 36)

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which such deferred tax assets may utilized. The Group's management needs to make prudent assessments of deferred tax assets which may be recognized, based on their period of inception and amounts, as well as on the amount of future taxable income and tax policy planning strategy.

5. USE OF ESTIMATES AND JUDGMENTS (Continued)

(b) Critical Accounting Estimates and Judgments in Applying the Group's Accounting Policies (Continued)

(vii) Provisions for Litigations (Notes 3 (w) and 35)

The Group is involved in a number of lawsuits and labor disputes. Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of past events, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Estimating of the provisions for legal suits requires the Group's management and Legal Unit to make significant estimates and judgments, including the estimate of the probability of negative suit outcomes and probable and reasonable estimates of loss amounts. The required provision amounts represent the best estimates made by the management based on the information available as at the reporting date. However, they may be subject to future changes due to new events taking place or new information obtained.

viii) Provisions for Employee Benefits (Notes 3 (y) and 35)

The costs of provisions for employee retirement benefits determined by actuarial calculation. The actuarial calculation includes an assessment of the discount rate, future salary growth rate, future employee turnover rate and mortality rates. Actual outcome may vary significantly from the said estimates, particularly given the long term they relate to.

All amounts expressed in thousands of RSD, unless otherwise stated.

6. FINANCIAL ASSETS AND LIABILITIES - ACCOUNTING CLASSIFICATION AND FAIR VALUES

The following tables show the breakdown of financial instruments measured at fair value at the end of the reporting period, grouped in fair value hierarchy levels:

2023	Note	Level 1	Level 2	Level 3	Total
Receivables under derivatives	22	-	2,054,579	1,078	2,055,657
Receivables under derivatives designated as risk hedging instruments	26	-	636,909	-	636,909
Securities					
- at FVtPL	23	87,827*	2,366,634	-	2,454,461
- at FVtOCI	23	10,651,430*	29,125,164	-	39,776,594
		10,739,257	**34,183,286**	**1,078**	**44,923,621**
Liabilities under derivatives	31	-	2,119,142	-	2,119,142
Liabilities per derivatives designated as risk hedging instruments	26	-	734,550	-	734,550
		-	**2,853,692**	**-**	**2,853,692**

* Securities at FVtPL and at FVtOCI – Level 1 include bonds issued by the Republic of Serbia, denominated in EUR (Eurobonds) and listed in EU Stock Exchanges

2022	Note	Level 1	Level 2	Level 3	Total
Receivables under derivatives	22	-	2,807,888	861	2,808,749
Receivables under derivatives designated as risk hedging instruments	26	-	1,083,998	-	1,083,998
Securities					
- at FVtPL	23	207,849*	1,327,823	-	1,535,672
- at FVtOCI	23	7,051,134*	51,945,401	350,037**	59,346,572
		7,258,983	**57,165,110**	**350,898**	**64,774,991**
Liabilities under derivatives	31	-	2,819,396	-	2,819,396
Liabilities per derivatives designated as risk hedging instruments	26	-	924,644	-	924,644
		-	**3,744,040**	**-**	**3,744,040**

* Securities at FVtPL and at FVtOCI – Level 1 include bonds issued by the Republic of Serbia, denominated in EUR and listed in EU Stock Exchanges
** Securities at FVtOCI – Level 3 include municipal bonds for which there are no quotations and other observable market parameters for its evaluation

All amounts expressed in thousands of RSD, unless otherwise stated.

6. FINANCIAL ASSETS AND LIABILITIES - ACCOUNTING CLASSIFICATION AND FAIR VALUES (Continued)

(i) *Fair Value Hierarchy for Assets and Liabilities Other than Measured at Fair Value*

Estimated fair values of financial assets and liabilities other than measured at fair value are provided in the table below, according to the fair value hierarchy levels under IFRS 13:

	Note	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value
2023.						
Cash and balances held with the central bank	20	-	130,511,716	-	130,511,716	130,511,716
Securities						
- securities measured at amortized cost (AC)	23	6,888,426	53,874,651	22,664	60,785,741	62,214,731
Loans and receivables due from banks and other financial institutions	24	-	-	62,995,753	62,995,753	63,006,391
Loans and receivables due from customers	25	-	-	339,859,586	339,859,586	344,469,707
Other assets	30	-	-	1,918,501	1,918,501	1,918,501
		6,888,426	**184,386,367**	**404,796,504**	**596,071,297**	**602,121,046**
Deposits and other liabilities due to banks, other financial institutions and the central bank	32	-	-	148,161,313	148,161,313	146,166,777
Deposits and other liabilities due to customers	33	-	-	389,761,376	389,761,376	389,735,404
Other liabilities	37	-	-	10,315,537	10,315,537	10,315,537
		-	**-**	**548,238,226**	**548,238,226**	**546,217,718**

	Note	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value
2022.						
Cash and balances held with the central bank	20	-	69,758,831	-	69,758,831	69,758,831
Pledged financial asets	21	-	6,524,031	-	6,524,031	7,220,590
Securities						
- securities measured at amortized cost (AC)	23	5,747,773	33,010,399	54,276	38,812,448	42,889,637
Loans and receivables due from banks and other financial institutions	24	-	-	75,735,279	75,735,279	75,893,639
Loans and receivables due from customers	25	-	-	328,839,250	328,839,250	328,843,714
Other assets	30	-	-	1,996,573	1,996,573	1,996,573
		5,747,773	**109,293,261**	**406,625,378**	**521,666,412**	**526,602,984**
Deposits and other liabilities due to banks, other financial institutions and the central bank	32	-	-	139,904,704	139,904,704	139,195,655
Deposits and other liabilities due to customers	33	-	-	357,576,112	357,576,112	358,140,581
Other liabilities	37	-	-	7,149,535	7,149,535	7,149,535
		-	**-**	**504,630,351**	**504,630,351**	**504,485,771**

All amounts expressed in thousands of RSD, unless otherwise stated.

6. FINANCIAL ASSETS AND LIABILITIES - ACCOUNTING CLASSIFICATION AND FAIR VALUES (Continued)

(i) Fair Value Hierarchy for Assets and Liabilities Other than Measured at Fair Value (Continued)

Valuation techniques and models the Group uses for fair value calculations are disclosed in Note 5b(i).

(ii) Assets The Fair Values of which Approximate their Carrying Values

For financial assets and financial liabilities that have a short term original maturity (less than one year) it is assumed that the carrying amounts approximate their fair values. The basic assumption used here is that in the near term no significant market changes will occur that can affect the fair value. This assumption is also applied to demand deposits and savings accounts without specified maturity.

(iii) Financial Instruments with Fixed Interest Rates

The fair values of fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments. The estimated fair values of fixed interest bearing financial instruments are based on discounted cash flows using prevailing money-market interest rates for financial instruments with similar credit risk characteristics and maturities.

Financial assets held to maturity and loans and deposits include a portion of the loan portfolio at fixed interest rates, which causes differences between the carrying amounts and fair values of such instruments.

7. NET INTEREST INCOME

Net interest income includes:

	2023	2022
Interest income from		
Cash and balances held with the central bank	516,214	317,897
Securities at fair value through profit or loss	90,514	72,144
Securities at fair value through OCI	1,112,790	1,924,912
Securities at amortized cost	2,474,353	1,276,752
Loans and receivables due from banks and other financial institutions	3,937,175	494,103
Loans and receivables due from customers	25,759,165	14,763,556
Total interest income using effective interest rate	**33,890,211**	**18,849,364**
Receivables under derivative financial instruments	993,839	365,539
Financial derivatives and assets held for risk hedging purposes	1,030,709	438,215
Total interest income	**35,914,759**	**19,653,118**
Interest expenses from		
Liabilities under derivative financial instruments	(1,022,546)	(459,516)
Liabilities per financial derivatives designated as risk hedging instruments	(268,141)	(168,739)
Deposits and other liabilities due to banks, other financial institutions and the central bank	(5,801,073)	(1,992,634)
Deposits and other liabilities due to customers	(3,856,319)	(1,354,767)
Lease liabilities	(50,329)	(40,201)
Total interest expenses	**(10,998,408)**	**(4,015,857)**
Net interest income	**24,916,351**	**15,637,261**

In accordance with the Group’s accounting policy 3 (d), interest income from non-performing impaired loans amounted to RSD 456,583 thousand in 2023 (2022: RSD 318,322 thousand).

All amounts expressed in thousands of RSD, unless otherwise stated.

8. NET FEE AND COMMISSION INCOME

Net fee and commission income includes:

	Private individuals		Corporate clients		Total	
	2023	2022	2023	2022	2023	2022
Fee and commission income						
Payment transfer activities	453,544	446,598	2,112,568	1,916,257	2,566,112	2,362,855
Fees related to loans	74,750	106,874	415,515	362,108	490,265	468,982
Fees arising from card operations	626,552	526,684	1,993,695	1,702,071	2,620,247	2,228,755
Maintaining of current accounts	691,794	585,697	194,736	190,417	886,530	776,114
Brokerage fees	-	-	6,879	1,045	6,879	1,045
Custody fees	67	122	346,364	344,932	346,431	345,054
Fee on foreign exchange purchases/sales and foreign cash transactions	382,551	352,066	3,291,374	3,291,780	3,673,925	3,643,846
Other fees and commissions	140,614	142,589	423,887	445,683	564,501	588,272
Total fee and commission income from contracts with customers	2,369,872	2,160,630	8,785,018	8,254,293	11,154,890	10,414,923
Fees on issued guarantees and other contingent liabilities	4,115	2,762	1,013,959	969,768	1,018,074	972,530
Total fee and commission income	2,373,987	2,163,392	9,798,977	9,224,061	12,172,964	11,387,453
Fee and commission expenses						
Payment transfer activities	-	-	(534,943)	(494,491)	(534,943)	(494,491)
Fees arising from card operations	-	-	(2,030,782)	(1,833,805)	(2,030,782)	(1,833,805)
Fees arising on guarantees, sureties and letters of credit	-	-	(13,389)	(13,425)	(13,389)	(13,425)
Fee arising on foreign exchange purchases/sales and foreign cash transactions	(56,548)	(35,614)	(1,145,425)	(1,449,582)	(1,201,973)	(1,485,196)
Other fees and commissions	-	-	(180,599)	(151,149)	(180,599)	(151,149)
Total fee and commission expenses	(56,548)	(35,614)	(3,905,138)	(3,942,452)	(3,961,686)	(3,978,066)
Net fee and commission income	**2,317,439**	**2,127,778**	**5,893,839**	**5,281,609**	**8,211,278**	**7,409,387**

9. NET GAINS ON THE CHANGES IN THE FAIR VALUE OF FINANCIAL INSTRUMENTS

Net gains on the changes in the fair value of financial instruments include:

	2023	2022
Net gains on the changes in the fair value of derivatives at FVtPL	90,315	685,902
Net gains on the changes in the fair value of securities at FVtPL	22,447	2,698
Net gains on the changes in the fair value of financial instruments	**112,762**	**688,600**

All amounts expressed in thousands of RSD, unless otherwise stated.

10. NET GAINS/(LOSSES) ON DERECOGNITION OF FINANCIAL ASSETS MEASURED AT FAIR VALUE

Net gains/(losses) on derecognition of financial instruments measured at fair value include:

	2023	2022
Net (losses)/gains on derecognition of securities measured at FVtOCI	(32,298)	21,794
Net gains/(losses) on derecognition of securities measured at FVtPL	215,214	(87,649)
Net gains/(losses) on derecognition of financial assets measured at fair value	**182,916**	**(65,855)**

11. NET FOREIGN EXCHANGE LOSSES AND NEGATIVE CURRENCY CLAUSE EFFECTS

Net foreign exchange losses and negative clause effects include:

	2023	2022
Foreign exchange gains and positive currency clause effects	24,000,346	27,009,636
Foreign exchange losses and negative currency clause effects	(24,108,024)	(27,235,565)
Net foreign exchange losses	**(107,678)**	**(225,929)**

12. NET LOSSES ON IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Net losses on impairment of financial assets not measured at fair value through profit or loss include:

	2023	2022
Loans and receivables due from customers		
Net increase in individual impairment allowance	(67,752)	(161,827)
Net increase in collectively assessed impairment	(505,160)	(2,763,371)
	(572,912)	(2,925,198)
Net decrease in impairment charge per securities measured at FVtOCI	(72,116)	3,641
Contingent liabilities		
Net (increase)/decrease in individual impairment allowance (Note 35.2)	52,515	(284,009)
Net (increase)/decrease in collectively assessed impairment (Note 35.2)	(447,622)	(599,648)
	(395,107)	(883,657)
(Losses)/gains on modification*	(1,138,945)	26,386
Write-offs	(4,050)	(5,975)
Recovery of the receivables previously written off	436,793	335,473
Total net losses	**(1,746,337)**	**(3,449,330)**

* In 2023, the position "(Losses)/Gains based on modification" includes the modification loss recognized by the Bank based on the implementation of the Decision on temporary measures for banks adopted by the National Bank of Serbia (note 25.4) in the amount RSD 1,143,730 thousand.

All amounts expressed in thousands of RSD, unless otherwise stated.

13. NET (LOSSES)/GAINS ON DERECOGNITION OF FINANCIAL ASSETS MEASURED AT AMORTIZED COST

Net (losses)/gains on derecognition of financial assets measured at amortized cost include:

	2023	2022
(Losses)/gains on the sales of placements measured at amortized cost	(1,999)	35,056
Total net (losses)/gains	**(1,999)**	**35,056**

14. OTHER OPERATING INCOME

Other operating income includes:

	2023	2022
Rental income, reimbursement and other operating income	47,205	6,958
Total other operating income	**47,205**	**6,958**

15. SALARIES, SALARY COMPENSATIONS AND OTHER PERSONAL EXPENSES

Salaries, salary compensations and other personal expenses include:

	2023	2022
Employee salaries, net	(2,460,903)	(2,297,322)
Payroll taxes and contributions	(978,092)	(899,982)
Net expenses per provisions for employee retirement benefits and unused annual leaves	(38,603)	(19,209)
Other personnel expenses	(545,925)	(419,264)
Total personnel expenses	**(4,023,523)**	**(3,635,777)**

16. DEPRECIATION/AMORTIZATION CHARGE

Depreciation/amortization charge includes:

	2023	2022
Amortization charge for intangible assets (Notes 27.2, 27.3)	(593,417)	(609,702)
Depreciation charge for property, plant and equipment (Notes 28.2, 28.3)	(249,508)	(278,793)
Depreciation charge for right-of-use assets (Note 28.5, 28.6)	(498,570)	(470,838)
Total depreciation/amortization charge	**(1,341,495)**	**(1,359,333)**

17. OTHER INCOME

Other income includes:

	2023	2022
Reversal of provisions for litigations (Note 35.2)	782,349	432,496
Gains on the valuation of investment property	469	3,761
Gains on the valuation of tangible assets	-	27,121
Other income	113,630	267,685
Total other income	**896,448**	**731,063**

The item "Other income" includes income from performance awards, compensation for damages from insurance companies and similar income.

All amounts expressed in thousands of RSD, unless otherwise stated.

18. OTHER EXPENSES

18.1. Other expenses include:

	2023	2022
Business premises costs	(171,373)	(140,772)
Office and other supplies	(67,434)	(75,053)
Rental costs (Note 18.2)	(422,012)	(384,699)
Information system maintenance	(1,082,471)	(1,081,573)
Property and equipment maintenance	(96,194)	(86,522)
Marketing, advertising, entertainment, culture and donations	(221,906)	(211,452)
Lawyer fees, other consultant and research services and auditing fees	(293,590)	(231,608)
Telecommunications and postage services	(103,279)	(99,469)
Insurance premiums	(953,889)	(848,905)
Security services – for property and money transport and handling	(220,595)	(182,405)
Professional training costs	(35,785)	(28,300)
Servicing costs	(95,456)	(127,273)
Transportation services	(10,678)	(6,975)
Employee commuting allowances	(41,756)	(37,910)
Accommodation and meal allowances – business travel costs	(23,530)	(18,451)
Other taxes and contributions	(632,476)	(575,999)
Provisions for litigations (Note 35.2)	(773,670)	(1,588,323)
Losses on the valuation of investment property	(9)	(14)
Losses on the valuation of tangible assets	-	(614)
Losses on disposal, retirement and impairment of property, equipment and intangible assets	(10,066)	-
Other costs	(928,813)	(662,395)
Total other expenses	**(6,184,982)**	**(6,388,712)**

The item "Other costs" refers to court and administrative fee expenses, costs for occupational safety and environmental protection, costs of participation in financing persons with disabilities, costs related to lost litigations, archiving and scanning costs, compensation costs from regular business and similar expenses.

18.2. Rental costs of RSD 422,012 thousand incurred in 2023 relate to the costs which, in line with IFRS 16 and the Group's accounting policy (Note 3.t) are not included in the measurement of the lease liability. The breakdown of the said rental costs is provided in the table below:

	2023	2022
Rental cost per leases with low-value underlying assets	(163,813)	(148,560)
Rental costs per short-term leases	(10,709)	(9,647)
VAT payable per leases recognized in accordance with IFRS 16	(84,753)	(78,269)
Assets not identifiable in accordance with IFRS 16	(161,564)	(146,392)
Variable lease payments	(700)	(1,036)
Other	(473)	(795)
Total	**(422,012)**	**(384,699)**

19. INCOME TAXES

19.1. Basic components of income taxes as at December 31 were as follows:

	2023	2022
Current income tax expense	(2,441,457)	(993,730)
Increase in deferred tax assets and decrease in deferred tax liabilities	-	93,298
Decrease in deferred tax assets and increase in deferred tax liabilities	(107,683)	-
Total	**(2,549,140)**	**(900,432)**

All amounts expressed in thousands of RSD, unless otherwise stated.

19. INCOME TAXES (continued)

19.2. Numerical reconciliation of the effective tax rate is provided below:

	2023	2022
Profit before taxes	20,955,902	9,400,722
Income tax at the legally prescribed tax rate of 15%	(3,143,385)	(1,410,108)
Tax effects of permanent differences:		
Tax effects of expenses not recognized for tax purposes	(35,876)	(34,996)
Tax effects of income adjustment relate to interest on debt securities issued by RS	643,251	548,609
Tax effects of income adjustment achieved from the cancellation of unused long-term provisions that were not recognized as an expense in the tax period in which they were incurred	117,569	-
Tax effects of income adjustment on the basis of written-off, adjusted and other receivables, which are not recognized as expenses and which are subsequently charged	93,565	-
Tax effects of temporary differences:		
Tax effects of first application of IFRS 9	-	13,662
Differences in amortization for tax and accounting purposes	4,799	(7,385)
Tax effects of IAS 19	(3,360)	(1,229)
Tax effects of losses which will be recognized in future periods	(215,710)	(248,849)
Tax effects of reductions of current tax according to legal regulations and IFRS application	97,690	146,566
Tax effects presented in the income statement	**(2,441,457)**	**(993,730)**
Effective tax rate	*11.65%*	*10.57%*

19.3 Income taxes recognized within other comprehensive income are provided below:

	2023			2022		
	Before taxes	**Tax expense**	**After taxes**	**Before taxes**	**Tax expense**	**After taxes**
Gains/(Losses) on the change in the fair value of debt instruments at FVtOCI	2,102,414	(315,362)	1,787,052	(3,596,846)	539,527	(3,057,319)
Increase in revaluation reserves based on intangible assets and fixed assets (Notes 39.2)	7,094	(1,064)	6,030	45,454	(6,818)	38,636
Actuarial(losses)/gains	20,122	(3,018)	17,104	24,142	(3,621)	20,521
Gains/(Losses) on cash flow hedging instruments	350,957	(52,644)	298,313	(805,337)	120,801	(684,536)
Balance at December 31	**2,480,587**	**(372,088)**	**2,108,499**	**(4,332,587)**	**649,889**	**(3,682,698)**

19.4 The calculated current income tax payable for the year 2023 amounted to RSD 2,441,457 thousand (for 2022: RSD 993,730 thousand). Given that the calculated amount of the tax payable was above the sum of the monthly income tax advance payments the Group paid during the year, as of December 31, 2023, the Group reported current tax liabilities in the amount of RSD 1,529,868 thousand (for 2022: current tax assets of RSD 302,396 thousand).

All amounts expressed in thousands of RSD, unless otherwise stated.

20. CASH AND BALANCES HELD WITH THE CENTRAL BANK

20.1 Cash and balances held with the central bank include:

	2023	2022
RSD cash on hand	4,360,266	5,421,415
Gyro account balance	87,629,697	28,634,728
Foreign currency cash on hand	2,900,900	2,831,588
Other foreign currency cash funds	35,152	49,609
Obligatory foreign currency reserve held with NBS	35,585,709	32,821,494
	130,511,724	69,758,834
Impairment allowance	(8)	(3)
Balance at December 31	**130,511,716**	**69,758,831**

The gyro account balance includes the RSD required reserves, which represent the minimum amount of RSD reserves allocated in accordance with the Decision on Required Reserves Held with the NBS. In accordance with the said Decision, the required RSD reserves are calculated based on the average daily carrying amount of RSD deposits, loans, securities, and other RSD liabilities during a single calendar month, using a rate rates from 0% to 5% until August 2023, and from September 2023 at rates from 2% to 7% depending on the agreed maturity and source of financing, and then held in the bank's giro account. The bank is obliged to maintain the average daily balance of the calculated dinar required reserve.. Group is obliged to keep the average daily balance of allocated dinar reserves at the level of the calculated dinar reserve requirements. During 2023 NBS paid interest on the balance of the Group's obligatory RSD reserve at interest rate of 0.75% per year.

The NBS, in accordance with the Decision on Interest Rates Applied by the NBS in the Monetary Policy Implementation Procedure, in order to mitigate the economic consequences of the COVID-19 pandemic, calculated dinar required reserves, pays interest at an interest rate increased by 0.50% on an annual basis. The amount on which interest is calculated on that basis is determined in the amount of the average daily balance of dinar loans that meet the conditions prescribed by the Decree, or the Law establishing a guarantee scheme as a measure of economic support to mitigate the consequences of the COVID-19 SARS-CoV-2 if each individual loan included in that balance is approved at an interest rate that is at least 0.5% lower than the maximum interest rate prescribed by the Decree or the Law for loans approved in RSD.

The required foreign currency reserve with the National Bank of Serbia represents the minimum foreign currency reserve amount allocated in accordance with the Decision on Required Reserves Held with the NBS. In accordance with the said Decision, the required foreign currency reserves are calculated based on the average daily carrying amount of foreign currency deposits, loans and other foreign currency liabilities or those in RSD with a currency clause index (EUR to RSD) during a single calendar month. The required foreign currency reserve rates until August 2023 were 20% for foreign currency liabilities with maturities of up to 2 years and 13% for foreign currency liabilities with maturities of over 2 years and from September 2023 it is 23% on foreign currency liabilities up two years and 16% on foreign currency liabilities over two years.. The rate applied to the portion of the foreign currency reserve comprised of RSD liabilities with a currency clause index was 100%.

The Group is obliged to keep the average daily balance of allocated foreign currency reserves at the level of the calculated foreign currency reserve requirements. Foreign currency obligatory reserve does not accrue interest.

20.2 Movements on the account of impairment allowance of cash and balances held with the central bank during the year are provided in the table below:

	Individual		Collective	
	2023	2022	2023	2022
Balance at January 1	-	-	(3)	(2)
Impairment losses:	-			
Change for the year	-	-	(5)	(1)
Total for the year	-	-	(5)	(1)
Balance at December 31	**-**	**-**	**(8)**	**(3)**

All amounts expressed in thousands of RSD, unless otherwise stated.

21. PLEDGED FINANCIAL ASSETS

As of 31 December 2023, the Group has no pledged financial assets. As at 31 December 2022, in order to secure liabilities based on repo transactions with NBS, the Group pledged coupon Treasury bills of the Republic of Serbia issued in dinars with a nominal value of RSD 6,411,120 thousand carried at amortized cost.

	2023	2022
Pledged financial assets	-	7,220,590
Balance at December 31	**-**	**7,220,590**

22. RECEIVABLES UNDER DERIVATIVE FINANCIAL INSTRUMENTS

Receivables under derivative financial instruments include:

	2023	2022
Receivables per forward revaluation and currency swaps	6,094	24,169
Receivables per interest rate swaps	2,049,563	2,765,798
Receivables per interest rate options	-	18,782
Balance at December 31	**2,055,657**	**2,808,749**

23. SECURITIES

23.1 Securities include:

	2023	2022
Securities measured at amortized cost	62,377,169	42,915,030
Securities measured at fair value through OCI	39,885,343	59,388,886
Securities measured at fair value through profit or loss	2,454,461	1,535,672
Total	104,716,973	103,839,588
Impairment allowance	(271,187)	(67,707)
Balance at December 31	**104,445,786**	**103,771,881**

23.2 Movements on the account of impairment allowance of securities at AC and at FVtOCI during the year are provided in the table below:

	Individual		Collective	
	2023	2022	2023	2022
Balance at January 1	-	-	(67,707)	(79,515)
Impairment losses:				
Reversal for the year	-	-	(209,170)	4,391
Foreign exchange effects	-	-	29	20
Effects of the sales of securities	-	-	5,661	7,397
Total for the year	-	-	(203,480)	11,808
Balance at December 31	**-**	**-**	**(271,187)**	**(67,707)**

23.3 Breakdown of securities per measurement and issuer is presented in the table below:

	Measurement	2023	2022
Receivables discounted bills of exchange	AC	22,664	54,275
Treasury bills issued by the Republic of Serbia	AC	57,085,922	37,950,434
	FVtOCI	28,937,720	50,813,433
	FVtPL	2,454,461	1,535,672
Treasury bills of the Republic of Serbia and municipal bonds – hedged items	FVtOCI	10,838,874	8,533,139
	AC	5,106,145	4,884,928
Balance at December 31		**104,445,786**	**103,771,881**

All amounts expressed in thousands of RSD, unless otherwise stated.

23. SECURITIES (Continued)

As of December 31, 2023, the Bank's receivables per discounted bills of exchange of RSD 22,664 thousand represent investments with maturities of up to a year and at a discount rate equal to 1-month BELIBOR plus 2.80% to 3% per annum and 1-month BEONIA plus 3.5% per annum.

As of December 31, 2023, the Group's securities measured at amortized cost of RSD 57,085,922 thousand refer to the investments in the Treasury bills issued by the Republic of Serbia maturing up to 2032.

As of December 31, 2023, the Group's securities measured at fair value through other comprehensive income of RSD 28,937,720 thousand pertain to the investments in the Treasury bills issued by the Republic of Serbia maturing up to 2032.

As of December 31, 2023, the Group's securities measured at fair value through profit or loss of RSD 2,454,461 thousand pertain to the investments in the Treasury bills issued by the Republic of Serbia maturing up to 2032.

As of December 31, 2023, the Group's securities measured at fair value through other comprehensive income totaling RSD 10,838,874 thousand refer to Treasury bills issued by the Republic of Serbia as hedged items, with maturities up to 2029. Investments in securities measured at amortized cost of RSD 5,106,145 refer to the investments in Treasury bills issued by the Republic of Serbia as hedged items, with maturities up to 2027.

For protection of the municipal bonds and Treasury bills of the Republic of Serbia against the interest rate risk, the Group implemented fair value micro hedging (note 26).

24. LOANS AND RECEIVABLES DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

24.1. Loans and receivables due from banks and other financial institutions include:

	2023	2022
Foreign currency accounts held with:		
- other banks within UniCredit Group	1,079,453	1,266,240
- other foreign banks	4,870,147	917,833
- Central Bank		1,810
Total foreign currency accounts	5,949,600	2,185,883
Overnight deposits:		
- in foreign currency	23,555,187	22,528,297
Total overnight deposits	23,555,187	22,528,297
Guarantee foreign currency deposit placed for purchase and sale of securities	4,687	4,693
Short-term deposits in foreign currency	4,688,315	15,466,107
Foreign currency earmarked deposits	12,293	12,791
Short-term loans:		
- in RSD	627,055	66,401
Total short-term loans	627,055	66,401
Long-term loans:		
- in RSD	478,268	617,057
Total long-term loans	478,268	617,057
REPO with NBS in RSD	27,692,035	35,016,260
RSD finance lease receivables	1,381	2,382
Total	63,008,821	75,899,871
Impairment allowance	(2,430)	(6,232)
Balance at December 31	**63,006,391**	**75,893,639**

All amounts expressed in thousands of RSD, unless otherwise stated.

24. LOANS AND RECEIVABLES DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (Continued)

24.2. Movements on the account of impairment allowance of loans and receivables due from banks during the year are provided in the table below:

	Individual		Collective	
	2023	2022	2023	2022
Balance at January 1	-	-	(6,232)	(4,124)
Impairment losses:				
Change for the year	-	-	3,077	(2,446)
Foreign exchange effects	-	-	64	338
Write-off without debt acquittal	-	-	661	-
Total for the year	-	-	3,802	(2,108)
Balance at December 31	**-**	**-**	**(2,430)**	**(6,232)**

24.3. The Group's balances/foreign currency accounts held with banks members of UniCredit Group are listed below:

	2023	2022
UniCredit Bank Austria AG, Vienna	326,589	493,423
UniCredit Bank AG, Munich	20,237	22,879
UniCredit Bank Hungary Z.r.t., Hungary	27,441	12,217
UniCredit Bank Czech Republic and Slovakia A.S.	286	321
UniCredit S.P.A. Milan	664,521	733,550
Zagrebačka banka d.d.	-	231
UniCredit Bank BIH	3,953	1,965
UniCredit Bank ZAO Moscow	36,426	1,654
Balance at December 31	**1,079,453**	**1,266,240**

25. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

25.1 Loans and receivables due from customers include:

	2023	2022
Short-term loans:		
- in RSD	44,532,309	46,499,704
- in foreign currencies	636,110	269,682
Total short-term loans	45,168,419	46,769,386
Long-term loans:		
- in RSD	276,893,174	265,084,725
- in foreign currencies	13,717,425	12,341,449
Total long-term loans	290,610,599	277,426,174
Factoring receivables		
-in RSD	4,174,137	1,239,774
-in foreign currencies	10,166	-
Total factoring receivables	4,184,303	1,239,774
RSD finance lease receivables	17,952,830	17,556,171
Other RSD loans and receivables	365	365
Total	357,916,516	342,991,870
Impairment allowance	(13,446,809)	(14,148,156)
Balance at December 31	**344,469,707**	**328,843,714**

Loans with a currency clause index (EUR, CHF, USD) are presented within RSD loans in the above table.

All amounts expressed in thousands of RSD, unless otherwise stated.

25. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

25.2. Movements on the account of impairment allowance of loans and receivables due from customers during the year are provided in the table below:

	Individual		Collective	
	2023	2022	2023	2022
Balance at January 1	(5,163,703)	(5,352,001)	(8,984,453)	(7,104,657)
Impairment losses:				
Change for the year	(347,118)	(267,033)	(424,060)	(2,787,806)
Foreign exchange effects	4,807	8,201	2,530	2,196
Unwinding (time value)	9,719	-	912	13,789
Effects of the portfolio sales	89,750	85,564	-	-
Write-off with debt acquittal	-	1,327	512	2,931
Write-off without debt acquittal*	318,163	360,239	1,046,132	889,094
Total for the year	75,321	188,298	626,026	(1,879,796)
Balance at December 31	**(5,088,382)**	**(5,163,703)**	**(8,358,427)**	**(8,984,453)**

*Write-off without debt acquittal, i.e., accounting write-off, is a write-off of receivables made in accordance with the Decision on the Accounting Write-Off of Bank Balance Sheet Assets of the NBS (Official Gazette of RS no. 77/2017), effective as from September 30, 2017. In line with the said Decision, the Group writes off balance sheet assets with highly unlikely recoverability, i.e., makes a full accounting write-off of impaired receivables. Within the meaning of the aforesaid Decision, the accounting write-off entails transfer of the written-off receivables from the Group's balance sheet assets to its off-balance sheet items.

25.3. Breakdown of loans and receivables due from customers is provided below:

	2023		
	Gross Amount	Impairment Allowance	Carrying Amount
Public sector	10,813,178	(61,511)	10,751,667
Corporate customers	234,340,081	(8,496,645)	225,843,436
Retail customers	112,763,257	(4,888,653)	107,874,604
Balance at December 31	**357,916,516**	**(13,446,809)**	**344,469,707**

	2022		
	Gross Amount	Impairment Allowance	Carrying Amount
Public sector	12,636,827	(76,135)	12,560,692
Corporate customers	220,918,018	(8,397,777)	212,520,241
Retail customers	109,437,025	(5,674,244)	103,762,781
Balance at December 31	**342,991,870**	**(14,148,156)**	**328,843,714**

25. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

25.4. Corporate loans were mostly approved for maintaining current liquidity (current account overdrafts), financing working capital and investments. They were used for funding business activities in trade and services, manufacturing industry, construction industry, agriculture and food industry and other purposes. Short-term loans were approved for periods ranging from 30 days to a year. Interest rates on short-term loans with a currency clause index ranged from 1-month, 3-month or 6-month EURIBOR increased by 3,33%, on the average, while RSD short-term loans accrued interest at the rates between 1-month, 3-month or 6-month BELIBOR increased by 3.41% on the average.

Long-term corporate loans were approved for periods up to 10 years. Interest rate applied to long-term loans with a currency clause index ranged from 1-month, 3-month or 6-month EURIBOR increased by 3.35% annually on the average, while RSD long-term loans accrued interest at the rates between 1-month, 3-month or 6-month BELIBOR increased by 2,92% annually on the average, in line with the other costs and the Group's interest rate policy.

The Group offers housing loans with fixed, variable and combined interest rates. Housing loans indexed in EUR for households are approved with a repayment period of 60 to 360 months in the case of the variable and combined interest rate option, or up to 240 months in the case of fixed interest rate loans. Loans with fixed nominal interest rate were realized at an interest rate ranging from 5.95% to 8.45%. Loans with combined nominal interest rate are realized at interest that is fixed for the first 60 months, at the level from 5,95% to 6.45%, while after that period the interest rate is realized in the range of 2.55% to 3.30% increased by the 6-months EURIBOR. Loans with variable interest rate were realized at interest rates ranging from 2.55% to 3.30% increased by the 6-months EURIBOR.

The Group also offers housing loans for natural persons in dinars that are approved for a period of 240 months, with a variable interest rate of 5% plus a six-month grace period.

During the current year, the National Bank of Serbia adopted the Decision on temporary measures for banks related to housing loans to private individuals, which prescribes temporary measures and activities aimed at preserving the stability of the financial system, which commercial banks are obliged to apply in order to protect debtors - users of housing credit and stability of the financial system. The decision came into force on 13th September, 2023 and refers to the first housing loan for the purchase/construction of residential real estate to private individuals with a variable interest rate in the amount of up to 200,000 euros, which is secured by a mortgage on residential real estate.
Housing loan users are subject to temporary suspensions of nominal interest rate growth for the next 15 months, starting with the first annuity due after 1st October, 2023, and ending with 31st December, 2024.

The temporary moratorium on rising interest rates will be applied in accordance with the following rules for loans with a variable interest rate:

1) Housing loans issued as of 31.7.2022 - variable nominal interest rate (sum of margin and 6M Euribor) will amount to 4.08% (loans with fixed or combined interest rate while the fixed part of the interest rate is valid are not subject to correction and there is no suspension or interest rate reduction applied to them)

2) Housing loans that were issued with a variable interest rate in the period from August 1, 2022. ending with 12.9.2023. years are divided into two groups, namely:

    a. Loans that at the time of release had a variable nominal interest rate lower than 4.08% were set at a nominal interest rate of 4.08% (the loans that were released in the period from 01.08.2022 to 07.02.2023, when the 6-months EURIBOR was 0.69%)
    b. Loans that had a variable nominal interest rate of 4.08% at the time of release will be returned to the nominal interest rate from the repayment plan that was given to the client during the realization of the loan (the loans realized after 08.02.2023., when the 6-months EURIBOR was 3.008%, and as of 08.08.2023. is 3.94%)

25. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

The NBS Decision was applied to housing loans in the amount of RSD 33,580,831. On this basis, the Group recognized a modification loss in the amount of RSD 1,143,730 thousand (note 12). As of December 31, 2023 the balance of housing loans covered by the aforementioned Decision is RSD 32,098,359 thousand gross, or RSD 31,893,864 thousand net.

The Group offers loans for investment financing, for working capital, as well as other standard products, including documentary business products.

Finance lease loans were approved to enterprises for purchases of vehicles and equipment at average fixed interest rate of 6.56% and variable interest rate based on 3-month EURIBOR increased by 3.64% on the average The average financing period of enterprises was 3.5 years. Finance lease loans were approved to individuals for purchases of vehicles and equipment at average fixed interest rate of 6.38% and variable interest rate based on 3-month EURIBOR increased by 4% on the average. The average financing period of individuals was 4 years.

During 2021, the Group has implemented cash flow hedging to hedge against exposure to changes in cash flows of loan interest which have variable interest rate by using interest rate swaps (note 26).

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All amounts expressed in thousands of RSD, unless otherwise stated.

25. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

25.5. The concentration of total loans and receivables due from customers per industry was as follows

	2023	2022
Corporate customers		
- Energy	21,553,778	15,748,392
- Agriculture	4,717,906	5,164,637
- Construction industry	24,500,650	27,620,089
- Mining and industry	55,951,500	49,510,912
- Trade	42,617,129	45,292,711
- Services	41,698,483	37,704,582
- Transportation and logistics	30,050,956	29,245,050
- Other	13,249,679	10,631,645
	234,340,081	220,918,018
Public sector	10,813,178	12,636,827
Retail customers		
- Private individuals	104,050,130	101,384,744
- Entrepreneurs	8,713,127	8,052,281
	112,763,257	109,437,025
Total	**357,916,516**	**342,991,870**
Impairment allowance	(13,446,809)	(14,148,156)
Balance at December 31	**344,469,707**	**328,843,714**

Structure of loans and receivables to private individuals per loan type is presented in table below:

	2023	2022
- Overdrafts	632,854	589,418
- Consumer loans	208,521	322,852
- Working capital loans	991,412	578,203
- Investment loans	3,594,193	3,419,038
- Mortgage loans	40,593,136	40,884,279
- Cash loans	56,018,404	53,775,954
- Credit cards	1,282,206	1,061,717
- Leasing contacts	729,404	753,283
Total	**104,050,130**	**101,384,744**

Loans to private individuals also include loans to registered agricultural producers.

The Group manages credit risk concentration in portfolio by determining limits. Limits are determined by internal acts and/or NBS regulations, and they are regularly monitored and reported on.

With defining industrial limits, geographical limits, limit of leverage transactions and through regular monitoring and reporting of portfolio exposure per segments, products, collateral types etc. the Bank controls credit risk at portfolio level.

All amounts expressed in thousands of RSD, unless otherwise stated.

26. HEDGE ACCOUNTING

Net (losses)/gains on risk hedging include:

	2023	2022
Net gains/(losses) on the change in the value of hedged loans, receivables and securities	598,008	(1,146,250)
Net (losses)/gains on the change in the value of derivatives designated as risk hedging instruments	(603,052)	1,163,583
Net (losses)/gains on risk hedging	**(5,044)**	**17,333**

26.1 Fair value hedge

For protection of the municipal bonds and Treasury bills of the Republic of Serbia against the interest rate risk, the Group implemented fair value hedging, i.e., it designated as hedged items its investments in the municipal bonds and Treasury bills of the Republic of Serbia.

Information about remaining maturity of interest rate swaps are presented in the following table:

	Maturity 2023			Maturity 2022		
	Less than 1 year	1-5 years	More than 5 years	Less than 1 year	1-5 years	More than 5 years
Nominal amount	-	15,197,429	1,406,084	340,235	12,107,671	2,581,093
Average fixed interest rate	-	1.77%	0.03%	2.51%	1.67%	0.34%

The amounts relating to hedging instrument are presented in the following table:

Instrument	Line item in the statement of financial position	2023			2022		
		Nominal amount	Carrying amount		Nominal amount	Carrying amount	
			Assets	Liabilities		Assets	Liabilities
Interest rate swap	Receivables under derivatives designated as risk hedging instruments	9,842,591	553,490	-	14,207,742	1,083,998	-
Interest rate swap	Liabilities under derivatives designated as risk hedging instruments	6,760,922	-	119,337	821,257	-	76,888

All amounts expressed in thousands of RSD, unless otherwise stated.

26. HEDGE ACCOUNTING (Continued)

26.1 Fair value hedge (Continued)

The amounts relating to items designated as hedged items and hedge effectiveness at 31 December 2023 were as follows:

Hedged item	Line item in the statement of financial position	Carrying amount	Change in fair value of instrument used for calculating hedge ineffectiveness	Change in value of hedged item used for calculating hedge ineffectiveness	Ineffectiveness recognised in profit or loss	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item		Accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses
						Assets	Liabilities	
Treasury bills issued by the Republic of Serbia carried at FVtOCI	Securities	10,838,874	363,513	(366,355)	12,575	(366,355)	-	-
Treasury bills issued by the Republic of Serbia carried at AC	Securities	5,106,145	151,367	(152,831)	6,052	(152,831)	-	-

The amounts relating to items designated as hedged items and hedge effectiveness at 31 December 2022 were as follows:

Hedged item	Line item in the statement of financial position	Carrying amount	Change in fair value of instrument used for calculating hedge ineffectiveness	Change in value of hedged item used for calculating hedge ineffectiveness	Ineffectiveness recognised in profit or loss	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item		Accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses
						Assets	Liabilities	
Treasury bills issued by the Republic of Serbia and Municipal bonds carried at FVtOCI	Securities	8,533,139	774,459	(774,770)	(22,722)	(774,770)	-	-
Treasury bills issued by the Republic of Serbia carried at AC	Securities	4,884,928	343,164	(343,630)	(5,343)	(343,630)	-	-

In this hedging relationships, the main source of ineffectiveness is the effect of Credit/Debit Value and Funding Value adjustment impacting derivative transactions fair values.

All amounts expressed in thousands of RSD, unless otherwise stated.

26. HEDGE ACCOUNTING (Continued)

26.2 Cash flow hedge

In 2021, the Bank has implemented cash flow hedging to hedge against variability of interest cash flows stemming from variable rate EUR denominated loans. Considering that part of loans with variable interest rate is financed from sight deposits with fixed or zero interest rate, the Bank has decided to apply cash flow hedge accounting converting highly probable future variable interest cash flows into fixed ones using interest rate swaps.

	Maturity 2023			Maturity 2022		
	Less than 1 year	1-5 years	More than 5 years	Less than 1 year	1-5 years	More than 5 years
Nominal amount of hedged item	-	-	8,551,077	-	-	3,953,765
Average fixed interest rate	-	-	0.32%	-	-	0.01%

The amounts relating to hedging instrument are presented in the following table:

Instrument	Line item in the statement of financial position	2023			2022		
		Nominal amount	Carrying amount		Nominal amount	Carrying amount	
			Assets	Liabilities		Assets	Liabilities
Interest rate swap	Recievables under derivatives designated as risk hedging instruments	4,602,323	83,419	-			
Interest rate swap	Liabilities under derivatives designated as risk hedging instruments	3,948,754	-	615,213	3,953,765	-	847,756

All amounts expressed in thousands of RSD, unless otherwise stated.

26. HEDGE ACCOUNTING (Continued)

26.2 Cash flow hedge (Continued)

The amounts relating to items designated as hedged items and hedge effectiveness at 31 December 2023 were as follows:

Hedged item	**Changes in the value of the hedging instrument recognised in OCI**	**Change in value of hedged item**	**Ineffectiveness recognised in profit or loss**	**Cash flow hedge reserve**	Balances remaining in the cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied
Highly probable interest cash flows derived from variable rate loans	(535,588)	543,803	(23,671)	(535,588)	-

The amounts relating to items designated as hedged items and hedge effectiveness at 31 December 2022 were as follows:

Hedged item	**Changes in the value of the hedging instrument recognised in OCI**	**Change in value of hedged item**	**Ineffectiveness recognised in profit or loss**	**Cash flow hedge reserve**	Balances remaining in the cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied
Highly probable interest cash flows derived from variable rate loans	(886,544)	895,313	45,398	(886,544)	-

Generally, the Group is always in under hedged position (not targeting full offset since hedge item will be lower than hedge eligible item). Ineffectiveness could appear when:
- The FV of the derivatives is higher than the FV of the hedged underlying with regard to the hedged interest rate risk. Hypothetical derivative change in Fair value might not reflect collateralized contract (usage of collateralize hedging derivatives is a source of ineffectiveness). Currently, there is no clear plan to switch to collateral module in Murex (module which supports credit support annex agreements (CSA)) for CEE countries, including Serbia. As the revaluation in Murex (and risk) systems will not consider collateralization to compute the FV (by adopting a specific discounting curve, eg ESTER), ineffectiveness situations are not expected.
- Deterioration in credit risk of the hedging instrument counterparty affects the cash flows and reduces the fair value of the derivative. However if this is the case Group's strategy covers revoking the designation of such derivatives and replacing them with new ones from a counterparty with sound credit standing. In this hedging relationships, the only source of ineffectiveness is the effect of Credit/Debit Value and Funding Value adjustment impacting derivative transactions fair values.

All amounts expressed in thousands of RSD, unless otherwise stated.

27. INTANGIBLE ASSETS

27.1 Intangible assets, net:

	2023	2022
Software and licenses	1,569,936	1,952,422
Investments in progress	952,519	517,269
Balance at December 31	**2,522,455**	**2,469,691**

27.2 Movements in intangible assets in 2023 are presented in the table below:

	Software and licences	Investment in Progress	Total
Cost			
Balance at January 1, 2023	6,587,706	517,269	7,104,975
Additions	-	671,099	671,099
Transfer from investment in progress	220,643	(220,643)	-
Impairment losses	(28,699)	(6,709)	(35,408)
Other	(9,062)	(8,497)	(17,559)
Balance at December 31, 2023	6,770,588	952,519	7,723,107
Accumulated amortization and impairment losses			
Balance at January 1, 2023	4,635,284	-	4,635,284
Amortization charge for the year	593,417	-	593,417
Impairment losses	(26,987)	-	(26,987)
Other	(1,062)	-	(1,062)
Balance at December 31, 2023	5,200,652	-	5,200,652
Net book value at December 31, 2023	**1,569,936**	**952,519**	**2,522,455**
Net book value at January 1, 2023	**1,952,422**	**517,269**	**2,469,691**

27.3 Movements in intangible assets in 2022 are presented in the table below:

	Software and licences	Investment in Progress	Total
Cost			
Balance at January 1, 2022	5,560,389	1,039,008	6,599,397
Additions	-	539,277	539,277
Transfer from investment in progress	1,056,359	(1,056,359)	-
Other	(29,042)	(4,657)	(33,699)
Balance at December 31, 2022	6,587,706	517,269	7,104,975
Accumulated amortization and impairment losses			
Balance at January 1, 2022	4,027,928	-	4,027,928
Amortization charge for the year	609,702	-	609,702
Other	(2,346)	-	(2,346)
Balance at December 31, 2022	4,635,284	-	4,635,284
Net book value at December 31, 2022	**1,952,422**	**517,269**	**2,469,691**
Net book value at January 1, 2022	**1,532,461**	**1,039,008**	**2,571,469**

28. PROPERTY, PLANT AND EQUIPMENT

28.1 Property, plant and equipment comprise:

	2023	2022
Buildings	610,605	614,984
Equipment and other assets	570,435	597,736
Leasehold improvements	134,362	118,399
Investments in progress	238,259	115,079
Right-of-use assets	1,482,855	1,657,713
Balance at December 31	**3,036,516**	**3,103,911**

All amounts expressed in thousands of RSD, unless otherwise stated.

28. PROPERTY, PLANT AND EQUIPMENT (Continued)

28.2 Movements in property and equipment in 2023 are presented below:

	Buildings	Equipment and other assets	Leasehold improvements	Investments in progress	Right-of-use assets	Total
Cost/Revalued value						
Balance at January 1, 2023	844,211	2,345,824	587,905	115,079	3,424,507	7,317,526
Additions	-	5,348	-	346,876	71,975	424,199
Transfer from investments in progress	-	156,121	64,649	(220,770)	-	-
Disposal and retirement	-	(11,616)	(10,393)	-	(118,134)	(140,143)
Effect of the change in fair value	13,066	-	-	-	-	13,066
Other	-	-	-	(2,926)	-	(2,926)
Modifications	-	-	-	-	298,023	298,023
Balance at December 31, 2023	857,277	2,495,677	642,161	238,259	3,676,371	7,909,745
Accumulated depreciation and impairment Losses						
Balance at January 1, 2023	229,227	1,748,088	469,506	-	1,766,794	4,213,615
Depreciation charge for the year	13,603	187,219	48,686	-	498,570	748,078
Disposal and retirement	-	(10,065)	(10,393)		(71,848)	(92,306)
Effect of the change in fair value	3,842	-	-	-	-	3,842
Balance at December 31, 2023	246,672	1,925,242	507,799	-	2,193,516	4,873,229
Net book value at December 31, 2023	**610,605**	**570,435**	**134,362**	**238,259**	**1,482,855**	**3,036,516**
Net book value at January 1, 2023	**614,984**	**597,736**	**118,399**	**115,079**	**1,657,713**	**3,103,911**

As of December 31, 2023, Bank has hired a certified appraisers NAI WMG doo, Belgrade and CBS International d.o.o. Belgrade to assess the fair value of the properties used for performance of Bank's own business activity in accordance with IFRS 13. The appraisers determined the fair, liquidation and construction value of each individual property using the income approach for 12 properties and comparative approach for 1 property as well as valuation techniques for which there were sufficient available data. Given that in the real estate market of the Republic of Serbia there are no quoted prices or prices achieved for properties identical to those owned by the Bank, the appraiser used Level 2 and Level 3 inputs in the fair value assessment. Level 2 inputs are observable from the market data such as publicly available information on the transactions reflecting the assumptions that the other market participants would use. Level 3 inputs are assumed (unobserved) inputs developed by the appraiser using the best information available in the current circumstances.

If the Group had continued to apply the cost model (from 31.12.2019 the Bank uses the revaluation method), the net present value as of December 31, 2023 would have been RSD 482,425 thousand for property used for performance of the Bank's business activity.

The Group does not have pledged property, plant and equipment.

All amounts expressed in thousands of RSD, unless otherwise stated.

28. PROPERTY, PLANT AND EQUIPMENT (Continued)

28.3 Movements in property and equipment in 2022 are presented below:

	Buildings	Equipment and other assets	Leasehold improvements	Investments in progress	Right-of-use assets	Total
Cost/Revalued value						
Balance at January 1, 2022	740,346	2,183,302	565,820	217,345	3,132,398	6,839,211
Additions	-	2,814	-	172,621	99,725	275,160
Transfer from investments in progress	-	245,172	28,935	(274,107)	-	-
Disposal and retirement	-	(85,464)	(6,851)	-	-	(92,315)
Effect of the change in fair value	103,865	-	-	-	-	103,865
Other	-	-	-	(780)	-	(780)
Modifications	-	-	-	-	192,384	192,384
Balance at December 31, 2022	844,211	2,345,824	587,904	115,079	3,424,507	7,317,525
Accumulated depreciation and impairment Losses						
Balance at January 1, 2022	184,201	1,616,862	429,903	-	1,295,956	3,526,922
Depreciation charge for the year	15,666	216,674	46,453	-	470,838	749,631
Disposal and retirement	-	(85,448)	(6,851)	-	-	(92,299)
Effect of the change in fair value	29,360	-	-	-	-	29,360
Balance at December 31, 2022	229,227	1,748,088	469,505	-	1,766,794	4,213,614
Net book value at December 31, 2022	**614,984**	**597,736**	**118,399**	**115,079**	**1,657,713**	**3,103,911**
Net book value at January 1, 2022	**556,145**	**566,440**	**135,917**	**217,345**	**1,836,442**	**3,312,289**

28.4 The right-of-use assets include:

	2023	2022
Business premises	1,428,100	1,586,840
Storage and warehouse area	1,836	2,405
Parking spots	40,293	52,830
Automobiles	12,349	15,523
Other equipment	277	115
Balance at December 31	**1,482,855**	**1,657,713**

All amounts expressed in thousands of RSD, unless otherwise stated.

28. PROPERTY, PLANT AND EQUIPMENT (Continued)

28.5 Movements in the right-of-use assets during 2023 are presented below:

	Business premises	Storage and warehouse	Parking spots	Automobiles	Other equipment	Total
Gross carrying value						
Balance at January 1, 2023	3,263,595	5,053	112,387	35,617	7,855	3,424,507
Additions	67,824	-	-	2,490	1,661	71,975
Disposal and retirement	(118,134)	-	-	-	-	(118,134)
Modifications						
- positive effects	298,862	218	4,639	-	97	303,816
- negative effects	(5,793)	-	-	-	-	(5,793)
	293,069	218	4,639	-	97	298,023
Balance at December 31, 2023	3,506,354	5,271	117,026	38,107	9,613	3,676,371
Accumulated depreciation						
Balance at January 1, 2023	1,676,755	2,648	59,557	20,094	7,740	1,766,794
Depreciation charge	473,347	787	17,176	5,664	1,596	498,570
Disposal and retirement	(71,848)	-	-	-	-	(71,848)
Balance at December 31, 2023	2,078,254	3,435	76,733	25,758	9,336	2,193,516
Net book value at December 31, 2023	**1,428,100**	**1,836**	**40,293**	**12,349**	**277**	**1,482,855**

28.6 Movements in the right-of-use assets during 2022 are presented below:

	Business premises	Storage and warehouse	Parking spots	Automobiles	Other equipment	Total
Gross carrying value						
Balance at January 1, 2022	2,977,304	4,898	108,103	35,617	6,476	3,132,398
Additions	98,776	-	949	-	-	99,725
Disposal and retirement	-	-	-	-	-	-
Modifications						-
- positive effects	187,515	155	3,335	-	1,379	192,384
	187,515	155	3,335	-	1,379	192,384
Balance at December 31, 2022	3,263,595	5,053	112,387	35,617	7,855	3,424,507
Accumulated depreciation						
Balance at January 1, 2022	1,230,862	1,926	43,957	13,594	5,617	1,295,956
Depreciation charge	445,893	722	15,600	6,500	2,123	470,838
Balance at December 31, 2022	1,676,755	2,648	59,557	20,094	7,740	1,766,794
Net book value at December 31, 2022	**1,586,840**	**2,405**	**52,830**	**15,523**	**115**	**1,657,713**

All amounts expressed in thousands of RSD, unless otherwise stated.

29. INVESTMENT PROPERTY

Movements in investment property in 2023 are presented below:

	Investment property	Investments in progress	Total
Fair value			
Balance at January 1, 2023	7,274	-	7,274
Effect of the change in fair value	460	-	460
Balance at December 31, 2023	**7,734**	**-**	**7,734**

Certified Appraiser NAI WMG doo, Belgrade performed assessment of the fair value of investment property for the purpose of financial reporting as of December 31, 2023 in accordance with IFRS 13. The appraiser determined the fair, liquidation and construction value of each individual property using the comparative approach as well as appraisal techniques for which sufficient data were available. If the Group had continued to apply the cost model (from 31.12.2019 the Group uses the fair value), the net present value as of December 31, 2023 would have been RSD 1,167 thousand for investment property.

30. OTHER ASSETS

30.1. Other assets relate to:

	2023	2022
Other assets in RSD:		
Fee and commission receivables calculated per other assets	160,956	131,732
Advances paid, deposits and retainers	45,379	123,324
Receivables per actual costs incurred	103,415	152,851
Receivables from the RS Health Insurance Fund	74,383	74,095
Other receivables from operations	971,259	1,226,209
Assets acquired in lieu of debt collection	6,843	5,517
Receivables for prepaid taxes and contributions	16,327	44,395
Accrued other income receivables	35,166	23,643
Deferred other expenses	135,082	157,056
	1,548,810	1,938,822
Other assets in foreign currencies:		
Fee and commission receivables calculated per other assets		
Other receivables from operations	249,876	33,696
Accrued other income receivables	199,536	88,235
	449,412	121,931
Total	1,998,222	2,060,753
Impairment allowance	(79,721)	(64,180)
Balance at December 31	**1,918,501**	**1,996,573**

30.2. Movements on the impairment allowance accounts of other assets during the year are provided in the table below:

	Individual		Collective	
	2023	2022	2023	2022
Balance at January 1	(4,110)	(24,417)	(60,070)	(38,076)
Impairment losses:				
Change for the year	(11,983)	20,307	(158,891)	(155,336)
Foreign exchange effects	-	-	88	95
Write-off with debt acquittal	-	-	388	3,740
Write-off without debt acquittal	-	-	140,307	129,507
Total for the year	2,567	20,307	(18,108)	(21,994)
Balance at December 31	**(1,543)**	**(4,110)**	**(78,178)**	**(60,070)**

All amounts expressed in thousands of RSD, unless otherwise stated.

31. LIABILITIES UNDER DERIVATIVE FINANCIAL INSTRUMENTS

Liabilities under derivative financial instruments include:

	2023	2022
Types of instruments:		
- currency swaps and forwards	20,775	14,189
- interest rate swaps	2,098,367	2,786,425
- interest rate options	-	18,782
Balance at December 31	**2,119,142**	**2,819,396**

32. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, OTHER FINANCIAL INSTITUTIONS AND THE CENTRAL BANK

32.1. Deposits and other liabilities due to banks, other financial institutions and the central bank include:

	2023	2022
Demand deposits:		
- in RSD	6,510,562	8,172,547
- in foreign currencies	3,092,351	1,209,548
Total demand deposits	9,602,913	9,382,095
Overnight deposits:		
- in RSD	1,444,582	394,059
- in foreign currencies	519,934	332,329
Total overnight deposits	1,964,516	726,388
Short-term deposits:		
- in RSD	6,182,571	9,007,582
- in foreign currencies	21,953,561	14,060,358
Total short-term deposits	28,136,132	23,067,940
Long-term deposits:		
- in RSD	241,307	187,277
- in foreign currencies	44,474,935	38,418,341
Total long-term deposits	44,716,242	38,605,618
Long-term borrowings:		
- in RSD	6,459,576	9,289,649
- in foreign currencies	54,853,922	51,841,895
Total long-term borrowings	61,313,498	61,131,544
Loans under repo transactions:		
- in RSD	-	5,846,941
Total loans under repo transactions:	-	5,846,941
Other financial liabilities:		
- in RSD	137	567
- in foreign currencies	433,339	434,562
Total other financial liabilities	433,476	435,129
Balance at December 31	**146,166,777**	**139,195,655**

Short-term RSD deposits were placed by other banks for periods of up to a year at annual interest rates up to 5.25%, while short-term foreign currency deposits of other banks maturing within a year accrued interest at the rates ranging from 2.20% to 5.92% annually, depending on the currency. The Group received long-term foreign currency deposits placed by banks for periods of 5 years at interest rates ranging from 5.87% to 6.33% per annum.

All amounts expressed in thousands of RSD, unless otherwise stated.

32. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, OTHER FINANCIAL INSTITUTIONS AND THE CENTRAL BANK (Continued)

32.2. Breakdown of long-term borrowings from banks is provided below:

	2023	2022
European Bank for Reconstruction and Development (EBRD)	19,484,080	23,629,503
Kreditanstalt fur Wiederaufbau Frankfurt am Main (KfW)	4,762,981	5,664,652
European Investment Bank, Luxembourg	7,150,384	6,046,622
Casa depositi e prestiti Spa, Roma	4,687,766	-
European Fund for Southeast Europe SA, Luxembourg	6,696,411	8,179,214
Green for Growth Fund, Southeast Europe, Luxembourg	7,838,190	6,591,465
UniCredit S.P.A. Milano	10,693,686	11,020,088
Balance at December 31	**61,313,498**	**61,131,544**

The above listed long-term borrowings were approved to the Group for periods from 2 to 15 years at nominal interest rates up to 6.80% per annum.

33. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

33.1. Deposits and other liabilities due to customers comprise:

	2023	2022
Demand deposits:		
- in RSD	157,757,344	124,981,180
- in foreign currencies	129,942,863	142,884,879
Total demand deposits	287,700,207	267,866,059
Overnight deposits:		
- in RSD	1,758,511	2,085,566
- in foreign currencies	1,985,323	6,979,330
Total overnight deposits	3,743,834	9,064,896
Short-term deposits:		
- in RSD	29,717,947	33,819,325
- in foreign currencies	41,749,537	29,619,938
Total short-term deposits	71,467,484	63,439,263
Long-term deposits:		
- in RSD	3,904,049	1,835,897
- in foreign currencies	21,831,079	12,752,766
Total long-term deposits	25,735,128	14,588,663
Long-term borrowings:		
- in foreign currencies	167,621	223,977
Total long-term borrowings	167,621	223,977
Other financial liabilities:		
- in RSD	57,172	113,276
- in foreign currencies	863,958	2,844,447
Total other financial liabilities	921,130	2,957,723
Balance at December 31	**389,735,404**	**358,140,581**

33.2. Breakdown of deposits and other liabilities due to customers:

	2023	2022
Public sector	406,266	5,090,073
Corporate customers	256,753,402	235,690,614
Retail customers	132,408,115	117,135,917
Long-term borrowings (Note 33.3)	167,621	223,977
Balance at December 31	**389,735,404**	**358,140,581**

All amounts expressed in thousands of RSD, unless otherwise stated.

33. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS (Continued)

RSD demand deposits of corporate customers accrued interest at the annual rate of 0,44%, on the average, while EUR-denominated demand deposits accrued interest at the annual rate of 0,10%. Corporate RSD term deposits accrued interest at the rates of as much as up to 6,11% annually on the average, while EUR-denominated corporate deposits were placed at an interest rate of 2,24% per annum.

The Group did not calculated Interest rate for newly opened demand deposits in RSD and foreign currency, as well as for current accounts in foreign currency for retail customers.

Short-term foreign currency deposits of retail customers were placed at interest rates ranging up to 5.0% annually, depending on the currency and maturity. Short-term dinar deposits on the other hand were placed at interest rates up to 6.7% annually, depending on the maturity.

RSD deposits placed by small business clients and entrepreneurs were deposited at annual interest rates up to 5.5% depending on the period of placement, while foreign currency deposits for these customers were placed at the rates up to 3.5% annually, depending on the period and currency.

The Group dominantly collected funds from private individuals in EUR with a maturity of 12 months, while dinars for small legal entities and entrepreneurs were arranged with a maturity of up to 6 months.

In the bank's deposit portfolio for private individuals, term deposits in foreign currency make 86%, while term deposits in dinars make 14% of overall deposits balance. On the other hand, when it comes to small legal entities and entrepreneurs, deposits in dinars dominate with 60% of the balance, while deposits in foreign currency make up 40% of term deposits.
The total growth of deposits in Retail sector reached over 57% compared to the total balance of deposits during 2023, which consequently affected further growth of the bank's market share in Retail sector.

33.3. Breakdown of long-term foreign currency borrowings from customers is provided below:

	2023	2022
NBS - European Investment Bank, Luxembourg	167,621	223,977
Balance at December 31	**167,621**	**223,977**

Long-term borrowings obtained from customers were approved to the Group for periods from 8 to 13 years at nominal interest rates to 6.20% per annum.

34. FINANCIAL LIABILITIES MOVEMENT (FROM FINANCING ACTIVITIES)

Table below presents changes in liabilities from financing activities, including cash based as well as not cash based changes. Liabilities from financing activities are those which cash flows are classified as cash flows from financing activities in cash flow statement.

	Long-term borrowings from banks		Long-term borrowing from customers	
	2023	2022	2023.	2022.
Balance at January 1	61,131,544	56,035,451	223,977	311,656
Cash inflow (new borrowing)	16,256,532	21,425,049	-	-
Cash outflow (repayment)	(16,115,431)	(16,351,380)	(56,231)	(87,395)
Total change in cash flows from financing activities	**141,101**	**5,073,669**	**(56,231)**	**(87,395)**
Foreign exchange effects	(42,087)	(99,316)	(255)	(571)
Accrued and deferred interest	82,940	121,740	130	287
Balance at December 31	**61,313,498**	**61,131,544**	**167,621**	**223,977**

All amounts expressed in thousands of RSD, unless otherwise stated.

35. PROVISIONS

35.1 Provisions relate to:

	2023	2022
Individual provisions for off-balance sheet items	307,865	360,380
Collective provisions for off-balance sheet items	1,230,059	782,437
Provisions for other long-term employee benefits	145,591	146,547
Provisions for potential litigation losses	3,765,892	4,358,179
Balance at December 31	**5,449,407**	**5,647,543**

35.2 Movements on the accounts of provisions during the year are provided below:

	Individual Provisions for Off - Balance Sheet Items (Notes 4(b) and 5(i)	Collective Provisions for Off - Balance Sheet Items (Notes 4(b) and 5(i)	Provisions for Long-Term Employee Benefits (Notes 3(y) and 5(viii)	Provisions for Potential Litigation Losses (Notes 3(w), 5(vii) and 41.1)	Total
Balance at January 1	360,380	782,437	146,547	4,358,179	5,647,543
Charge for the year:					
- in the income statement	179,624	996,216	22,414	773,670	1,971,924
- in the statement of other comprehensive income	-	-	(20,122)	-	(20,122)
	179,624	996,216	2,292	773,670	1,951,802
Release of provisions	-	-	(3,248)	(583,608)	(586,856)
Reversal of provisions (Notes 12 and 17)	(232,139)	(548,594)	-	(782,349)	(1,563,082)
Balance at December 31	**307,865**	**1,230,059**	**145,591**	**3,765,892**	**5,449,407**

All amounts expressed in thousands of RSD, unless otherwise stated.

36. DEFERRED TAX ASSETS AND LIABILITIES

36.1 Deferred tax assets and liabilities relate to:

	2023			2022		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Difference in net carrying amount of tangible assets for tax and financial reporting purposes	52,492	-	52,492	59,213	-	59,213
Deferred tax assets in respect of unrecognized current year expenses	609,799	-	609,799	710,760	-	710,760
Deferred tax assets on gains/losses in respect of cash flow hedging instruments	80,338	-	80,338	132,982	-	132,982
Deferred tax liabilities as per change in the value of fixed assets	-	(18,294)	(18,294)	-	(17,230)	(17,230)
Deferred tax liabilities arising from revaluation of securities	178,469	-	178,469	493,831	-	493,831
Deferred tax assets in respect of actuarial losses on defined benefit plans	1,452	-	1,452	4,470	-	4,470
Total	**922,550**	**(18,294)**	**904,256**	**1,401,256**	**(17,230)**	**1,384,026**

36.2 Movements on temporary differences during 2023 are presented as follows:

	Balance at January 1	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Balance at December 31
Difference in net carrying amount of tangible assets for tax and financial reporting purposes	59,213	(6,721)	-	52,492
Deferred tax assets in respect of unrecognized current year expenses	710,761	(100,962)	-	609,799
Deferred tax assets on gains/losses in respect of cash flow hedging instruments	132,982	-	(52,644)	80,338
Deferred tax liabilities as per change in the value of fixed assets	(17,230)	-	(1,064)	(18,294)
Deferred tax liabilities arising from revaluation of securities	493,831	-	(315,362)	178,469
Deferred tax assets in respect of actuarial losses on defined benefit plans	4,470	-	(3,018)	1,452
Total	**1,384,027**	**(107,683)**	**(372,088)**	**904,256**

All amounts expressed in thousands of RSD, unless otherwise stated.

37. OTHER LIABILITIES

37.1 Other liabilities include:

	2023	2022
Advances received. deposits and retainers:		
- in RSD	199,993	214,020
- in foreign currencies	2,106	1,896
Trade payables:		
- in RSD	462,267	332,672
- in foreign currencies	468,979	156,588
Lease liabilities (Note 37.2):		
- in RSD	434,266	393,015
- in foreign currencies	1,109,021	1,333,304
Other liabilities:		
- in RSD	1,755,517	1,344,839
- in foreign currencies	4,251,596	2,288,265
Fees and commissions payable per other liabilities:		
- in RSD	861	3,898
- in foreign currencies	38	190
Deferred other income:		
- in RSD	655,896	332,041
- in foreign currencies	193,735	34,076
Accrued other expenses:		
- in RSD	679,119	610,002
- in foreign currencies	35,781	37,134
Liabilities per managed funds	-	21,606
Taxes and contributions payable	66,362	45,989
Balance at December 31	**10,315,537**	**7,149,535**

37.2 Breakdown of maturities of the lease liabilities is provided below:

	2023		2022	
	Present value	Undiscounted cash flows	Present value	Undiscounted cash flows
Maturity:				
- within a year	503,286	547,385	479,034	515,522
- within 2 years	452,344	482,736	406,448	433,224
- within 3 years	248,949	267,529	377,868	395,307
- within 4 years	136,931	148,141	214,186	224,112
- within 5 years	83,066	88,742	77,414	84,313
- after 5 years	118,711	129,421	171,369	187,021
Balance at December 31	**1,543,287**	**1,663,954**	**1,726,319**	**1,839,499**

37.3 Breakdown of the total payments, i.e., outflows per lease arrangements is provided below:

	2023	2022
Fixed payments	320,246	274,504
Variable payments	233,480	209,548
Total outflows	**553,726**	**484,052**

Variable payments that are included in the measurement of the lease liabilities are payments dependent on an index. Out of the total outflows of RSD 553,726 thousand, RSD 503,397 thousand pertains to the repayment of principal, which is presents within cash flows from financing activities, while RSD 50,329 thousand refers to the payment of interest, which is presented within cash flows from operating activities in the Group's statement of cash flows.

All amounts expressed in thousands of RSD, unless otherwise stated.

37. OTHER LIABILITIES (Continued)

37.4. Breakdown of income and expenses per lease arrangements is provided in the following table:

	2023	2022
Depreciation charge of the right-of-use assets (Note 28.5, 28.6)	(498,570)	(470,838)
Interest expenses per lease liabilities (Note 7)	(50,329)	(40,201)
Rental costs (Note 18.2)	(422,012)	(384,699)
Balance at December 31	**(970,911)**	**(895,738)**

38. RECONCILIATION OF OUTSTANDING BALANCES OF RECEIVABLES AND LIABILITIES WITH CREDITORS AND DEBTORS

In accordance with the Law on Accounting, the Group reconciled its balances of payables and receivables with its debtors and creditors.

Unreconciled receivables totaled to RSD 2,481,523 thousand (1,680 open items) which represents 0.63% of total amount of receivables for balance reconciliation (RSD 395,907,077 thousand), i.e. 1.86% of total number of receivable items (90,232 open items).

Unreconciled liabilities totaled to RSD 14,100,808 thousand (1,865 open items) which represents 3.77% of total amount of liabilities for balance reconciliation (RSD 374,360,071 thousand), i.e. 2.27% of total number of items of liabilities (82,318 open items).

Unreconciled receivables and liabilities comprise mostly of receivables and liabilities for which Group has not received confirmations from debtors and creditors.

39. EQUITY

39.1. Equity is comprised of:

	2023	2022
Issued capital – share capital	23,607,620	23,607,620
Share premium	562,156	562,156
Retained earnings	19,760,286	9,732,221
Reserves	53,534,881	50,261,130
Balance at December 31	**97,464,943**	**84,163,127**

As of December 31, 2023 the Group's share capital totaled RSD 23,607,620 thousand and comprised 2,360,762 common stock (ordinary) shares with the individual par value of RSD 10,000. All shares issued by the Group are ordinary shares.

Ordinary shareholders are entitled to dividend payment pursuant to the relevant decision on profit distribution enacted by the Bank's Supervisory Board and to one vote per share in the Bank's Shareholder General Meeting.

Reserves from fair value adjustments relate to the net cumulative changes in the fair values of securities measured at fair value through other comprehensive income, changes in fair value of property, plant and equipment and changes in fair value of derivatives used as cash flow hedge instruments.

All amounts expressed in thousands of RSD, unless otherwise stated.

39. EQUITY (Continued)

39.2. Breakdown of other comprehensive income after taxes is provided in the table below:

	2023	2022
Actuarial losses per defined employee benefits	17,104	20,521
Net fair value adjustments of debt financial instruments measured at FVtOCI	1,730,582	(3,047,923)
Net fair value adjustments of debt financial instruments measured at FVtOCI due to impairment	56,470	(9,396)
Net fair value adjustments of fixed assets	6,030	38,636
Net change related to cash flow hedging instruments	298,313	(684,536)
Other comprehensive income after taxes	**2,108,499**	**(3,682,698)**

40. CASH AND CASH EQUIVALENTS

Breakdown of cash and cash equivalents as reported within the statement of cash flows and reconciliation with statement of financial position is provided below:

	2023	2022
In RSD:		
Gyro account (Note 20)	87,629,697	28,634,728
Cash on hand (Note 20)	4,360,266	5,421,415
	91,989,963	34,056,143
In foreign currencies:		
Foreign currency accounts (Note 24)	5,949,600	2,185,883
Cash on hand (Note 20)	2,900,900	2,831,588
Other cash funds (Note 20)	35,152	49,609
	8,885,652	5,067,080
Cash and cash equivalents in Statement of Cash Flow	**100,875,615**	**39,123,223**
Obligatory foreign currency reserve held with NBS (Note 20)	35,585,709	32,821,494
Foreign currency accounts (Note 24)	(5,949,600)	(2,185,883)
Impairment allowance	(8)	(3)
Cash and cash equivalents in Statement of Financial Position	**130,511,716**	**69,758,831**

41. CONTINGENT LIABILITIES AND COMMITMENTS

41.1. Litigation

As of December 31, 2023, there were 36,799 legal suits filed against the Group (including 12 labor lawsuits) with claims totaling RSD 2,601,904 thousand. In 420 of these proceedings plaintiffs are legal entities and in 36,379 proceedings private individuals appear as plaintiffs/claimants.

The Group made provisions of RSD 3,765,892 thousand in respect of the legal suits filed against it (Note 36). The aforesaid amount of provisions includes those for the labor lawsuits filed, lawyers' fees and administrative taxes from appeals and revisions. In the majority of lawsuits filed against the Group, both individuals and legal entities in the capacity of plaintiffs, they mostly refer to lawsuits for loan processing fees (cash and housing), loan monitoring fees and fees to NKOSK, and to a lesser extent to lawsuits for exchange rate differences, interest rates, currency clauses and changed circumstances, as the basis of the dispute. The subject of the lawsuits is also the determination of the nullity of the mentioned provisions of the loan agreement and the acquisition without grounds.

The Group uses following parameters for defining provisions: value of the case, evidence of the plaintiffs, type of legal case, trend of cases, existing court practices, real jurisdiction of the court, status of case and all other relevant facts that could have direct or indirect influence on the outcome of the court proceeding. Based on the defined parameters, the Group defines level of risk for each case:

- Group A: risk of outflow is less than 50%
- Group B: risk of outflow is between 50% and 90%
- Group C: risk of outflow is 90% and above.

Provisions are made for cases from group B and C and in the amount of the law suit increased by the estimated amount of interest and expenses.

All amounts expressed in thousands of RSD, unless otherwise stated.

41. CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

41.1. Litigation (Continued)

For certain lawsuits, provisions were not made in the exact amount of the claim, primarily based on the estimate of the outcome of such suits as favorable for the Group, i.e., the estimate that the Group will incur no outflows in respect of those legal suits or that there are minor contingent liabilities at issue, which require no provisioning.

The Group estimates adequacy of provisions every 6 months.

41.2. Off-balance sheet exposed to credit risk are presented in table below:

	2023	
	Off-Balance Sheet Items exposed to credit risk	Provisions for Off - Balance Sheet Items
Guarantees and other irrevocable commitments	126,564,335	(682,569)
Other Off-Balance Sheet Items	157,271,153	(855,355)
Balance at December 31	**283,835,488**	**(1,537,924)**

	2022	
	Off-Balance Sheet Items exposed to credit risk	Provisions for Off - Balance Sheet Items
Guarantees and other irrevocable commitments	117,693,527	(610,704)
Other Off-Balance Sheet Items	107,457,819	(532,113)
Balance at December 31	**225,151,346**	**(1,142,817)**

41.3. The Group's contingent liabilities are provided in the table below:

	2023	2022
Contingent liabilities		
Payment guarantees		
- in RSD	15,104,644	15,119,533
- in foreign currencies	20,559,330	17,224,268
Performance guarantees		
- in RSD	86,917,444	73,423,663
- in foreign currencies	4,224,059	3,003,503
Letters of credit		
- in foreign currencies	2,129,938	2,062,547
Foreign currency sureties received	10,610,730	11,536,703
Irrevocable commitments for undrawn loans	30,538,785	14,982,048
Other irrevocable commitments	36,074,399	26,235,199
Balance at December 31	**206,159,329**	**163,587,464**

In the ordinary course of business, the Group enters into agreements for contingent liabilities held in off-balance sheet record, which include guarantees, letters of credit, unused credit lines and credit card limits. These financial liabilities are recognized in the balance sheet if and when they become payable.

41.4. Breakdown of the Group's irrevocable commitments is provided below:

	2023	2022
Commitments		
Current account overdrafts approved	5,678,614	5,512,478
Unused portion of approved credit card loan facilities	1,845,229	1,464,031
Unused framework loans	22,930,427	5,653,764
Letters of intent	84,515	2,351,775
Other irrevocable commitments	36,074,399	26,235,199
Balance at December 31	**66,613,184**	**41,217,247**

All amounts expressed in thousands of RSD, unless otherwise stated.

41. CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

41.5 The Group's undrawn foreign line of credit funds amounted to RSD 11,568,911 thousand as of December 31, 2023 (2022: RSD 10,939,727 thousand).

42. RELATED PARTY DISCLOSURES

The Group is under control of UniCredit S.p.A., Milan, domiciled and registered in Italy, which is the sole owner of the Group's common stock shares (100%).Related parties of the Group are: parent bank, subsidiaries of the Group, entities that are members of the same group or are under joint control, members of the Board of Directors and the Audit Committee, the Management Board and managers who as members of the Group's board (ALCO and credit committees) have the authority and responsibility to plan, direct and control the activities of the Group ("key management"), close family members of key management as well as legal entities that are under the control or influence of key management and close members of their families, in accordance with IAS 24.

In the normal course of business, a number of banking transactions are performed with related parties. These include loans, deposits, investments in equity securities and derivative instruments.

42.1 Related party transactions

Exposures and liabilities as of December 31, 2023 arising from related party transactions are presented below:

	2023		
	Parent Bank	Key management	Other related parties*
Financial assets			
- Loans, receivables and other assets	24,244,664	88,307	2,132,549
Financial liabilities			
- Deposits and other liabilities	60,893,333	120,457	2,456,247
Off balance sheet items			
- Contingent liabilities for given guarantees and sureties	4,081,645	-	9,006,543
- Commitments for undrawn loans	-	417	1,820,683
- Received guarantees and sureties	4,960,565	-	10,575,131
- Liabilities for guarantees issued in favor of creditors of the bank	10,610,730	-	-
- Nominal value of the derivatives	-	-	66,486,113

Exposures and liabilities as of December 31, 2022 arising from related party transactions are presented below:

	2022		
	Parent Bank	Key management	Other related parties*
Financial assets			
- Loans, receivables and other assets	36,923,618	121,189	2,612,943
Financial liabilities			
- Deposits and other liabilities	55,028,514	88,165	788,210
Off balance sheet items			
- Contingent liabilities for given guarantees and sureties	3,181,450	-	10,941,343
- Commitments for undrawn loans	-	260	1,187,652
- Received guarantees and sureties	4,441,732	-	11,190,726
- Liabilities for guarantees issued in favor of creditors of the bank	11,536,703	-	-
- Nominal value of the derivatives	-	-	67,261,757

All amounts expressed in thousands of RSD, unless otherwise stated.

42. RELATED PARTY DISCLOSURES (Continued)

42.1 Related party transactions (Continued)

	2023			2022		
	Parent Bank	Key management	Other related parties*	Parent Bank	Key management	Other related parties*
Impairment allowance for balance and off balance exposures	1,662	205	23,928	2,308	229	22,998

Revenues and expenses generated in 2023 arising from transactions with related parties are presented in the following table:

	2023		
	Parent Bank	Key management	Other related parties *
Interest incomes	1,197,811	5,841	1,535,593
Interest expenses	(2,376,170)	(2,268)	(319,824)
Fee and commission incomes	184,659	338	327,436
Fee and commission expenses	(22,072)	-	(488,570)
Other incomes	18,215	-	2,460
Other expenses	(66,160)	-	(895,447)
Total	**(1,063,717)**	**3,911**	**161,648**

Revenues and expenses generated in 2022 arising from transactions with related parties are presented in the following table:

	2022		
	Parent Bank	Key management	Other related parties *
Interest incomes	278,786	2,964	275,125
Interest expenses	(466,390)	(65)	(433,238)
Fee and commission incomes	190,799	339	301,486
Fee and commission expenses	(16,938)	-	(411,434)
Other incomes	5,023	-	63,580
Other expenses	(47,967)	-	(760,266)
Total	**(56,687)**	**3,238**	**(964,747)**

Loan loss provison (ECL) for balance and off-balance exposures of relatied parties recognized in income statement are presented below:

	2023			2022		
	Parent Bank	Key management	Other related parties*	Parent Bank	Key management	Other related parties*
Net increase/(decrease) in impairment allowance	(646)	(24)	930	234	128	12,912

*Other related parties include entities that are member of the same UniCredit Group or under joint control, close family member of key management as well as legal entities that are under the control or influence of key management and close member of their families.

All amounts expressed in thousands of RSD, unless otherwise stated.

42. RELATED PARTY DISCLOSURES (Continued)

42.2 Key management payments

Key management payments during 2023 and 2022 are presented below:

	2023	2022
Short-term employee benefits	217,873	212,340
Other long-term benefits	2,710	1,285
Share-based payments	25,288	9,124
Balance at December 31	**245,871**	**222,749**

Other long-term benefits include payments based on long-term reward schemes. Employees - members of key management involved in these remuneration schemes, were selected based on the criteria of contributing to the long-term and growing profitability of the Group. Share-based payments include payments during the year based on shares granted under appropriate reward schemes.

Compensations for members of the Management Board and the Audit Committee paid in 2023 amounts to RSD 5.859 thousand (in 2022: RSD 6,674 thousand) and they are included in the amount of short-term remuneration of key management.

43. EVENTS AFTER THE REPORTING PERIOD

As of these financial statements' issuance date, the impact of the Russian-Ukrainian conflict continues. The duration of the conflict and the extent of the impact on the economy are uncertain. With a strong capital and liquidity position, the Group actively monitors developments and assesses the impact on its operations, financial results, financial position and cash flows. At the date of issue of these financial statements, there were no significant events that would require adjustments to or disclosures in the accompanying unconsolidated financial statements of the Group (adjusting events).

Belgrade, February 14, 2024

Signed on behalf of the management of UniCredit Bank Srbija A.D., Beograd by:

Nikola Vuletić
Management Board Chairperson

Stefano Suppressa
Member of the Management Board
Head of Finance

"UniCredit Bank Srbija a.d." UniCredit Bank Serbia JSC" Beograd Belgrade 07

Mirjana Kovačević
Head of Accounting and Regulatory Reporting

UNICREDIT BANK SERBIA

2023 CONSOLIDATED ANNUAL REPORT

Belgrade, February 2024

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MESSAGE BY CEO

Dear all,

The year behind us was marked by geopolitical events, which were consequently reflected in the cycle of tightening monetary policies of central banks, which caused the slowdown of global economic growth below the medium-term potential. According to the latest IMF report, the growth of the world economy was around 3% in 2023. The situation in Serbia was not much different in 2023, especially when we consider that we are a small, open, energy-dependent economy. The key macroeconomic indicators that dictate the climate in the business environment in our country were at a stable level. Year-on-year inflation has been on a downward trajectory since April, while in August and September 2023 it was somewhat lower than expected. According to available data, the slowdown in inflation to 8 percent in September is the result of lower growth in food prices and base inflation, which was reduced to 7 percent. The return of inflation to the targeted framework (1.5-4.5%) should take place in the second half of 2024.

The banking sector of Serbia ended the year 2023 as highly liquid, highly capitalized, with a low level of problematic placements, despite all the developments. Banks continued to finance the economy and the population, with the expected decrease in demand for loans and a downward trend in credit activity recorded.

UniCredit Bank in Serbia has successfully completed the business year, with results that represent the positive continuity of our multi-year plan and many important achievements. We are recognized as a reliable partner for the economy and population, with a continuous focus on the needs of citizens and the economy. The trend of good results continued, in both key business segments, the household sector and the business sector. We have maintained the indicator of costs in relation to revenues at an enviable level, which once again confirmed the efficiency of our business model.

The bank achieved record results and also in 12 months achieved a return on capital of 20.3% and a net profit of 18.4 billion dinars, which represents a growth of 116.5% compared to the same period of the previous year. The main driver of growth is net interest income, which achieved growth of over 59.3% year-on-year, driven primarily by higher active interest rates based on loans, repo operations and placements on the money market due to the increase in the reference interest rate of the NBS and leading central banks in order to suppress inflation and the consequent growth of reference rates on the interbank market. Growth was also achieved on the basis of income from fees and commissions due to the greater volume of services provided to our clients and income from securities trading. Good results were managed despite the increase in costs compared to the previous year, but it is important to note that their growth was lower compared to the growth of inflation in the same period, which is why we kept the indicator of costs in relation to income (Cost/Income ratio) at a very low level, which is still one of the lowest in the banking sector of Serbia. Also, we continued to increase the loan portfolio to our clients, and thanks to active risk management, we managed to maintain the share of non-performing exposures (NPE) at an almost unchanged level compared to the same period of the previous year. Also, we continued to increase our deposit base, which achieved growth of 8.8% year-on-year, which confirms that we are recognized by our clients as a safe partner, which provides us with a stable basis for sustainable growth in the future.

In the segment of corporate-investment banking, we remained a reliable partner and the first choice for as many as 80 of the 100 largest companies in Serbia, placing special emphasis on the quality of the loan portfolio and green financing while continuing to grow the client base. We remain the market leader when we talk about the financing of wind farms, because we finance 5 wind farms in Serbia out of a total of 8, and we are the only bank that independently finances 3 wind farms. We estimate our total market share in the financing of operational projects to be somewhere around 30%, which significantly exceeds our total market share and testifies to our commitment to the topic of energy transition. Solar energy is a newer area to invest in, but it is certainly gaining ground. As a company that strives for responsible business and recognizes market trends, we have enriched our offer with specialized credit lines for the construction of solar power plants. Our bank is ready to welcome the first auction in 2023. We supported clients in the auction process by issuing the necessary guarantees for both wind farms and solar power plants, and we are extremely pleased that all the projects we have followed are entitled to the status of temporary privileged producer. We are busy working on the approval of financing, with the aim of soon starting the financing of those projects.

One of the basic roles of UniCredit Bank in the market is an advisory role, especially if we are talking about some new areas of investment for our clients. Based on our experience and expertise, we try to bring each of these areas closer to them, to help them first of all understand what is necessary to achieve from "green" standards and fulfill the criteria in order to be able to apply for loans from various international financial institutions. institution. We empower clients to adapt, learn and develop in such a way that they can meet all the conditions for obtaining investment loans. We carry out continuous education at all levels of business, from participation in conferences where we share our experiences, to the fact that we try to organize numerous workshops for clients where they have the opportunity to hear the experiences of our colleagues from different European countries, who operate in the field of sustainable energy sources.

Also, we are starting to pay more and more attention to the energy of the sun. We already have active and current projects, primarily through our Leasing service, where the needs of the market and clients in this segment of the green transition have already been recognized. Our plan is to dedicate ourselves even more intensively and invest in solar energy projects, all while following domestic and European regulations and the changes that are taking place. At the same time, our goal is to strengthen advisory support to clients in achieving ESG standards with the support of the first-class, international expert team of our UniCredit Group.

Throughout 2023, we continued to work on the transformation of our business model. We strived to unlock the entire potential of our bank - first of all, the potential of our people, and then to simplify all processes, both those related to the internal organization of business activities and procedures that directly affect relations with clients. We essentially put the client at the center of everything we do, and that will be our focus in the coming period as well. We worked intensively on digitization and unlocking the potential of our colleagues. The implementation of the possibility of digital signature through the mobile application significantly contributed to the transformation of our business model. Numerous banking services such as term deposits, changing account packages or applying for a cash loan are now available to clients through a mobile application and can be performed remotely without coming to a branch. We also use artificial intelligence, with the aim of providing our clients with access to the necessary information and 24/7 support.

We also empower clients through various specialized credit lines that we implement in cooperation with international financial institutions, thus providing them with support for education and the application of numerous new standards in business. At the beginning of the year, the European Bank for Reconstruction and Development (EBRD) approved a credit line of 100 million euros to UniCredit Bank Serbia, which will be used for lending to small and medium-sized enterprises (SMEs) throughout Serbia. The EBRD credit line is also linked to UniCredit's pioneering climate transition plan. We became the first bank in Europe to incorporate the EBRD's new methodology for aligning with the Paris Agreement for the financial sector. UniCredit will work on four areas – governance, strategy, risk management, benchmarks, targets and reporting – to align them with the Paris Agreement on climate change. These four areas are the pillars of the Task Force on Climate-Related Financial Disclosures (TCFD), an international initiative on climate risks and considerations.

Empowering community progress is deeply woven throughout all spheres of our business. It is our obligation to return part of what we create to the communities in which we are present. Accordingly, there are three main pillars of our socially responsible business: education, environmental protection and inclusion. Our bank's volunteer club grew by almost 60% compared to 2022, and throughout the year actively carried out various activities through: education of young people in cooperation with "Youth Achievements" (Junior Achievement), preparation of a Financial Dictionary with basic banking terms intended for students , by sharing knowledge and expertise, by participating in volunteer actions for the cleaning and arrangement of Fruška Gora and Resavska Pečina, and the like. In anticipation of the holidays, the employees of the bank, together with their families, prepared and packed gifts for the children attending the elementary schools "Boško Buha" in Zvezdara and "Novi Beograd", thus supporting the UniCredit Group's donor initiative "Kids4Kids", which is ongoing In December, a large number of packages were collected in all thirteen countries in which the Group operates. In cooperation with the Ethno Network, an association of handicraft producers from all over Serbia, we emphasized the preservation of cultural heritage and support for female entrepreneurship. Thus, the exhibition "100 women, 100 miniatures" was officially opened in the branches of UniCredit in Belgrade. The exhibition presented unique handicrafts in the 10x10cm format, which are made by women and young people in craft associations and cooperatives throughout Serbia using traditional techniques. Also, at the very end of the year, we joined the project "Women entrepreneurs - the strength of the economy" in partnership with the Serbian Chamber of Commerce, in order to continue empowering women.

We made an additional commitment to socially responsible business through the UniCredit Foundation's "Call for education 2023" program to support programs that fight educational problems in all countries where the Group operates. For that initiative, which also included Serbia, the UniCredit Foundation allocated a total contribution of three million euros with the aim of identifying and supporting programs for schools, i.e. for students (aged 11-19), which are implemented by non-profit organizations, with special attention to: addressing early school leaving, encouraging university education and acquiring adequate skills for entering the labor market. In addition, during the year, UniCredit Foundation implemented a special initiative "Special donation" through which it supported one project from each member country of the Group, and thus funds were allocated in Serbia to the "Vojvoda Živojin Mišić" Elementary School from Rajković near Mionica.

As in previous years, the stability of our bank in Serbia was confirmed by numerous awards. At the very beginning of 2023, we received the prestigious Top Employer certificate as the only bank in Serbia. According to the Euromoney survey, our Bank was declared the market leader in the survey on trade financing, while Global Finance singled us out as the best custodial bank for 2023. Also, we won two prestigious local awards: the silver award for the most gender-sensitive company awarded by Cvet suspeha and the ESG leader award awarded by AFA. We crowned the end of the year with a certificate according to the EGDE global standard for gender equality and inclusion, as the first company in our country.

We left behind a successful year for UniCredit Bank and laid solid foundations for further growth in Serbia. We remain among the leading banks, focusing on client services and the profitability of our business model. I would like to thank all clients who trust us and recognize UniCredit Bank as a partner for their most important financial decisions. Also, thanks to all our stakeholders who support us in our daily business. Special thanks to all our employees, because UniCredit Bank would not be successful without the dedication of people who are the front line and faces of the bank.

Nikola Vuletić, CEO of UniCredit Bank Serbia

ABOUT UNICREDIT GROUP

UniCredit is a pan-European Commercial Bank with a unique service offering in Italy, Germany, Central and Eastern Europe. Our purpose is to empower communities to progress, delivering the best-in-class for all stakeholders, unlocking the potential of our clients and our people across Europe.
We serve over 15 million customers worldwide. They are at the heart of what we do in all our markets. UniCredit is organized in four core regions and two product factories, Corporate and Individual Solutions. This allows us to be close to our clients and use the scale of the entire Group for developing and offering the best products across all our markets. Digitalisation and our commitment to ESG principles are key enablers for our service. They help us deliver excellence to our stakeholders and creating a sustainable future for our clients, our communities and our people.

MACROECONOMIC OVERVIEW

Geopolitical tensions caused by Russia-Ukraine war and potential energy crises imapcted the total economic activity of the Republic of Serbia in 2023, measured by the real movement of gross domestic product (GDP), that is estimated at RSD 7,097 billion, which is an estimated growth of 2.5% y-o-y. According to latest information, gross investments in fixed assets in 2023 grew 3.5%comparing to last year. Trade in EUR has an upwards trend with exports growing a 4.5% estimated annual growth rate, while imports fell 6.0%. According to the latest data agricultural production made the physical volume growth of 9.0%, with industrial production growing 2.4.The value of construction works carried out in 2023 expressed the real growth of 8.9% comparing to last year.

According to November 2023 results, exports of goods in EUR have increased by 4.5% y-o-y, while imports decreased by 5.8%. The coverage of imports by exports is 78.7% (7.9 pp higher than last year). Such results in exports in the first eleven months were mainly driven by the electricity production with a 58.5% increase and exports of machinery 20.7%. When it comes to product structure, top five exports are: electrical machines and apparatus, power engines and motors, metal ores and residues, electricity and rubber products. Imports in first eleven months were mostly influenced by the mining sector, with a 24% decrease. Product wise, top five imports were: electrical machines and apparatus, oil and oil derivatives, road vehicles, medical and pharmaceutical products, general purpose machinery. Serbia's most important trade partner in 2023 was Germany, followed by China and Italy. The current account deficit amounted to EUR 1 billion in first ten months which is EUR 2,4 billion more than last year. The y-o-y result is caused by decreased trade deficit. Trade deficit amounted to EUR 2.7 billion, which is 57% lower y-o-y. In the first 10 months of 2023, primary income deficit was 45% higher (EUR 960 million increase), while the secondary income surplus remained almost unchanged (amounted to EUR 4.8 billion). Net FDI inflow was EUR 3.5 billion, which is an increase of 7.7% year-on-year.

Throughout 2023, unemployment remained unchanged, standing at 9.0 % in Q3 2023 according to Labour Force Survey, unchanged from previous quarter. In the same time, the employment rate in Q3 was 50.7%. Average monthly salary amounted to RSD 86,738, which represents a 15.0% (nominal) and 1.4% (real) y-o-y growth rate. The largest growth of wages since the beginning of 2023 was recorded in the financial sector.

According to the Statistical Office, y-o-y inflation was 8.0% at the end of November 2023, while m-o-m inflation in November was 0.5%. Core inflation rose slower than overall inflation (7.0%) mostly due to stability of the exchange rate. Food prices were the main drivers of inflation. YoY growth of food prices was 19.3% and was predominantly driven by prices of milk and dairy products, raw meat, fish and vegetables. NBS stated that inflation will continue downward trend in 2024 and is expected to return to target range (3 ± 1,5%) second half of 2024. RSD remained stable throughout the year, whereas NBS intervened on the market by continuing to buy/sell foreign currency at times of elevated appreciation/depreciation pressures. At the end of November, gross FX reserves amounted to EUR 24.2 billion, ensuring a coverage for M1 money mass of 175.1% and 6.5-months-worth of imports of goods and services.

Since the start of the Ukraine crisis, NBS hiked its key policy rate by 550 bps in total, bringing the KPR from 1.0% to 6.5% at the end of 2023. Despite the stricter conditions and tighter monetary policy, the liquidity in the banking sector remains high at more than RSD 600 billion surplus. The surplus is mostly the result of NBS interventions on the FX market.

According to budget revision, consolidated fiscal deficit is estimated at 2.8% of GDP (previously 3.3%). The decrease was mainly driven by lack of planned support for the energy sector due to lower energy prices and higher electricity production. According to November 2023 data, fiscal revenues rose by 12.5% y-o-y, while expenditures rose by 9.7%. At the end of November, the consolidated deficit amounted to RSD 53 billion, while the national budget deficit was RSD 47 billion.

At the end of November 2023, public debt rose to EUR 35.7 billion (51.6% of the GDP), which is an 8% y-o-y growth. In order to fulfil financing needs Republic of Serbia issued Eurobonds worth EUR 1.75bn along with bonds issued on the local capital market, IMF and other IFI's.

In October 2023, Standard & Poor's confirmed Serbia's credit rating at BB+, with stable outlook. The agency stated that its decision is supported by the fact that Serbia's policy is credible and that the impact of conflict in Ukraine appears to be contained for now. Fitch Ratings also confirmed Serbia's credit rating at BB+, supported by a credible macroeconomic policy framework, relatively low inflation, somewhat higher FX reserves and stronger governance, human development and GDP per capita compared with 'BB' medians.

IMF approved new EUR 2.4 billion standby arrangement to Serbia in 2022. Republic of Serbia withdrew EUR 1.2 billion in 2023, while the remaining EUR 1.2 bn will not be withdrawn, and treated as a precaution. Funds will primarily be used to maintain energy stability caused by crisis due to the Ukraine war.

SERBIAN FINANCIAL SECTOR

Banking sector

The banking sector ended Q3 2023 with RSD 5,712 billion in total net assets, posting a nominal growth rate of 7.6% y-o-y. The consolidation trend continued at the same pace in 2023: the merger of Raiffeisen with former Credit Agricole was finalized in early May, putting Raiffeisen in third place overall in terms of total assets. In addition to this, AIK Banka officially became the owner of Eurobank Direktna, having been given the necessary approval from the National Bank of Serbia and other responsible regulatory bodies. The two banks will continue to operate as separate entities for the time being.

The preliminary aggregated profit before tax of all twenty banks amounted to RSD 108.5 billion in Q3, representing an increase of 86.1% year-on-year. Interest income made the greatest contribution to profit growth – net interest income increased by RSD 56.4 billion year-on-year (51.7%). On the other hand, the growth of fees and commissions income has been much slower (with an increase of RSD 3.8 billion or 7.0% year-on-year); while operative expenses grew much faster than in 2022 due to higher inflation, with an increase of 11.1% year-on-year, which is just slightly above the yearly inflation level at the end of September 2023 (10.2%). The banking sector return on assets (RoA) was 2.6% at the end of the third quarter of 2023 (1.5% in Q3 2022), while the return on equity (RoE) indicator was 19.3% (10.9% in Q3 2022).

NBS has continued to increase its key policy rate in 2023 as well, in line with inflationary pressures, raising it by 150 bps between January and July, to the level of 6,50% where it still remains at the end of December. NBS has also continued mopping up liquidity from the banking sector through reverse repo auctions – the total amount of repo sold securities stood at RSD 19,253 billion at the end of December, while the average weighted interest rate for repo sold securities was 5.55%, which is an increase of 149 bps compared to December 2022.

The monetary policy tightening by both NBS and other central banks has continued to push interest rates on new loans upwards in 2023 as well. The interest rates on new dinar loans for businesses and citizens were at a higher level compared to the end of last year and at the end of November reached 12.7% for households and 8.3% for businesses (compared to 12.3% and 7.3% at the end of 2022, respectively); there has been a mild drop in interest rates during the last quarter, especially on loans to households. The interest rates for new EUR loans also saw an increase in both segments – at the end of November they reached 7.0% for businesses and 6.4% for households (compared to 5.1% and 5.9% respectively for year-end 2021). The NBS has continued introducing measures aimed at easier loan repayment and easier access to new credit throughout 2023 as well. Due to considerable growth in interest rates on housing loans, in September NBS made a decision to cap nominal interest rates on housing loans in the amount of up to EUR 200,000 until the end of 2024. According to the terms of this decision, the nominal interest rates on all loans disbursed until 30 July 2022 is capped at 4.08%; while for all loans which were disbursed between 31 July 2022 and the date this decision comes into effect, and whose initial nominal interest rate was higher than 4.08%, the debtors' monthly payments will be reduced until the end of 2024, in line with the initial payment schedule.

The growth of total gross loans was considerably slower in 2023, and their total volume at the end of 3Q was practically unchanged year-on-year (0.1% higher). This slowdown of credit activity was the result of several factors: high base from last year, maturing of loans from the guarantee scheme, higher interest rates as the consequence of monetary policy tightening, as well as banks' tighter lending standards. As of September, corporate loans were 1.8% lower year on year, while household loans were 1.6% higher. In the first nine months of 2022, the corporate loan growth was mostly driven by demand for investment loans and working capital loans. Interest rates on new RSD corporate loans have continued to grow in 2023, with most of the growth taking place in the first quarter. Average weighted interest rate on new RSD corporate loans rose by 1.3 pp over the first nine months of 2023, which is less than same period last year; the two types of loans that saw the greatest increase have been investment loans (1.5 pp) and working capital loans (1.3 pp). Interest rates on EUR loans have also increased in 2023 – average rates on new EUR corporate loans increased by 1.9 pp over the first nine months of 2023; a little over half of this increase took place during the first quarter (1.1 pp). Share of liquidity and working capital loans in total corporate loans stood at 46.7% at the end of September (lower compared to same period last year), while the share of investment loans was 41.6% (higher compared to last year).

Household demand for loans also slowed down considerably in 2023, mostly as a consequence of rising interest rates. The growth was almost entirely driven by cash loans, especially starting from the second quarter, and their total volume at the end of September was 2.2% higher year-on-year; whereas housing loans were 1.7% higher y-o-y at the end of September (their growth in the first two quarters was entirely offset by a drop in the third quarter). However, the respective share of cash (44.3%) and housing loans (39.7%) in total household loans at the end of September remained practically unchanged from last year.

The 'dinarization' of loans kept falling throughout 2023, so that the share of RSD loans in total loans stood at 33.8% at the end of September (which is 1.3 pp down from YE 2022 level). The dinarization of household loans fell during the first quarter and then increased during the following two, reaching 53.6% at the end of September (0.4 pp down from YE 2022 level). This change comes as a consequence of growing cash loans (which are mostly RSD denominated), coupled with a relative decline in mostly EUR denominated housing loans. The share of RSD corporate loans was on the decline throughout 2023 and stood at 16.3% at the end of September, which is a 3.1 pp decrease from YE 2022 level. This decline is the result of loans from the guarantee scheme reaching maturity, most of which were RSD denominated (more than 60%).

The share of RSD deposits of households and corporates in total deposits at the end of Q3 2023 reached 41.9%, which was 1.8 percentage points higher than the end of 2022 and the highest level since 2012. The share of RSD deposits compared to the end of 2021 rose both in household and corporate segment over the first half of 2023. The degree of deposit dinarization of corporate sector reached 59.4% at the end of June and it is 1.1 pp higher compared to the end of last year. This rise in corporate deposit dinarization was the result of the steady increase in RSD deposits throughout the first half of 2023, as well as a significant drop in foreign currency deposits in the second quarter, which offset the increase from the first quarter, leaving the corporate currency deposits at the end of June virtually unchanged from their YE 2022 level. The share of RSD household deposits stood at 28.4% at the end of June, which is 0.8 pp higher compared to the end of last year. Following the sudden decrease from early 2022 shortly after the outbreak of Ukraine conflict, RSD household savings returned to growth starting from June 2022 and accelerating in particular starting from November 2022, reaching the level of RSD 108.7 billion at the end of June 2023. The share of RSD savings in total household savings consequently increased in 2023, reaching 6.2% at the end of June (0.6 pp up from YE 2022 level). Foreign currency deposits at the end of Q2 2023 totalled EUR 13.9 billion. Ratio of loans to deposits, which was 78.6% at the end of September 2023 speaks about the stable structure of banking sector funding.

At the end of the third quarter of 2023, the banking sector employed 21,873 people, which represents a decrease of 203 employees compared to the same period last year. The branch network consisted of 1,349 different organizational units, a reduction of 53 units in a period of twelve months.

At the end of the third quarter of 2023, the average capital adequacy ratio of the banking sector amounted to 20.5%, which is significantly higher than the required minimum of 8% and also 1,7 percentage points higher than at the end of 2022.

The NPL ratio remained close to 3% level throughout 2023 and stood at 3.17% at the end of September, basically at the same level as September last year (3.19%). Banks continued to keep sufficient provisioning levels in order to provide protection against credit losses, covering the NPLs with 58.7% of IFRS provisions as of September 2023 (which is a bit higher than same time last year, when NPL coverage ratio stood at 57.2%).

Leasing sector

At the end of third quarter 2023, according to the statistics of the National Bank of Serbia, 15 financial leasing companies were operating on the Serbian market with total assets reaching RSD 158 billion. Total receivables, in absolute terms, amounted to RSD 146.3 billion and were 15% higher compared to the third quarter 2022 (RSD 127.1 billion).

The major part of receivables were receivables indexed in foreign currency (99%), the same as last year. Looking at economic sectors distribution, the biggest portion of financing was related to legal entities including privately owned companies, small businesses and entrepreneurs – 87.2% (or RSD 130.7 billion in total), public sector 0.1% (or RSD 184 million in total) and private individuals 12.2% (or RSD 18.3 billion in total).

According to Association of Leasing Companies data, financial leasing institutions in 2023 were still financing mainly vehicles out of which 53% were passenger vehicles and 28% were trucks, trailers and buses. In terms of business activity, 27.2% of leasing financing was in transport, storage and IT communication sector, 15.1% in trade and automotive repair, 12% in construction and real estate, 11.3% in processing industry, water supply and waste management, and 1.6% in agriculture, forestry and fisheries.

By the end of third quarter of 2023 in Serbia the number of new vehicles financed through leasing in Serbia was 7,430 (passenger cars and light commercial vehicles) which was 2.8% higher than in the same period previous year. Share of new vehicles purchased via leasing in total number of new vehicles sold remains without significant changes compared to the previous year and amounted to 32.4%.

CONSOLIDATED FINANCIAL PERFORMANCE OF UNICREDIT BANK SERBIA IN 2023

UniCredit Bank Serbia, consolidated financial statements (UniCredit Bank Serbia JSC Belgrade, UniCredit Leasing Serbia LLC Belgrade, UniCredit Partner LLC Belgrade)			
in thousands RSD	**2023**	**2022**	**Change**
Income statement			
Net interest income	24.916.351	15.637.261	59,3%
Net fee and commission income	8.211.278	7.409.387	10,8%
Other non-interest income	1.124.610	1.187.226	-5,3%
Operating expenses	-11.550.000	-11.383.822	1,5%
Net impairment loss on financial assets	-1.746.337	-3.449.330	-49,4%
Profit after tax	18.406.762	8.500.290	116,5%
Balance sheet			
Loans and receivables to banks	63.006.391	75.893.639	-17,0%
Loans and receivables to customers	344.469.707	328.843.714	4,8%
Deposits and other liabilities to banks	146.166.777	139.195.655	5,0%
Deposits and other liabilities to customers	389.735.404	358.140.581	8,8%
Equity	97.464.943	84.163.127	15,8%
Total balance sheet assets	653.515.628	598.342.877	9,2%
Capital adequacy			
Total risk weighted assets	388.313.470	353.504.634	9,8%
Regulatory capital	76.582.486	75.303.033	1,7%
Capital adequacy ratio	19,72%	21,30%	-158 bp
Key performance indicators			
Cost/Income ratio	33,7%	47,0%	-1325 bp
ROA (Return on assets after tax)	2,9%	1,5%	146 bp
ROE (Return on equity after tax)	20,3%	10,0%	1023 bp
Loans to Deposits ratio	88,4%	91,8%	-343 bp
Asset(avg)/Number of employees(avg)	451.934	415.075	8,9%
Cost of risk	0,5%	1,1%	-54 bp
Resources			
Number of employees	1374	1396	-22
Number of branches	72	72	0

In 2023, the Bank confirmed its strong commitment to continuous growth and preservation of high standards in terms of profitability, productivity and efficiency. According to Q3 2023 data, the Bank was ranked as fourth on the market in terms of total assets, with a market share of 10.5%, one position lower compared to previous year, due to bank mergers and acquisitions on the domestic market and the non-organic balance sheet growth which were continued in 2023. Total assets at the end of December 2023 stood at RSD 638.2 billion and achieved a growth rate of 9.5% compared to year-end 2021.

The Bank achieved annual growth of net loans of 4,9%, better result compared to previous year (2022 1,4%), which helped the Bank maintained a high market share in net loans to customers (10.4% based on Q3 2023 data). The growth was driven by the corporate sector lending activity followed by retail sector lending in smaller amount.

Besides the expansion of the largest asset category – the customer loan portfolio, the bank continued to invest into debt instruments with high degree of security, mostly consist of sovereign bonds of the Republic of Serbia. On contrary to previous year when the Bank was focused on achieving a positive financial result from their sales, in 2023 the Bank restructured its debt instruments portfolio reducing participation of trading instruments and instruments available for trading, increasing share of long term instrument with intention of holding it to maturity, simultaneously reducing the size of portfolio compared to previous year in amount of 5.9%.

The aforementioned growth of assets was financed with an extraordinary growth of customer deposits of 8.8% compared to the previous year, where both the corporate and retail sector achieved strong growth rates compared to the year before of 8.9% and 13%, respectively. A strong growth of the customer deposit base compared to the growth of credit portfolio resulted in the reduction of the customer loan to deposit ratio, which ended the year at a level of 83.9%, which represents a decline compared to year-end 2022 when it amounted to 87.1%. A continuous improvement of the deposit base, on both corporate and retail side can be seen as a confirmation of UniCredit Bank's image as one of the most sound and reliable banks on the local market.

During 2023, the Bank achieved a strong growth in net interest income of 60.6% compared to the previous year. The movement of net interest income compared to the same period of the previous year is largely the result of reference rates hike of the central banks of almost all leading countries, which began in the third quarter of 2022. The increase in reference interest rates caused the growth of all rates on the money market (Belibor, Euribor), which led to higher interest rates on dinar and foreign exchange-indexed volumes of client loans and securities. The dynamics of interest rate growth was partially mitigated by price pressures due to strong competition in the retail banking segment, as well as by the stabilization of reference interest rates of central banks during the fourth quarter of 2023.

Increase of net interest income was followed by the growth of net income from fees and commissions, which increased 10.9% compared to end of previous year. This increase in net income from fees and commissions was a result of the higher volume of transactions and usage of digital channels.

Changes in net expenditures from financial assets impairment were determined by decrease of provisions due to rating upgrades and collection from existing defaults in Corporate and positive adjustments of future macroeconomic changes (forward looking information) in Retail. Moreover, the Bank continued with the successful management of NPLs, which was confirmed by keeping the ratio on a low and stable level which at the end of December 2024 stood at the level of 4.1%.

At the end of 2023, the Bank achieved a net profit after taxes of RSD 18.5 billion, which represents an increase of 120.3% compared to result of previous year. The return on equity indicator (ROE) also grew at the end of 2023 and stood at 20.6%, which is 1,019 basis points more compared to previous year. Herewith, the Bank confirmed its earning capability in conditions of economic uncertainty thanks to a stable and sustainable business practice focused on creating value for its clients. Apart from traditional commercial banking, the Bank also continued with successful trading with financial instruments as one of the leaders on both local and international market.

The achieved cost-to-income ratio of 33.3% is below the industry average, with which the Bank confirmed once again its ability to maintain high standards in terms of operational efficiency. The indicator is somewhat lower compared to the year before (47.2% at the end of 2021), despite the fact that this year was also burdened with high inflation expectation and somewhat still increased provisions for lawsuits against the banks. On the cost side, the bank continued to invest in its employees and ICT infrastructure. Parallel with the increase in salaries and wages, the growth of operating expenses and depreciation was to a large extent attributable to the growth of ICT expenses and investments since the Bank continued to invest in the digital transformation of its business model in order to create additional value for all its stakeholders. For the clients that means access to more innovative products, which come with simplified procedures, while for its employees it created room for time optimization, increased automation and higher efficiency, which will in turn have a favourable effect on the reduction of operating expenses over time.

In accordance with its strategic commitment to the digital transformation of its business model, the bank continued to increase the participation of clients using the Bank's digital business channels in 2023. In addition to corporate clients who have already seen the benefits of digital business channels to a good extent, in 2023 significant results were achieved within digital business and in the retail business segment too. The number of active users of the mBanking application increased by 6.6% compared to the end of 2022, making more than 67% of the total client base in Retail segment active on mBanking in a period of 30 days.

UniCredit Leasing d.o.o. during 2023, achieved a growth rate of its loan portfolio in the amount of 2%, which is a much lower growth rate compared to the rate from 2022, which was 14%. The lower growth rate is primarily caused by the decline in new jobs, which in 2023 were 13.6% lower than in the previous year. Consequently, the market share in new business financing decreased to 9.8% at the end of the third quarter of 2023. And during 2023, the focus of UniCredit Leasing was on strengthening cooperation with suppliers, supporting the segment of small and medium enterprises, construction, agriculture and the IT industry, as well as on innovation and development of tools for faster and easier processing of client requests.

According to its strategy, the Bank liquidated its associated legal entity UniCredit Partner d.o.o. in December 2023. Services related to representation in insurance were completly transfered to UniCredit Leaseing d.o.o.. UniCredit Partner had net result of 10 million dinars in 2023.

Overall, on a consolidated basis, UniCredit Bank Serbia completed the business year of 2023 with excellent results taking into consideration the economic uncertainty which marked the 2023 as well, and continued to build long-term partnerships with its customers and to fully support the local economy.

With a total consolidated capital adequacy ratio of 19,72% at the end of 2023, UniCredit Bank Serbia maintains a solid capital base, fully comprised of high-quality common equity tier one instruments and significantly exceeds the regulatory requirements for total combined capital buffers.

The Bank is under the control of UniCredit S.p.A. Milan, domiciled and registered in Italy, which is the sole owner of the Banks's common stock shares (100%). Related parties of the Group are: parent bank, entities that are members of the same group or are under joint control, members of the Board of Directors and the Audit Committee, the Management Board and managers who as members of the Group's board (ALCO and credit committees) have the authority and responsibility to plan, direct and control the activities of the Group ("key executives"), close family members of key executives, as well as legal entities that are under the control or influence of key executives and close members of their families, in accordance with IAS 24. In the normal course of business, a number of banking transactions are performed with related parties. These include loans, deposits, investments in equity securities and derivative instruments. Related party transactions are performed at arm's length principle.

STRATEGY FOR THE UPCOMING PERIOD

Three-year plan 2024-2026 of UniCredit Bank Serbia is a part of new Group Strategic plan **UniCredit Unlocked**, which optimizes the Group's operations and builds a clear long-term program for tomorrow, while moving into an era of purpose, growth and value creation for all our stakeholders**.** UniCredit Unlocked delivers the following strategic imperatives and financial ambitions:

Grow in our **regions** and develop our **client** base: sustainable growth both from our existing and new clients, together with developing best-in-class product and services, either in house or with external partners;

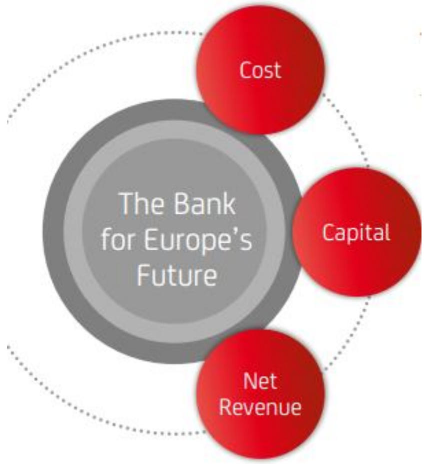
Change our **business model** and how our **people** operate: grow capital-light business, focusing on value-added products and services for clients, together with targeted cost efficiency to fund investment and deliver operating leverage;

Deliver **economies of scale** from our footprint of banks that provides us with diversification, client access, multicultural mindset and cross-border operations;

Transform our **technology** leveraging **Digital and Data** to create more personalized service and a more efficient bank for all of our clients;

Embed **sustainability** in all what we do – strong internal ESG ambitions while supporting clients in their green and social transition.

UniCredit Unlocked will deliver sustainable performance and profitable growth over in the next three years, via a combination of three interacting levers, optimally balancing growth, strength and profitability:



Cost efficiency, deliver a lower absolute cost base while funding Digital & Data transformation and investing in the Business;

Optimal capital allocation, generating organic capital from increased profitability and capital-light model, optimal capital allocation and active portfolio management;

Net revenue growth that delivers profitability above the cost of equity and recovery of market share.

The Bank's Multi-Year plan assumes full enforcement and alignment with all regulatory requests and set limits while achieving balanced growth. The plan also assumes keeping a strong track record of out-performing the market in terms of business growth, operating profitability and efficiency, with a focus on further process and system improvements, along with the aim to improve the portfolio quality and enlarge the active client base, in order to enable sustainable growth.

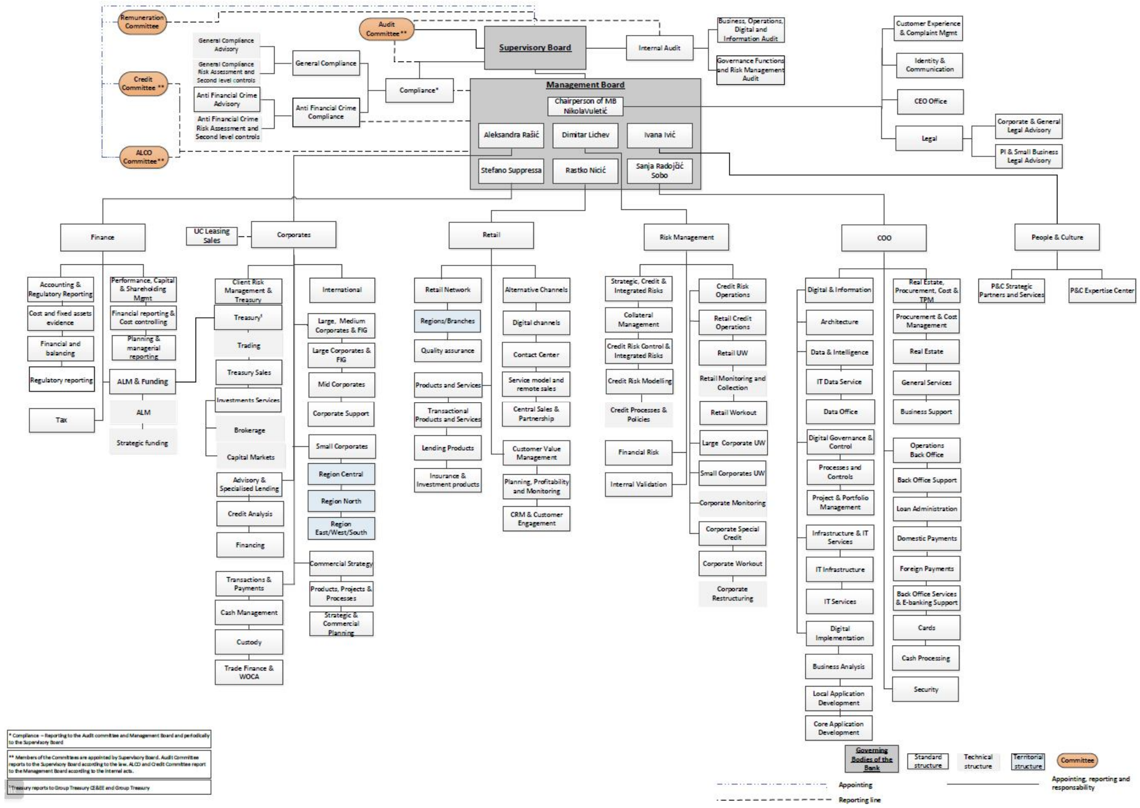
ORGANIZATIONAL STRUCTURE OF UNICREDIT BANK SERBIA

UniCredit Bank Serbia JSC BELGRADE

SUPERVISORY BOARD
Martin Klauzer, Chairman
Nevena Nikše, Member
Daniel Svoboda, Member
Lidija Barjaktarović, Member
Jelena Mihić Munjić, Member

MANAGEMENT BOARD
Nikola Vuletić, Chairman
Aleksandra Rašić , Member
Ivana Ivić, Member
Rastko Nicić, Member
Sanja Radojčić Sobo, Member
Stefano Suppressa, Member
Dimitar Lichev, Member

ORGANIZATIONAL STRUCTURE OF THE BANK



As of 2016, members of UniCredit Group Serbia, besides UniCredit Bank Serbia JSC, are UniCredit Leasing Serbia LLC Belgrade and UniCredit Partner LLC for representation in insurance Belgrade until the date of December 14th, 2023, when the liquidation procedure of LLC was completed. The following UniCredit Group entities were also operating in Serbia in 2023: ALPHA RENT LLC BELGRADE (formerly UniCredit Rent) and UCTAM LLC Belgrade - bankrupt, which are representing parties related to the Bank.

UniCredit Leasing LLC

BOARD OF DIRECTORS
Dimitar Lichev, Chairman
Aleksandra Rašić, Member
Branko Radulović, Member

EXECUTIVE BOARD
Ivan Jauković, Chairman
Ratko Petrović, Member

CORPORATES

In 2023, Corporates was oriented towards additional strengthening of its position on the market through growth across all business segments while supporting both the public and the private sector and providing the best service for all clients, deploying innovative solutions to improve its business, processes and products. The additional effort has been made to support the economic recovery after the negative effects of Russia-Ukraine crisis. The Division continuously brings the Group's worldwide expertise to support local innovation, product development and economic growth.

The loan portfolio of Corporates amounted to RSD 209.8 billion at the end of 2023 with an annual growth rate of 6%, whilst deposits amounted to RSD 258 billion, a 9% increase. The total number of clients at the end of Y2023 was 6054.

Client risk management and Treasury sustained the Bank's leading position on the domestic market. According to NBS data for 2023, UniCredit Bank was ranked second in foreign exchange transactions with residents, with a market share of 16.7%, and in first place in foreign exchange trade with non-residents, with a market share of 33.9%. UniCredit Bank kept the first position in the interbank market in euros with a market share of 22.9%.

During 2023, the Bank continued to promote hedging products, emphasizing protection against fluctuations in interest rates, exchange rates and variations of prices in the commodity market. Towards the end of the year, the Bank successfully completed the implementation of the client's online platform for foreign exchange trading and thus enabled its clients to conclude foreign exchange purchase and sale transactions more quickly and easily. The Bank strove to be competitive with its innovative approach and thus confirmed its leadership position in the design and distribution of these products. The bank maintained its leading position in the trading of financial instruments on the secondary market, with a share of 19.6%, as well as a significant presence on the primary market with a share of 17%. According to the NBS report on the interbank REPO market, UniCredit Bank participated in 100% of the transactions reported by the NBS for 2023.

The Bank continued to support enterprises with long-term investment plans and ventures, as well as those that require working capital financing. With the aim to strengthen competitiveness and entrepreneurship, UniCredit secured an easier access to financing through the guarantee scheme program that enable reduced collateral requirements through the COSME guarantee program. The COSME program covers loans of up to EUR 150,000.. Under the Social Impact Banking and Impact Financing programs, the Bank aims to support projects that generate a clear and measurable positive impact on the social community, with a particular focus on hiring of endangered categories and social inclusion, as well as providing support for projects in devastated and underdeveloped regions in Serbia.

Corporates continued to focus on providing support for export-oriented industries, with a strong belief in their importance for Serbia's economic growth and the implementation of the economic and industry strategy of the Republic of Serbia. The Division focused on expanding the cooperation with the existing clients and the acquisition of new clients in a range of industries that have been recording positive growth rates or possess a significant recovery potential, as well as on the expansion of the SME client base. It also continued financing the public sector (central and local self-governments), while it continued working on improving public services for citizens. In addition to the above, the division strived to deepen and further increase long-term partnerships with new and existing customers based on reciprocity and trust. Related improvement and optimization of risk-adjusted pricing policy was a part of the year-round agenda in order to better capture the risk profile of a client and provide an adequate reward for the risk assumed. Corporates customer satisfaction represents a crucial indicator of a successful partnership with all our customers.

In 2024, Corporates will aim to maintain its leading position on the local FX, money and capital markets. Business processes efficiency and effectiveness represent a key factor for achieving business goals and the entire Division structure will be proactively involved in the improvement, digitalization and automation of processes in 2024. In pursuit of this vision, the focus will be on: the reduction of concentration along business segments and increasing the share in the clients' portfolio by strengthening relationships, further innovation of the product portfolio by implementing new products, increasing the penetration in the segment of small and medium-sized enterprises, providing support for public projects, diversification of the customer portfolio and revenue base as well as increasing the loan portfolio balance in terms of the currency structure.

UniCredit Leasing (UCL) recorded an annual growth rate of 2% with a portfolio totalling RSD 18 billion at the end of 2023.

In 2023, UCL posted new financing in the amount of EUR 77.6 million, which was 13.6% lower than last year. According to Association of Leasing Companies data, at the end of the third quarter, UCL market share in new business financing amounted to 9.8%.

At the end of Q3 2023, UCL was 4th on the market in the segment of Equipment financing, with EUR 11 million of new financing and a market share of 13%, while in the segment of Vehicles, UCL was 7th on the market with EUR 30.4 million of new financing and a market share of 11%.

During 2023, UniCredit Leasing focused on strengthening its cooperation with vendors, supporting the SME segment, construction, agriculture and the IT industry sectors as well as on innovation and developing tools for faster and easier processing of client requests. UniCredit Leasing successfully continued to provide subsidy programs and easier financing access through EBRD funds and state-supported programs. Special attention was dedicated to green economy and sustainable energy programs, where UCL will continue to contribute in coming years.

RETAIL BANKING

Despite the complex business environment caused by global political tensions and their consequences in terms of high inflation and significant increase of reference interest rates, Retail Banking maintained growth during 2023. Total Retail loan portfolio increased by 1.8% y-o-y, while deposits volume achieved annual growth of 11.1%.

Clients continued to show the trust in the Bank's products, as well as the quality and reliability of services. In the segment of Private Individuals (PI), key credit products in 2023 were cash loans with the insurance coverage in case of unemployment. Despite the continuous increase of client interest rates, especially during H1 2023, solid growth of PI lending portfolio by almost 2.4% was achieved as well as increase of market share for 10bps of which major contribution came from cash loans which volume increased for 5% compared to 2022. Despite challenging macroeconomic environment Bank managed to maintain loan portfolio level in Micro segment.

UniCredit is recognized as one of the most reliable banks on the local market even during a crisis, considering that PI deposits volume achieved outstanding growth of 12.1% compared to 2022 as well as record-high market share in PI deposits (+8bps compared to 2022).

UniCredit bank is recognized as long-term partner which is supported by the fact that salary client base increased for 8% compared to 2022.

Year 2023 was a year of further growth of digital banking. The number of active m-banking users increased by 6.6% y-o-y, meaning that more than 67% of all clients were active on mBanking in a period of 30 days. In accordance with modern trends and greater client expectations, digitalization as a concept of business modernization is still one of main priorities. Some of most important digital improvements executed during 2023 in the PI segment are approval and realization of cash loans through mbanking application without branch visit, term deposit contracting and package change both remotely as well as implementation of Phone bot solution.

In following period Bank will continue to support growth and further expansion of Micro business through specially created offers.

In the upcoming period, focus will remain on automation and simplification of procedures, with the aim of improving the efficiency of business processes. The goal is to continue with the sustainable increase of market share based on good relationships with customers. When it comes to loan products, in addition to cash and housing loans, special focus will be on credit cards, which, along with standard possibilities for payments for goods and services in country and abroad, as well as online, will also have additional special features for benefits in line with client needs.

Additionally, the Bank will focus on automation of key processes within the Bank in the upcoming period, aiming to reduce time needed for loan approval and granting. Regarding this, work will be done to improve the automation of the loan granting process for the Micro segment, as well as housing loans as product that is crucial for long-term cooperation with PIs, for the purpose of further improving customer experience.

That UniCredit is a bank that maintains a wide range of products is also evidenced by the fact that we are continuously expanding our cooperation with the agricultural sector, actively participating in all subsidy and support programs for this sector, and actively tailoring our current product offer for the needs of agricultural holdings, primarily on the territory of Vojvodina.

The recognition as a socially responsible institution is of great importance for the Bank, considering its commitment to environmental financing in order to protect the environment and raise awareness of all market participants.

RISK MANAGEMENT

Risk Management[1] is organised to cover risk management, through the work of the following structures:

- Strategic, Credit & Integrated Risks (which includes the structures: Collateral Management, Credit Risk Control & Integrated Risks, Credit Risk Modelling and Credit Process & Policies);
- Credit Risk Operations (which includes the structures: Retail Credit Operations, Large Corporate Underwriting, Small Corporate Underwriting, Corporate Monitoring and Corporate Special Credit);
- Financial Risks;
- Internal Validation.

[1] Within Risk Management there is also a structure in charge of non-financial risks

They all report to the Management Board Member in charge of Risk Management, which ensures there is no conflict of interest and separation of risk management activities from other regular business activities.

In order to define a consistent policy for the lending activity and a general framework for risk management, each year, the Bank makes a Credit Risk Management Strategy for retail and corporate segment. The Strategy includes general guidelines for the basic parameters of risk management, principles of analysis of the creditworthiness of each customer segment, and the determination of the direction of development of individual products, as well as a detailed review of portfolio development strategies by individual industries. In this way, the Bank provides that adopted business policies are carried out within the framework that will result in an acceptable level of credit risk at the level of individual sales and adequate diversification and general quality of the loan portfolio. The Bank also takes into account the analysis of money laundering and terrorist financing risk when deciding on the assumption of credit risk.

The focus in 2023 was on assessing and controlling the potential negative effects induced by overall crisis related to world conflicts but also negative market trends in several industries (e.g. Agriculture, Construction), and its impact on our portfolio.

Identification, measurement, control and management of credit risk on the portfolio level is based on the reporting system, which provides information about the condition, quality and evolution of the loan portfolio. During 2023, there was a continuity of credit risk measurement process improvement through implementation of methodological changes relating to IFRS 9 and CRWA, as well as the calculation of economic capital for certain risks within pillar 2. The main focus was placed on the quantification of the potential negative effects resulting from geo-political situation, the growth of energy costs, inflation and interest rates on assessment of expected credit losses for certain vulnerable segments of portfolio, as well as on quantification through the stress test results..

When it comes to Basel Standard implementation, the focus of activities was on developing new internal rating model for legal entities, development of new exposure at default model, termination of application model for internal rating for cash based entrepreneurs and automatizing the rating approval process in segment of entrepreneurs and small business as well as adjusting the flat rating for Leasing. In the field of IFRS 9 standards, IFRS9 methodology simplification project has been initiated by the Group, in which we have developed a new transfer logic model which is used for quantifying significant increase in credit risk.

During 2023, several projects/initiatives were implemented and launched that provided continuous monitoring of key risk indicators from various fields:

- Start of implementation Basel 4 project regarding change of regulation related to RWA calculation with the first time adoption from January 2025 (CRR III Regulation),
- Activities on establishment and implementation of the regulatory framework related to the improvement of second level control (2LC framework) have been initiated;
- The framework for calculation of economic capital for existing risks under Pilar 2 was improved, ESG risk quantification approach was established in line with Group methodology.
- An agreement on participation in the risk between the Bank and Leasing was implemented for few cases through the so-called Risk Participation Agreement, through which the Bank accepts to participate in risk sharing through the insurance of a part of the Leasing portfolio,
- The back testing framework for individual assessment (haircuts for collaterals), for the effectiveness of implemented forbearance measures, as well as reporting related to annual and lifetime recovery, was improved,
- Intensive activities on adjustment of the credit process for the largest corporate clients have been initiated in terms of the impact of the climate risks (transition and physical risk) in such a way that the exposure to climate risks becomes part of the credit strategy towards these clients during 2024.

Regarding Corporate monitoring, bearing in mind overall world crisis, the increased monitoring of warning signals, clients and portfolios, and the implementation of various measures aimed at reducing risks in cooperation with clients who are on high-risk client watch lists, is continued. In addition to the existing monitoring list of clients with increased risk (“watch list”). Beside this, additional measures in automation of warning signal with optimizing process for SME segment were taken.

The bank continued with the comprehensive analysis of the existing monitoring process, both on its own initiative and in accordance with audit measures and process changes dictated by the Group, all with the aim of improving its efficiency and effectiveness, in order to recognize risks earlier and to ensure a timely reaction of the Bank. During 2023, the trend of fluctuations of clients to and from watch lists continued, while the number of clients on watch lists is increased along with increased number of clients transferred from Watch list to worse categories.

Regarding the Corporate Special Credit, besides its regular activities, Corporate Restructuring remained focused on timely recognition of problematic exposures (NPE) also by utilization of more intensive communication and coordination with Corporate Underwriting structures and Corporate Monitoring. Also, effects that global crisis has on general business environment and possibilities of clients’ recovery are regularly monitored. Just like in previous year, during 2023 significant reduction in problematic loans in restructuring was recorded, through regular collection, collection from collateral and non-core assets (voluntary sale), as well as the return of a number of clients to performing status. The fluctuation of clients in restructuring portfolio was on a regular basis. At the end of 2023, the number of restructuring clients has not changed significantly compared to the end of the previous year, which is the result of a balanced influx of new clients and the return of existing clients to the standard portfolio or referral to collection. Besides the fact that a few large exposures were transferred to Corporate Restructuring, some of the clients with large exposures were transferred to Standard portfolio or fully closed (repaid). Some restructurings included larger number of banks and were based on INSOL principles for managing problematic exposures and clients.

Corporate Workout continued with collection for Client from CWO portfolio, through court processes. In 2023 in several occasions CWO realized selling of receivables, for clients on off balance and balance accounts, which had positive results on NPL reduction on Bank level.

In the Retail segment, for private individuals, small businesses, entrepreneurs, registered agricultural holdings, as well as companies, the focus in 2023 was on increasing the efficiency of all processes, through the audit of the process steps and activities on the development of new automated technical tools for loan approval, as well as the improvement of existing ones, then on the improvement of the process of loans monitoring and collection, as well NPL reduction.

During 2023, Collateral Statistical Monitoring was completed as well as further improvement of cooperation with external associates: valuation companies, licensed appraisers, insurance companies, monitoring companies and lender supervisors. Aside from that, general improvements of collateral management process and practice were also implemented through more agile acquisition of valuations, insurance policies, more detailed tracking of mortgage inscriptions, increased involvement of lawyers in the registration of mortgages etc. The Bank was adequately delivering regular monthly reports regarding real estate valuations to NBS, which are used for loan processing purposes.

In the area of financial risks management, the focus of activity was on the improvement of standards in the control and management of market, interest and liquidity risk.

In the area of market risk management, significant part of the activity was devoted to the careful monitoring and analysis of events on the local and world markets, as well as the movement of the main macroeconomic indicators.

In the area of interest rate risk management, the scenarios used in monitoring interest rate risk exposure in the banking book were updated in accordance with the latest EBA standards.

In the domain of liquidity risk, structural liquidity reports were improved, activities were carried out to update scenarios and assumptions used during stress tests, risk identification processes that could lead to increased exposure to liquidity risk were improved, as well as processes for independent assessment of the adequacy of the bank's financing plan in regular and in unforeseen circumstances.

One of the very important goals of the Bank in the field of risk management is to achieve and maintain all standards in the control and management of non-financial risks, in accordance with the established system of identification, assessment and control of these risks. The Bank manages operational risk through: collection and validation of data on internal losses, analysis of scenarios in order to estimate maximum losses, monitoring of key risk indicators (KRI), self-assessment of operational risks (RCSA), analysis of key risks for the Bank, analysis of operational and reputational risk of entrusting the relevant activities of the Bank to a third party, analysis of operational and reputational risk when introducing a new product or significant product changes, analysis of operational risk of information systems and cyber risk. Evaluation of the reputational risk of clients/initiatives/transactions/projects/ and other topics for which there is identification of potential high reputational risk is carried out within the Committee for Non-Financial Risks (NFRC) - Subcommittee for Reputational Risk.

Based on the foregoing, it can be concluded that during 2023 the Bank enhanced risk management system, which, along with its capital adequacy and profitability levels, guarantying an adequate management and coverage of the risks to which the Bank is exposed.

Integrated risk management function within which, in accordance with the Law on financial leasing, UniCredit Leasing entrusted the tasks of identifying, measuring, assessing and managing risks to the risk management function of the Bank, was dedicated to improvement of economies of scale in credit business, support in commercial actions and credit process optimization.

Risk Management will continue with the efforts and actions aimed at improving the system of management of all risks to which the Bank is exposed in its operations. Special focus is planned towards further enhancement of the credit process in order to improve efficiency, as well as on creating a comparative advantage in the market through process optimization on one hand, and through improvement of the tools for identifying and mitigation of credit risk, on the other hand. In that way, adequate support to all organizational structures will be secured. In 2024 one of the main goals is to maintain and improve portfolio quality and enable base for sustainable growth with focus on further portfolio diversification, but always using proactive approach toward risk management enabling new client acquisition.

BANKING SUPPORT

During 2023, additional focus of employees was placed on process optimization and digitization, modernization and energy efficiency, all with the aim of improved client experience, more efficient work of employees, and the adoption of the principle of reasonable energy use.

In 2023, we continued with further industrialization of the Bank's microservice architecture aligning with the strategic plan to use the DevOps methodology. In this sense, several applications based on the "modern stack" (for example, modern JavaScript frameworks like Angular, as well as modern backend technologies and databases) were developed relying exclusively on the internal resources. The applications were automated using the DevOps methodology and the microservice framework, all in line with the modern industrial standards.

Also, the focus was on the development and improvement of the platform for credit processes and further digitization in both segments, as well as on the presence and promotion of digital channels through digital services and platforms for document exchange.

Agile methodology was applied in the implementation of several projects with the aim to increase efficiency and faster achievement of project goals.

In cooperation with the Digital & Information structure, Security has initiated and implemented a series of improvements in the field of cyber security, focusing on the protection of information and the constant action against numerous cyber threats that are on the rise, by implementing new as well as upgrading existing tools and processes, not neglecting education and spreading awareness among employees, as well as investing in the professional knowledge of employees. Particular challenges are represented by the increasing activities of ransomware groups as well as phishing campaigns. In the aforementioned process, and in accordance with the local and group strategy, the implementation of initiatives as well as their planning is carried out in close cooperation with colleagues from the group, firmly adhering to the principles of standardization and optimization of processes and solutions.

In order to meet the demands and growing needs of clients, in parallel with the development of digital channels, during the year 2023, two (3) branches were moved to a new location. The offices were furnished in accordance with the new modern concept and design.

In cooperation with colleagues from organizational units in charge of retail business and small enterprises, the process of qualitative and quantitative control of archived active documentation of clients is continuously improved. The control measurement of the completeness of the documentation as well as the qualitative verification of the documentation is performed monthly.

In 2023, it was ensured that 100% of the electricity from direct billing used by the Bank for regular business would come from renewable sources. Additional energy saving initiatives were implemented. Old equipment in Head Office Building for heating and cooling has been replaced by equipment with higher energy efficiency level in order to decrease the CO2 emissions and electricity consumption.

Real Estate, Procurement, Cost and Third Party Management structure defined decentralized procurement process which corresponds cooperation with third parties with whom budget owners are establishing cooperation by themselves directly and process enabled single contract management repository with all suppliers.

Operations Back Office continued with further optimization and automation of processes through the implementation of robots in banking processes and improvement of existing applications to reduce operational risks, increase customer satisfaction and increase productivity. Additional application solutions were implemented in the process of booking of loans, overdrafts and credit cards for PIs to provide more efficient support to our clients.

In 2023 we managed to implement automated KYC evaluation process which affected 50% of the client portfolio and helped us additionally optimize our resources.

At final stage of the automation, it is expected to establish the process that does not require any intervention and assistance from clients and also from the bank employees.

By joining the initiative of the National Bank of Serbia in the development of the platform for E-bills of exchange, we achieved a notable role in test scenarios defining that was recognized by the NBS and the Association of Banks of Serbia as a standard for further implementation of testing activities of the aforementioned application solution. Also, during 2023, intensive work was done on initiatives within the process of Foreign Exchange Payments with the aim of automated processing of payment orders and collections from abroad, as well as entrusting the processing of citizens' checks to a third party, which leads to higher efficiency and improvement in servicing the Bank's clients, full effects of these initiatives are expected during 2024.

Thanks to efficiency, flexibility and expertise, Operations Back Office structure significantly contributed to the bank's business success in 2023..

The focus of COO (Chief Operations Office) in 2024 will be on continuous digitization, constant improvements and further raising of employees' awareness of the "green way of thinking" with the aim of preserving the environment, increasing client and employee satisfaction.

PEOPLE & CULTURE- P&C

The operations of the People & Culture in 2023 were focused on providing strategic support to the realization of the Bank's planned business activities through:

- Strengthening the organization in the direction of maintaining business continuity and adequate adaptation to remote work
- Empowering leaders through leadership development programs
- Empowering women leaders in the organization
- Strong focus on promoting organizational values

Having in mind the strategic development plans of the bank, in 2023, P&C strived to support operations in the most adequate way, primarily with overcoming challenges, achieving goals, which was carried out via the improvement of organizational culture and competencies in the field of skills and expertise, a culture of teamwork, communication and presentation skills, digital transformation and innovation.

This year, as well, the Bank also paid special attention to the development of leadership skills on all managerial level and talents of the Bank and motivating and retaining employees who achieve high achievements and have potential for further development. Leveraging on internal capacities and in cooperation with external consulting companies' numerous workshops and trainings were organized during 2023 with having more than 37.000 hours of learning. For the Bank's Management, the development programs were focused on leadership skills with main focus on Change Management, while for the organizational parts of the Bank which cooperate with clients the focus was on improving presentational and sales skills.

In this year workshops were organized for all organizational levels on the topic of effectiveness of the meetings with the aim to improve mutual communication, overcoming the challenges and better understanding of the needs of the team. In parallel, in order to strengthen the leadership skills and provide adequate support to UniCredit leaders, the P&C in cooperation with a global provider, focused on a young talent of the Bank program, selecting the new generation of future leaders, aiming to strengthen and increase their digital and leadership skills as future leaders in an era of constant market change.

We also launched new program: 'Wisdom' for reskilling and upskilling of our most senior employees.

In 2023, the P&C has continued the initiative started in the previous years and launched 4th edition of the program which aim is to support and empower women leaders in our organization by providing support on the path of personal growth and further career progress. This pragmatic program supports building women's leadership in our organization.

During 2022 P&C developed Retail Management Academy "Effective Management Practices" – new development program for Branch Manager, that we continued to implement during 2023. The program has been customized to address our organization's particular needs, topics such as: giving feedback, delegating, leading teams, personal organization, motivating teams.

P&C supported employees through a changed communicational approach and regular information in providing new career opportunities and promotions, as well as in enabling to change positions within various organizational parts of the Bank.

Striving to adequately empower and support employees in achieving their business goals and improve their performance, the P&C has supported employees in improving their expert and social skills by organizing and providing budget for various trainings, domestic and foreign certificates, and international seminars and conferences that employees attended online during 2023. Special focus on developing digital skills in order to boost attracting new digital profile talents and retaining the current ones. We continued with Digital Learning Pills initiative.

In 2023 strong focus was also on promoting organizational values, recognition of the ones that are true value promoters, and of course promotion of Diversity, Equity and Inclusion as our core value. In 2023. Serbia was host of the Culture Roadshow, were we welcomed employees from all over Group so that we can share best practises.

As in previous years, in 2023 UniCredit Bank provided private health insurance for all employees. In 2023 the Bank continued to provide free online psychological counselling for its employees.

Moreover, UniCredit Bank has continued to implement previously adopted benefits and initiatives such as Birthday Holiday, Free Day for employees whose children are in the first grade of primary school, and Parental Support, for the father of a new born child to have 20 days of paid leave

Also, we continued to support all our employees who are facing with challenges on their path to parenthood (covering the cost of one IVF procedure).

New benefit was introduced in 2023, after long term leave moms can work part-time, with a full salary.

In order to encourage employees to take more care of their health and good life habits, P&C in 2023. continued with the "Really Important Knowledge" initiative, and in that sense organized a set of workshops held by specialist doctors, through which employees are encouraged to take care of their physical and mental health.

Cooperation with universities was continued through internship programs, study visits and scholarships for the best students.

Bank gain two important certifications in 2023. Top Employer legitimate for 2024 and EDGE certificate, recognizing our company as gender equality company.

In 2024, the P&C will continue to work on strengthening the organization and strengthening the organizational culture and employees of the Bank in the field of transformation towards digital business, development of talents and leaders in order to build a stable network of successors to leadership positions. It will also continue to promote a flexible work culture, create a balance between business and private life, support in the form of more comprehensive medical services and the promotion of healthy life habits.

IDENTITY AND COMMUNICATION

The global unfavourable geopolitical situation throughout the year 2023 spilled over to economic events in all markets in the world, and various challenges arose for the banking sector as well. Nevertheless, as during all previous years and various changes, our bank responded to everything in a timely and thorough manner. Identity and Communications sought to align priorities and key messages in a highly coordinated manner to respect all stakeholders.

As in previous years, it was extremely important during 2023 that bank employees, clients, the community and regulators were convinced that UniCredit Bank would proactively and continuously provide support, invest and empower them. In the relationship with clients, the prioritization of timely notification of all developments, new products and services, current campaigns and promotions, bank successes, work changes through all available channels, both in the bank's operations locally and throughout the Group, continued. Through daily communication, through all available channels, everything necessary has been done to meet the highest criteria of transparency, as well as to provide clients with accurate and up-to-date information at all times.

During the whole year, in a transparent and clear manner, clients as well as employees were informed about all the decisions and goals of the Bank. Also, the results of the Group and the Bank were communicated locally on a quarterly basis.

Identity and Communications continued to work on the promotion of all products and services, with the aim of increasing the number of users, while we tried to regularly inform existing clients and guide them to all the advantages provided by our products and services, with a special focus on products and services for Young people and students, highlighting the advantages of digital platforms and channels, such as mBanking, eBanking services, but also multifunctional ATMs.

In cooperation with colleagues from the Sector of cooperation with the population, as well as the Bank's partners, we worked on the promotion of Cash loans, Credit cards, packages for students, digital channels, through direct and paid channels.

In March, we started the promotion of Cash loans, through a campaign under the slogan "Extra cash", which focused on the interest rate as well as the Gold package account.

Strengthening the brand and contributing to the Bank's image was also done by the Cash Credit campaign called "Happy Cash Credit", which we announced in May as part of the first wave of the campaign and since October as part of the second wave of the campaign. The aim of the campaign was, in addition to the acquisition of new customers and the increase in the volume of loan products, and the empowerment of local communities through the Prize Contest, the basic idea of which is the realization of the winning idea on the topic - How to improve local communities.

In order to strengthen loyalty in the segment of clients, small businesses and entrepreneurs, for the first time we launched a loyalty campaign called "We reward when we cooperate successfully", which was current in the period July-December. As part of the loyalty campaign, a prize contest was organized where clients had the opportunity to compete in achieving certain criteria. After the end of the campaign, we awarded three clients with three commemorative prizes for first, second and third place.

Throughout the year there was continuous promotion of the Flexi POS service for small legal entities in order to promote the new payment option.

Listening to the needs of the clients, in the summer period we advertised a campaign that promoted a combo package of products: Cash loan, credit cards and allowed minus, where the client could get an additional benefit if he decided to apply for more products.

A large focus is directed at direct communication with the student base, where through various campaigns and special offers, we provided our customers with the opportunity to achieve additional benefits as bank clients.

Last year too, we were focused on cooperation and strengthening of relations with the bank's partners, in order to create additional benefits for all of us by joining forces. We promoted Flexia Mastercard credit cards, highlighting benefits such as purchasing in 12 instalments without interest at our clients' points of sale, but also for online payments. Such partner campaigns, in addition to client acquisition, aim to create loyalty at the time of purchase, at various points of sale, and strengthen the Bank's positive image.

At the end of the year, we continued advertising the Flexia Mastercard credit card through external channels in order to present benefits such as: card payments abroad, via the Internet, as well as the benefits of interest-free instalments.

In December, we also announced the Cool account package for young people, where we presented the benefits of this package for all young people up to the age of 26 through an external campaign and direct channels. In 2023, UniCredit Bank also strove to enthrone and highlight its presence in the media and thus further contribute to the growth of the Bank's recognition, its reputation and positioning as an expert in the field of banking, economics and finance, as well as the ESG field. At the beginning of the year, a formal lunch was organized for the most important representatives of all media in Serbia, where the president and members of the Bank's Executive Board spoke with members of the seventh power. When we look back at communication with the media, apart from focusing on highlighting products and services, we continued to pay great attention to promoting the Bank's socially responsible projects, responsible behaviour and business, as well as the Bank's aspirations towards sustainable green business, and not only our business, but also the business of our clients. Through various media formats and relevant interlocutors, as well as participation in conferences, an effort was made to emphasize the expertise of employees, the importance of the Bank's digital services, but also the Bank's contribution to investing in the community and the environment in which it operates. Thanks to the cultivation of good relations with the media, with mutual respect, appreciation and trust, the goals were successfully achieved.

In April, in accordance with the goals of empowering the community and empowering women's entrepreneurship, an exhibition "100 women, 100 miniatures" was organized in the Bank's branches, where unique handicrafts of 10x10 cm format, made by women and young people in craft associations and cooperatives throughout Serbia, using traditional technique.

During the year, two cycles of a unique prize contest called "Lucky Cash Loan from UniCredit Bank" were successfully organized and implemented, through which the winners were able to have the bank pay off the cash loan early instead of them, in the maximum amount of up to 10,000 euros. Through each cycle of the award contest, the Bank awarded a total of five awards for the best ideas and project proposals aimed at improving the quality of life of the local community. In this way, UniCredit Bank became the first bank on the domestic market that offered the possibility that five clients do not have to repay the cash loan. In addition, in both cycles of the competition, one of the five winning Projects, which the expert jury declared the best, is realized by UniCredit Bank. Thus, in the first cycle, money was donated for the purchase of necessary equipment for the oncology department of the general hospital in Paraćin, and in the second cycle, according to the winning idea, funds were donated for the purchase of instruments for the Music School in Niš.

In the last quarter of 2023, a festive cocktail was organized for the most important stakeholders and clients of the bank, during which the winners of the successfully conducted contest "We reward when we cooperate successfully" were awarded.

In 2023, internal communication had a very significant and recognized role among employees. Realizing the importance of maintaining business continuity, but at the same time transparency of work, communication with employees via email and the internal portal of the Bank and UniCredit Group, as well as communication via notifications on computers, was very frequent and regular. In order for all employees to be informed about achievements and goals in a timely manner, management meetings are regularly organized, as well as visits by bank management representatives to the regions where we operate. This year, Serbia hosted the representatives of all member countries of the Group during the organization of Culture Day, which contributed to the spread of a culture in which we cherish the three basic values of Integrity, Responsibility and Care. On that occasion, the bank in Serbia hosted about 100 guests, showing them the cultural heritage of our country and preparing them various rich and interesting contents to familiarize them with the culture of Serbia. On that occasion, the top management of UniCredit Group was hosted. Also, during the year, they hosted representatives of the Group's management on several other occasions.

With various internal campaigns, we tried to promote collegiality, team spirit, but also a healthier way of life, as well as new ways of learning and personal development. During 2023, we continued to communicate the individual stories and successes of our employees, colleagues who achieved the best results in our branches and who were at the service of clients all the time. We also devised different ways to stay closely connected not only with our colleagues but also with our families, as well as the community in which we operate. Family UniCredit Day, this year, after several years, was again organized live, in the bank's premises, as well as on the plateau in front of the entrance to the head office in New Belgrade. On that day, the festive and family spirit was highlighted through the gathering of employees and their family members. A New Year's bazaar, a children's choir performance, workshops for children and adults and performances by various animators were organized. In addition, in anticipation of the holidays, the employees, together with their families, prepared gifts for the children who attend the elementary schools "Boško Buha" in Zvezdara and "Novi Beograd", thus supporting the UniCredit Group's donor initiative "Kids4Kids", which collected during December a large number of packages in all thirteen countries in which the Group operates.

Through various channels of internal communication, employees were regularly and transparently informed about all strategic changes and decisions of the local Bank and UniCredit Group. The campaign of presenting and reminding of all the current products that the bank offers to our employees continued.

In 2024, Identity & Communications will remain focused on providing support to the bank's operations through informing clients through various communication channels. Also, great attention will be devoted to further improving the Bank's reputation by continuing to implement various initiatives aimed at empowering the local community. Internal communication will continue to be one of the basic types of communication between different sectors of the company, but also support for all employees to realize their full potential and to feel integrated in the Bank's activities and projects.

CONSOLIDATED NON-FINANCIAL REPORT FOR 2023

Foreword

At UniCredit, we believe bank is represented by more than just finance and numbers. It is also represented by people and communities. With the enduring energy crisis, global climate emergency and wars across different territories supporting the regions has never been more important to lead the communities toward better future. Trough our values: integrity, ownership and caring we are committed to providing tools, support and know how needed on this road. That is why we've embedded the principles of ESG in our business model, our processes and strategy. In this way this topic is a priority in all our decisions and activities.

During 20 years of presence in Serbia bank was committed in providing positive influence on society being more than just a bank through its activities focused on communities. 2023 was one of the most important and successful years for UniCredit in the area of green project and positive influence on communities together with number of projects providing positive and measurable influence, which gave us additional motivation to provide even more support for green transition and promotion of ESG pillars.

Environmental protection

Climate risk and portfolio steering

UniCredit Group, including local bank, defined ESG strategy which is presented in publicly available document integrated report[2]. The document is covering details of quantitative and qualitative targets and initiatives while implementation of group strategy and its integration in local processes is expected in the following period.

In line with Group strategy significant attention during financing process is devoted to environmental protection and by defining financial targets bank is focused on green financing. Additionally, Group has signed Net Zero alliance initiative covering green house gas emission with additional focus to financing sectors with significant GHG emissions and their transition to clean energy. In this respect Group is in process of seeing specific financial goals per each GHG intensive industry with the idea to steer investments and support clients in their transition path. Group has also defined sensitive industries with the idea to assists those clients in transition to more sustainable business.

Banks ESG strategy and focus to green financing has been also formalized trough processes, setting clear criteria for green financing trough internal documents, respecting EU taxonomy which is recognized by the Group as relevant legal frame in this area.

ESG aspect is also included in credit process trough specific questionnaire covering area of environment and climate changes and client analysis in respect of climate and environment focusing on specific dimension. Questionnaire is based on scaling, trough list of key indicators which are positioning the client related to risk, vulnerability and exposure, adding also potential economic/financial influence. At the end of process client is provided with final classification of ESG risk which can be low, medium or high.

[2]https://www.unicreditgroup.eu/content/dam/unicreditgroup-eu/documents/en/sustainability/sustainability-reports/2022/UC_INTEGRATO_2022_ENG.pdf

Key policies related to climate risk

UniCredit Bank Serbia deals with environmental protection matter indirectly, as well as other ESG principles, in relation to clients and third parties, through defining policies in field of reputational risk. Key policies regulating Bank's behaviour in this subject are as follows:

1. Reputational risk management policy in UniCredit Bank Serbia
2. Policy on Management of Sensitive Industries in UniCredit Bank Serbia
3. ESG Product guidelines
4. ESG Working instruction
5. Working instruction for Climate and Environmental questionnaire
6. Defence/Weapons Industry Reputational Risk working instruction
7. Nuclear energy Environmental, Social and Reputational Risk working instruction
8. Water infrastructure (Dam) Environmental, Social and Reputational Risk working instruction
9. Mining industry Environmental, Social and Reputational Risk working instruction
10. Coal sector Environmental, Social and Reputational Risk working instruction
11. Oil & gas industry Sector Reputational Risk working instruction
12. General Principles for Credit Activity
13. Corporate credit process procedure
14. Environmental and social framework in corporate credit process

Sustainability as a part of banking product offer

For many years now, the green economy has been an important part of the corporate business of UniCredit Bank, who is already market leader in financing wind energy projects, and increasingly strong market competitor when it comes to solar energy.

Based on that, during the year 2023, in partnership with the Green for Growth Fund, two credit facilities were available to the domestic economy in the amounts of RSD 1,76 billion and EUR 10 million, to support the recovery of green projects in Serbia.

Guided by the values of sustainable development and, above all, social responsibility, Corporate, in addition to individual infrastructure projects, participated in the initiatives of international investment and development banks. These programs are intended mostly for the segment of small and medium enterprises that have a very important role and impact on both economic and social development. Corporates continued to identify needs and support the development of this economic segment by providing them an easier access to funding sources.

Transitional impact is achieved via loan facilities and guarantee instruments based on funding from the EU, governments of EU members, Government of Serbia and various donor funds which have social and environmental goals, as well as the general growth of the economy.

Aforementioned environmental goals serve to support the path to green transition. Thanks to the support from EU, German government and other donors, the impact is achieved through dedicated EBRD, KfW and GGF facilities. The function of the facilities is to finance projects which reduce the energy usage and the emission of CO2, by stimulating green energy sources. Client range stretches from private individuals to large scale renewable energy project financing. Also by adopting EU standards the companies will be more competitive on the EU market which will lead to more export of the final products on the high quality demand markets.

In cooperation with the EBRD, last year the Corporates, through the EBRD Competitiveness Program, provided small and medium-sized enterprises with a combination of loans, incentives and technical assistance to strengthen SME's know-how. The funds were used to upgrade technology, processes or services, particularly those related to product quality, health and safety and EU environmental requirements. This method of financing enables companies to improve competitiveness and trade both in the region and in the EU countries, through targeted, grant-supported investments.

UniCredit Leasing also participated in the EBRD program, financing investments in line with EU standards in the field of ecology, energy efficiency, health and safety hence contributing to a better quality of products relevant for society preservation.

In 2022. UniCredit Leasing has signed with EBRD The Sustainable Reboot SME Programme. Aim of this Programme is to encourage SMEs which are weathering the current crisis to 'reboot' their activities, improve their resilience and productivity by investing in sustainable and competitive technologies thus increasing the implementation of EU and other international standards, through the provision of financing, investment incentives and technical assistance at SME level in the field of environmental protection, occupational health and safety and product quality and safety.

The Bank is also a beneficiary of the funds of the German KfW bank, and during 2023 the focus was on credit lines that contribute to the reduction of carbon dioxide emissions, with a purpose of financing in energy efficiency and renewable energy. Namely, with the financing of machines and machinery that reduce CO2 emissions by more than 20% compared to the old machine that is being alienated, the client receives a grant in the amount of 10% of the amount of financing, as well as for renewable energy projects.

Finally, in 2022. Bank has signed with EBRD The SME Programme for financing SMEs business, with first tranche disbursed in 2023,with commitment, on best efforts base, to utilize minimum 10% for the Green Loans. Unicredit Leasing signed with EBRD in 2023 similar Program, but with usage of minimum 30% for the Green Loans on best effort base.

Sustainability of Banking Operations

Optimization of everyday business is the precondition for achieving goals in environmental protection. Accordingly, decisions made related to business travel, office heating and cooling, use of business cars and paper consumption should contribute to making positive impact in terms of environmental protection, and in general lead to decreasing the consumption of non-renewable energy sources.

During 2022 below described initiatives were undertaken with achieved results:

- The Bank prioritizes procurement of cooling equipment is in favour of buying ozone friendly appliances and with high level of energy efficiency, when possible;
- By implementing the Green Policy, it is mandatory for all working stations to shut down every day at 9 pm;
- Energy saving initiatives has been implemented in order to decrease energy consumption in the coming years (changing old equipment with new, more energy efficient equipment, decreasing working hours of lit advertisements, implementation sensor moving equipment to increase control of lights usage);
- Paper consumption was decreased by 31% for the period between 2019 and 2020, while in 2021 it was 6.88% higher compared to 2022. In 2022 paper consumption increased by 6.11% compared to 2021, while in 2023 it is reduced by 20%. Copy paper usage control is enabled through specific software bought for this purpose. Fuel consumption and paper consumption during the reporting period, compared to the period between 2019 and 2020, was influenced by the improvement of the epidemiological situation caused by the COVID-19 virus;
- During procurement of products, we took care to select the ones with environmental certifications/labels such as: FSC, PEFC, Green range, Eco label;

Consumption of water and energy, paper saving and waste management

<u>Electricity Consumption</u>

Description	Unit	Quantity
Direct energy consumption (for premises) by primary energy source		
Total direct energy consumption	kWh	*79,552*
01 - Natural gas	kWh (Natural Gas)	*79,552*
02 - Diesel	kWh (Diesel)	*0.00*
03 - Other crude oil and petroleum products (e.g. Fuel Oil, Gasoline, etc). Please exclude all fuels used for travel transportation	kWh (Crude oil and petroleum products)	*0.00*
Total indirect energy consumption		
01 - Electricity energy consumed from purchased sources	kWh	*4,043,728*
02 - District heating, and if applicable cooling, consumed from purchased sources	kWh	*717,400*
Percentage of indirect renewable electricity from special agreements		
01 - Total amount of renewable electricity purchased from special agreements	kWh	*1,950,104*
02 - Total amount of indirect electricity consumption	kWh	*4,043,728*

03 - Percentage of indirect renewable electricity from special agreements on total indirect electricity consumption	%	*48.23%*
Percentage of indirect renewable heating from special agreement		
01 - Total amount of renewable heating purchased from special agreements	kWh	N/A
02 - Total amount of indirect heating consumption (INCLUDING DATA PROCESSING CENTERS)	kWh	*717,400*
03 - Percentage of indirect heating from special agreements on total indirect heating consumption	%	N/A
Total energy consumption from all sources (consumed purchased energy sources and self-generated self-consumed electricity from renewable sources)	kWh GJ	**4,840,680** **17,427**

Waste Management

Total weight of waste creation by type	Unit	Quantity
Paper and cardboard - EWC codes: 200101, 150101 and others (please specify adding a note)	Kg	5,560
Other waste (steel)	Kg	2,500
Total waste	Kg	**8,060**

Water Consumption

Description	Unit	Quantity
Total water withdrawal		
01 – Total water consumption	m3	11,759

Total water consumption including tap water and water from water gallons.

Copy Paper Consumption

Type of paper used	Unit	Quantity
Total amount of paper used	Kg	63,111
Quantity of used paper that is labelled as FSC or PEFC (out of total amount of paper used)	Kg	60,693
Quantity of the remaining total paper consumption, that is labelled with other environmental certifications/labels.	Kg	8,781
Details of these other environmental certifications/labels..		ISO 9706, ISO 9001, ISO 14001, OHSAS 18001
How much of the total paper is not included in any of the above categories	Kg	88

TRANSLATION NOTE: This is a translation of the original document issued in the Serbian language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail.

Responsibility in registration and qualification of suppliers

The sustainability segment is also integrated into the selection of suppliers with which the Bank cooperates. A qualification questionnaire is used for this purpose, and each supplier is obliged to fill in the mentioned document in order to qualify to become a supplier of UniCredit Bank. One part of this questionnaire is the section "Sustainability Requirements", which consists of the minimum requirements in the field of sustainability that a potential supplier must meet. The questionnaire requires the submission of the following information: the existence of an environmental policy; compliance with the basic principles of the United Nations Global Compact; compliance with ILO requirements; compliance with local regulations in the field of environmental protection; disclosure of aspects relevant to the environmental protection of products and services sold or offered by the supplier; whether the company is subject to audit in accordance with ISO 19011; confirmation that no proceedings have been instituted against the company in connection with the violation of labour rights and environmental laws. During 2023, a total of 78 suppliers successfully met the criteria from the questionnaire.

Social responsibility

KEY SOCIAL PROJECTS, INITIATIVES AND RESULTS IN 2022

"Lucky Cash Loan"

UniCredit Bank Serbia organized two cycles of a unique prize competition called "UniCredit Bank's Lucky Cash Loan", through which the winners were able to have the bank pay off the cash loan early on their behalf, in a maximum amount of up to 10,000 euros.

Through each cycle of the award contest, the Bank awarded a total of five awards for the best ideas and project proposals aimed at improving the quality of life of the local community. In this way, UniCredit Bank became the first bank on the domestic market that offered the possibility that five clients do not have to repay the cash loan.

In addition, one of the five winning projects, which was declared the best by the expert jury, is realized by UniCredit Bank. Thus, in the first cycle, money was donated for the purchase of necessary equipment for the oncology department of the General Hospital in Paraćin, and in the second cycle, according to the winning idea, funds were donated for the purchase of instruments for the music school in Niš.

Empowering women

On the occasion of International Women's Day - March 8, we organized an internal event in our office buildings - the Women's Entrepreneurship Fair. The handicrafts of female entrepreneurs were presented, because it is real and essential support when we empower someone to be able to live from their work. With this act, we gave hardworking and brave women the opportunity to offer us their products, but also to make it easier for us to choose a gift for Women's Day.

The role of women in society is becoming more and more important because the business world is becoming aware that their participation in the economy is extremely important for business. For this reason, we joined the project "Women entrepreneurs - the strength of the economy" in partnership with the Serbian Chamber of Commerce. Within this project, we will empower women entrepreneurs to be confident in their financial decisions, through education and sharing the knowledge and expertise of our colleagues.

Exhibition "100 women, 100 miniatures"

As a socially responsible company, UniCredit Bank Serbia continued to strengthen the community in which it operates in 2023, and in April, through cooperation with Ethno Network, an association of handicraft producers from all over Serbia, it emphasized the preservation of cultural heritage and support for female entrepreneurship. Thus, the exhibition "100 women, 100 miniatures" was officially opened in the branches of UniCredit in Belgrade. The exhibition presented unique handicrafts in the 10x10cm format, which are made by women and young people in craft associations and cooperatives throughout Serbia using traditional techniques.

The exhibition of works was organized by the Bank in cooperation with the Ethno network, with the support of the National Alliance for Local Economic Development (NALED). It was officially opened with a performance by the cultural and artistic society "Čukarica", and the exhibition was exhibited in four branches of the Bank in Belgrade.

Volunteers Club

After the establishment of the "Volunteer Club" in 2022, the volunteer work of employees at UniCredit Bank Serbia was recognized and visible in a systematized and organized manner, and it continued its activities in 2023. During the year, a considerable number of employees joined the Club, so that it now has 221 people. As a place that brings together all employees interested in contributing to the community through participation in various initiatives of the company and the bank, through the Volunteer Club interested colleagues were given the opportunity to opt for participation in volunteer actions from various fields such as: education, environmental protection or humanitarian actions . There is also the option of participating in actions from all three mentioned areas. During the spring, volunteer actions were organized where employees arranged locations in National Parks and picnic areas in which the Bank invested funds for equipping and adapting the previous year, as part of the jubilee celebrations. Thus, more than 200 employees participated in the decoration of the Resava Cave and the most visited picnic spots on Fruška Gora. Volunteer work throughout the year was maintained continuously through several workshops and lectures for high school and university students, which the employees of the bank were very happy to implement. Also in the second half of the year, employees gladly responded to the call for traditional mentoring in the Project of the organization "Youth Achievements", which the bank supports, and then through engagement in delivering prepared gifts to children with disabilities and developmental disabilities. In anticipation of the holidays, the employees of the bank, together with their families, prepared and packed gifts for the children attending the elementary schools "Boško Buha" in Zvezdara and "Novi Beograd", thus supporting the UniCredit Group's donor initiative "Kids4Kids", which is ongoing In December, a large number of packages were collected in all thirteen countries in which the Group operates.

Financial dictionary

This year, the initiative called "Financial Dictionary" was continued, which was created by employees of UniCredit Bank. In this way, for the third year in a row, that is, the third edition of the dictionary, the aspiration to contribute to the financial literacy of the high school and student population in an interesting, attractive and understandable way for young people has been strengthened. Thanks to these programs and initiatives, thousands of young people, high school students and students have gone through the basics of financial business and education.

"Youth Achievements"

As in previous years, during 2023, the Bank provided support to the "Junior Achievements" association, through whose project, bank employees help high school students to better understand the world of business and finance through mentoring and volunteering activities. However, that cooperation was raised to a much higher level this year, bearing in mind that the UniCredit Foundation, the corporate foundation of the UniCredit Group and the European network of Youth Achievement (Junior Achievement) entered into a partnership and launched the program "Strengthen for the future" in order to jointly prevent early leaving schools. Through this partnership, the UniCredit Foundation will invest 6.5 million euros for the implementation of a three-year program in ten countries in which UniCredit operates: Serbia, Austria, Bulgaria, the Czech Republic, Germany, Hungary, Italy, Romania, Slovakia and Slovenia. Employees of UniCredit Bank Serbia, through this program, got the opportunity to be part of numerous projects of the "Achieving Youth" organization, such as the traditional "Business Challenge", "Student Companies" but also the new project "Financial Literacy". They were very happy to share their knowledge and experience with high school students, and the same the projects will continue in 2024.

Belgrade Marathon with BELHospice

With the participation of our patients in the 36th Belgrade Marathon in the team of the BELhospice Association, the Association that helps oncology patients in the advanced stages of the disease, as well as their families, was traditionally supported and additionally sponsored. Employees of UniCredit Bank Serbia ran a marathon as part of the BELhospice team and thereby achieved both their personal and the Bank's goals of strengthening the community in which it operates.

Cooperation with UniCredit Foundation

UniCredit Foundation, in accordance with its purpose to unlock the potential of Europe's next generation, organized the "Call for education 2023" competition to support programs that fight educational problems in all countries where the Group operates. For that initiative, which also included Serbia, the UniCredit Foundation allocated a total contribution of three million euros with the aim of identifying and supporting programs for schools, i.e. for students (aged 11-19), which are implemented by non-profit organizations, with special attention to: addressing early school leaving, encouraging university education and acquiring adequate skills for entering the labor market.

The winner from Serbia is the non-profit organization "Friends of Children of Serbia" and their project: "Steps to independence: Helping children in institutions for successful education and choosing a career". The project will include 80 young people from 11 to 19 years old, throughout the country, and in order to support vulnerable children (victims of violence, abuse, human trafficking, forced begging, and those involved in criminal activities due to difficult socio-economic conditions) by providing direct support to their education, promoting higher education, learning employability skills, and connecting them with potential employers.

In addition, during the year, UniCredit Foundation implemented a special initiative "Special donation" through which it supported one project from each member country of the Group, and thus funds were allocated in Serbia to the "Vojvoda Živojin Mišić" Elementary School from Rajković near Mionica.

Key policies in the field of social issues

- At the end of 2023, we adopted the "Group principles and guidelines for managing sponsorships and donations" and the Business Rule "Sponsorship and Donation Policy"
- Global policy on banking with a positive impact

UniCredit Bank's global policy aims to explain the concept and way of functioning of the Bank's innovative business concept called Social Impact Banking, which regulates the Bank's activities in the field of supporting the development of local communities, through the following areas: 1. microcrediting, 2. impact financing, 3. financial education and volunteer work.

Social responsibility as a part of banking product offer

As a financial institution – UniCredit Bank has an opportunity to provide solutions to social challenges directly through offering inclusive banking products to vulnerable society groups and economy subjects that have restricted access to finance under commercial terms.

Banking products with social impact aim to support youth and women employment with special focus on the micro enterprises and start-ups. The support for latter is channeled through EIF guarantee instruments – EaSI (Program for Employment and Social Innovation), intended for microenterprises which has been present in the bank's offer since 2021 and Western Balkan Enterprise Development & Innovation Facility (WBEDIF) intended for small and medium enterprises according to the EU definition, which has been present in the bank's offer since 2019. In comparison to regular lending conditions, there is a reduction in interest rates, fees and the requirement for collateral for loan users. These instruments provide first loss guarantee protection facilitating more clients being reached by loans.

The product development under European Investment Bank (EIB) leadership "The Social Impact Banking", using funds from Economic Resilience initiative (ERI Fund) was launched on the market in second half of 2022. The loan from the EU bank is being complemented by a grant provided by ERI and the grant will reward companies that meet specific targets to foster women's employment and entrepreneurship, youth employment and professional development as well as the social inclusion of underserved or vulnerable demographic groups (e.g. minorities, people with disabilities, refugees, etc.) who often face additional barriers to entry job market. Companies that apply for funds from this facility at UniCredit Bank will define a list of goals for increasing their positive impact on the community, and only those who accomplish them will receive additional financial incentive from EIB. "The Social Impact Banking" program is another way to build a fair-minded and more inclusive society with main goal of this innovative financial instrument is to stimulate the employment of persons from vulnerable groups, ensure their training and long-term retention.

In order to achieve the goals of the green transition, the support of the EU, the German government and other donors is used through the dedicated facilities of the EBRD, KFW and GGF. The function of the facilities is to finance projects which reduce the energy usage and the emission of CO2, by stimulating green energy sources. Client range stretches from private individuals to large scale renewable energy project financing. Also, by adopting EU standards the companies will be more competitive on the EU market which will lead to more export of the final products on the high-quality demand markets.

Through micro financing, the Bank aims to support development of small businesses not only through offering its financial services, but as well through consulting and nurturing good client relationship, that is believed to be in the core of further business development. By doing this, the company wants to be involved in making positive surroundings for creating positive impact and supporting its clients through special products tailored to their needs and opportunities.

Client range stretches from private individuals to large scale renewable energy project financing. Also by adopting EU standards the companies will be more competitive on the EU market which will lead to more export of the final products on the high quality demand markets .

"The Social Impact Banking" program is another way to build a fair-minded and more inclusive society. The goal of the program is to recognize, finance and promote people and companies that have a positive impact on society. The model is based on three main pillars: Microfinancing, Impact Financing and Financial Education, supported by the volunteer work of UniCredit Bank employees.

The corporate investment sector focuses on raising positive impact in society (Impact financing pillar) through the financing of projects and activities that, in addition to economic benefits, intend to generate positive and measurable social impact.

For that reason, UniCredit Bank has established cooperation with the European Investment Bank (EIB) alongside the support of Frankfurt School of Finance and Management with aim to implement above mentioned project, in which the main focus will be on supporting the Bank and clients in raising social impact including:

- Gender equality;

- Inclusion of as many young people as possible, (Youth inclusion) and
- Inclusion of people with disabilities as well as those who are traditionally excluded from society (Social inclusion).

Through micro crediting, the Bank aims to support development of small businesses not only through offering its financial services, but as well through consulting and nurturing good client relationship, that is believed to be in the core of further business development. By doing this, the company wants to be involved in making positive surroundings for creating positive impact and supporting its clients through special products tailor made to their needs and opportunities.

Labour Matters

The four important directions of people management, through the implementation of our strategy, essentially target the four key domains of human resources and are structured as follows:

A. Managing and planning of workforce, support the basic principles of mutual respect and fair dealing, transparent working methods and open communication; determining compensation in accordance with the criteria of the labour market, all in terms of new environmental requirements, digitalization and especially by changing the approach and understanding the way of doing business.
B. Improving labour skills, by encouraging the requirements for personal development of employees, both through training, qualification and training, as well as the implementation of retaining and the acquisition of new skills. Also, refreshing youth teams, by joining the youth programs, approved by Government of Republic of Serbia in cooperation with relevant Ministry of Labour, Employment, Veterans and Social Affairs and National Employment Agency, by implementing multi-annual employment planning strategies;
C. Better functioning of the operational model, with a special focus on reducing staff turnover and better organization of the work model and the organization as a whole, and further improving mobility within the Group and
D. Fairness, gender equality and promotion of internally equal opportunities for all employees.

Key projects, initiatives and results in 2023

Behaviour based on UniCredit values and personal responsibility of management and employees are among our core principles and are embedded deep in the values of our company. By promoting the basic postulates of our company: cooperation and energy, focus on what is important, discipline and focus on achieving results, builds a fair and functional relationship of employees with each other and towards work.

The success of UniCredit is mainly due to the highly qualified and motivated employees of the company, because the innovation comes from the employees themselves who are dedicated to work and the company. This is the reason why training and professional development, as well as the promotion and development of talents, managers and experts, are carried out continuously.

Encouraging the young generation by promoting talent, advancement, training and working in the UniCredit Group, in other member countries, gives employees great opportunities for their professional advancement and career, as well as personal achievement.

Employee development is implemented, except through opportunities for advancement and career development, through the provision of personal development plans, giving benefits, and training, rewarding in accordance with the work and cultivating a culture of equality and respect for others as well.

Flexible working environment

Following trends, the Bank has organized its work as remote working model respecting all proposed safety in regards to all jobs and positions that are applicable for that model without negative impact on productivity and having in mind nature and features of work activity itself. New working model requires two days working from home per week and three days of working from employee premises with previously assuring that all suggested measures for healthy and safety work are met.

Regular review and assessment

At UCB, all employees have the opportunity to participate in the creation of personal development plans, while the formal evaluation of work performance and individual development is conducted, also for all employees, once a year. At the end of each year, goals for the next year are defined for each employee. The final assessment of the realization of goals, successes and challenges achieved in the previous year is assessed at the meeting of the employee and the superior in the first quarter of the next year. Performance assessment also includes assessment of competencies, and from the overall performance assessment, opportunities for career development and total contracted earnings are assessed. During 2023 we continued with new application for performance appraisal.

Salaries of employees in the Bank are calculated in accordance with the Labour Law and the Labour Rulebook. Net salary is the same for full-time employees that performed same tasks and job description regardless of the gender structure of employees. The level of earnings in accordance with market conditions and the employee's contribution to the company's results is an imperative for UniCredit in managing compensations and rewarding in accordance to performance.

Health and safety

People & Culture and FM Department are in charge for occupational health and safety of Employees in UniCredit.

The bank has hired an external company that is specialized in occupational health and safety and from which the Person for health and safety at work has been appointed in compliance with the law.

In accordance with the law and according to the necessary dynamics, the organization of training on safe and healthy at work, basic training of employees in the field of fire protection, training for first aid (for which all managers and a certain number of other employees are trained), measurement of microclimate, testing of electrical installations, simulation of fire protection procedure, are conducted.

Safety and health at work is carried out in accordance with the Rulebook on safety and health at work, adopted by the Employee.

Health protection

In accordance with the needs imposed by the environment, employees are provided with a package of health services that includes physical exams and selection of other expert examinations by doctor's specialist, according to the needs of employees, at the expense of the Bank. Investing in safety and health and disease prevention leads to employee satisfaction, greater commitment to work and overall well-being of employees. Health care does not include only one physical exam per year, as is usually the case on the market, but also includes the possibility for employees to use the specialist services of various doctors throughout the year as needed and up to a limit of RSD 117.000 per employee. Dentist and ophthalmologist are included in the package. In addition, the Bank has enabled the family members of the employee to acquire the same types of medical services in a certain medical institution under more favourable conditions. In 2023, the bank continued to provide free online psychological counselling for its employees.

Regarding occupational diseases that employees could be exposed to due to prolonged sitting and working in front of a computer, as well as due to the most common diseases of modern society, online lectures were organized by advisory experts in the field of medicine referring various topics (cancer prevention, workplace ergonomics, challenges in parenting, etc.).

Other benefits

Also, the bank continued to implement previously adopted benefits and initiatives such as paid day off for birthday, days off for employees whose children are enrolling the first grade of elementary school, and parental support, such as the possibility for father of new-borne child to use up to 20 days of paid leave right after child birth. In 2022 the bank launched whole new way of parental support for employees by allowing refinancing costs for the first attempt of in-vitro fertilization up to EUR 5.000 net, that continued in 2023.

Employee training and education

At UniCredit Bank, we believe that knowledge is a rare thing that is multiplied by sharing. We nurture a culture of learning and development and we are committed to the implementation of trainings that are in the development plans of all employees, we further nurture talents through specially created programs and try to always keep up with trends through our optional initiatives.

In 2023, the Bank paid special attention to the development of leadership skills and talents of the bank and motivation and retention of employees who perform high achievements and have the potential for further development.

Numerous workshops and trainings were organized in 2023 in cooperation with external consulting companies. When it comes to the Bank's Management Team, the development programs were focused on improving leadership skills and change management, while for the organizational parts of the bank which cooperate with clients the focus was on improving presentation and sales skills. In this year workshops were organized for all organizational levels of on the topic of effectiveness and meetings with the aim to improve mutual communication, overcome challenges and better understand the needs of team members when working remotely. At the same time, in order to strengthen leadership skills and provide adequate support to UniCredit leaders, P&C in cooperation with a global provider, focused on the bank's young talent program, future leaders, striving to strengthen and increase their digital and leadership skills as future leaders.

In 2023, the P&C has continued the initiative started in the previous year and finished the program which aim is to support and empower women leaders in our organization by providing support on the path of personal growth and further career progress. This pragmatic program supports building women's leadership in our organization.

Striving to adequately empower and support employees in achieving their business goals and improve their work performance, P&C has supported employees in improving their expert and social skills by organizing and providing budget for various trainings, domestic and foreign certificates and international seminars and conferences that employees attended online during 2023.

The topics we dealt with were, among other things:

- Leadership, set of trainings for successors for 2nd line positions
- Effectively management practise (feedback, delegation, personal organization and prioritization, motivation and development of employees)
- External training for the population of employees within CIB Division (focusing on Social Impact Banking…)
- Effective meetings and team culture
- Training for all employees in the Head Office and for regional managers in order to develop skills referring conducting meetings in effective manner
- Training dedicated to new employees,
- Onboarding for new employees,
- Regulatory required training such as: Mandatory training for cash management (recognizing false money in RSD and EUR currency), mandatory trainings for insurance representatives in branches, for licensing maintaining, as well as education of employees who obtain insurance licence; sales of saving insurance for employees in all the Branches
- Local talent program
- Wisdom, program for strengthening and development of leadership and digital skills for senior employees
- Emberin – program for strengthening leadership of women
- Mentoring – cross country mentoring
- Group trainings on various topics actual in Banking industry
- ESG trainings

This resulted in 37.675 employee training hours in 2023.

Supporting youth

Starting a professional career by gaining the first practical knowledge and experience in professional internships is extremely important for young people, primarily because it helps them to better position themselves in the competitive labour market.

UniCredit Bank strives to help young people to take their first professional steps and to get used to working in a business environment by cooperating with educational institutions.

In 2023, UniCredit Bank continued cooperation with the Faculty of Computer Science, University of Belgrade, for the second year in a row, aiming to provide scholarships to the best students, where, after completing the scholarship study program, the selected student will be offered a job in the Bank on the basis of this scholarship.

Global mobility

At UniCredit, we believe that every voice, culture and experience enriches the diversity of our ideas that inspire us to grow and change.

Our international presence enables us global cooperation and teamwork both through different sectors and between different countries.

What makes our Group unique is that we are united in diversity.

Our differences encourage us to be more opened, flexible and tolerant, for new knowledge, new perspectives and new tastes. How successful the team of different profiles is best confirmed by our successful results and satisfied clients, and so on from year to year.

Increasing the functionality of the operating model and lowering fluctuations

The fact is that we are transforming as a Bank, but also as a Group, and our business models and patterns are changing as well. In order to make this really happen, UniCredit is following these transformations in the organizational terms as well.

The goal of the changes we are implementing, which include simplification of the structure, is to strengthen our Bank, achieve greater flexibility, build a culture of personal responsibility of each employee individually, simplify processes and provide greater connectivity and interaction between colleagues, so that we get speed, quality, and thus the satisfaction of our clients and employees.

UCB's business is structured and dynamically managed, capable of quick reaction and faster response to opportunities and challenges.

To achieve this, the Bank seeks to establish fewer hierarchies in relationships and responsibilities, and more concrete and effective communication, engagement and visibility of everyone's work, less bureaucracy and unnecessary work procedures, and more space for a qualitative approach that gives real value, faster decision making, and less workload and greater job satisfaction, and a shift towards a culture of work based on the qualifications of our staff, strengthening of their expertise and space for further professional development.

Fairness, gender equality and promotion of internally equal opportunities for all employees

Taking into account legal norms, expertise and qualifications in employment, the Bank actively worked on preserving and improving the established gender equality and balance in 2023. The Bank has paid special attention to equality in the workplace and provides equal opportunities for women and men in terms of career and personal development, as evidenced by the fact that **women occupy 3 out of 7 positions in the Management Board of the Bank.**

The awareness of the need for gender equality of employees is at a satisfactory level and numerous activities are dedicated to this topic.

There is no need to make gender differences for the purpose of employment in the Bank, as well as in terms of promotion or changing job position. All employees have the right to maternity leave, and we especially support the return of the colleagues to work after the end of maternity leave. The Bank appointed local Diversity Manager for the purpose of implementing all of the above. This policy is a way to continue to have a fair approach and to ensure a fair and respectful work environment, in which women and men have equal opportunities and rights, and whose work is valued on the basis of personal merit and potential, regardless of gender and other personal characteristics. Respect of diversity is an important part of our Strategic Plan to foster growth, a sense of belonging to the UniCredit Group and create a competitive advantage.

Our personal commitment and strong responsibility are extremely important for creating a positive work environment and for changing the way of thinking to real cultural change.

Accordingly, we have created a special training for all employees in management positions called "Unconscious Bias". Greater awareness and understanding of this phenomenon makes our work environment more inclusive, because during this training we learn how not to succumb our own and others' prejudices. When we are aware that we may be unconsciously biased, it can actually become our strength.

Thanks to our strategic approach, in our bank **women make up almost 68% of the total number of employees, and more importantly, the percentage of women in management positions is around 50%**. We strive to become one of the best employers in Serbia, and in order to achieve that goal, it is clear to us that it is necessary to constantly invest in diversity and gender equality through numerous initiatives.

The full gender structure of employees in UniCredit Bank on 31st December 2023 is as follows

Description	Total number	Woman	Man
Number of employees	1372	926	446
Managerial positions	212	104	108
Executive positions	1160	822	338
Women on maternity leave	67	67	0
Women returning from maternity leave	41	41	0

During 2023, a total of 67 colleagues used the right to go on a maternity leave. In the same year, 41 colleagues returned to their jobs after the end of maternity leave, which began in 2022.

In 2019, we launched a program called “Women empowered” which aims to empower women in their career development. The fourth generation started its program in 2023. Every moment in career can be a step towards something new, and the changes we are already experiencing today can become part of a comprehensive plan towards fulfilling personal potentials. It is important that we always move forward towards development. Talent, strength, empathy, self-confidence, are just some of the motives that adorn our community of Brave Women.

We are proud that after maternity leave, mothers can work 4 hours a day to make the period of separation from the child as painless as possible, and this benefit, with a similar goal of supporting the private and family lives of employees was also made available to fathers in 2022, who can use up to 20 working days of paid leave after child birth, which also continued in 2023. Work-life balance is important, so for that reason, parents will get a day off for the day their children start school, as well as work from home and flexible hours.

Key labor policies

Compliance with regulatory requirements is an important aspect of our corporate philosophy, and management is directly responsible for this aspect.

In order to implement the strategy described above, the People & Culture has carried out appropriate activities in accordance with the Bank's strategic documents relating to various areas of responsibility towards employees:

1. Framework for P&C policies
2. UCB Employment Rulebook
3. Compensation policy
4. Global mobility
5. Employee training
6. Law on Safety and Health at Work and Occupational Health and Safety Rulebook adopted by Employee.

Human Rights Protection

Integrity, Accountability, Caring

These values unite and define the culture of UniCredit Group: the way in which decisions are made and how those decisions are implemented. Together, they represented an evolution of the Integrity Charter. One simple guiding principle is to live in accordance with these values every day, in all parts of our operations: Win. The right way. Together. Basic principles and values become Integrity, accountability, caring.

Applying these values and guiding principles in everything the company is doing, at every moment, supports our path to becoming the Bank we have always wanted to be:

- guide the interactions of all colleagues across the Group
- highlight the promotion of diversity and a work-life balance as crucial for our Group
- strengthen our culture of free expression (speak up culture) and protect against reprisal
- are applied to all business policies of the Group about sustainability and client interactions
- represent fairness to all stakeholders, at any moment, in order to achieve sustainable results.

UniCredit Bank's P&C policy framework is a fundamental document, which principles, implemented through procedures, are strictly adhered to in our day-to-day business. The mentioned document is based on the international principles of human rights, which are included in the Universal Declaration of Human Rights and the Declaration on Fundamental Principles and Rights at Work of the International Labour Organization.

UniCredit Bank provides a work environment free of discrimination, harassment and sexual harassment, which protects the dignity of employees and promotes a safe and professional working environment that develops teamwork, diversity and trust.

Prohibition of discrimination refers to direct and indirect discrimination based on sex, birth, language, race, colour, age, pregnancy, health, disability, nationality, religion, marital status, family obligations, sexual orientation, political or other beliefs, social origin, property status, membership in political or trade union organizations or some other personal characteristics.

In that sense, already on the induction day, during the onboarding of new employees, we dedicate some time to acquainting colleagues with the basic postulates on which our company operates and the principles of respect of human rights that all employees are obliged to adhere to.

Key human right protection policies

- Prohibition of abuse of sexual harassment and abuse
- Anti-retaliation Policy

Anti-corruption and Anti-bribery

UniCredit Bank Serbia and its subsidiary UniCredit Leasing as members of UniCredit Group have declared zero tolerance for acts of bribery and corruption. The Local banking Group has rules and mechanisms in place to prohibit facilitation payments and does not permit any transfer of value to public officials without approval.

The approach to anti-corruption and anti-bribery is set out in the Business Rule on Anti-Corruption and associated working instruction. The Business Rule sets out the minimum anti-corruption standards throughout the local group, by implementation of UniCredit Group wide standards and local regulation. Based on these rules, the entities have implemented an effective Anti-Corruption Programme.

In line with internal rules, an act of corruption is defined as the giving, offering, promising, receiving, accepting, demanding or soliciting directly or indirectly of monetary or non-monetary and tangible or intangible benefits in order to obtain or retain an undue advantage in the course of business activities, irrespective of:

- whether the recipient of the act of corruption is a domestic or a foreign individual, a public official or a private individual;
- where the act is committed;
- whether the result of such an act entails an actual undue advantage or the improper performance of a function or activity.

All employees are responsible for complying with the internal rules and all applicable anti-corruption laws in the performance of their duties. There are also in place mechanisms to assess bribery and corruption risk deriving from cooperation with various third parties. All contracts with third parties have in place adequate clauses to ensure adherence to zero tolerance standards for acts of corruption.

All employees shall report to the Anti-Corruption Officer or the Head of Compliance any instances of actual or attempted acts of bribery or corruption they become aware of, whether they be offered, given or received. Although any reports must be made according to the established internal procedure, they must first be made to the Anti-Corruption Officer and, where actual or suspected money laundering is involved, also to the local AML Officer. Failure to make such a report may give rise, in certain jurisdictions, to individual criminal liability of the employee concerned, as well as exposing the bank or the Group to potential legal or regulatory action. Potential acts of bribery and corruption may be reported also under the Business Rule on Whistleblowing.

The following mechanisms have been put in place to monitor the effectiveness of methods to preventing corruption and bribery:

- escalation procedures for significant and strategic issues;
- regular training cascaded to all employees;
- quarterly report to the management on risk level and results of second level controls;
- compliance risk assessment performed;
- internal audit reviews.

The last two mechanisms result in risk mitigation actions that must be completed on time to ensure the management of identified risks.

As of end of 2023, the areas of anti-bribery and anti-corruption area in the bank showed medium-low level of risk as a result of the risk assessment and second level controls. Mitigation actions were identified as a result of performed activities and prescribed to relevant organizational units, which are regularly monitored.

Key projects, initiatives and results in 2023

For the reporting period, the Bank and its subsidiaries have engaged in improvement of the processes related to records of cooperation with third Parties and records of gifts and business representations. The improvement refers to the automation of certain registers, the implementation of which is expected by the end of 2024. Additionally, regarding cooperation with third parties, the process was revised at the Group level and the process was relaxed by introducing a relevant control threshold of EUR 5,000. On the other hand, mechanisms were created for the unified risk assessment of Third Parties at the group level, not only in the local entity. As a regular activity, online trainings were conducted for all new employees, which are mandatory, and in addition to them, additional ad hoc trainings were organized during the aforementioned process changes.

Key Anti-Corruption and Anti-bribery policies

1. Anti-Corruption business rule
2. Business rule on whistleblowing
3. Rulebook on internal whistleblowing
4. Anti-Corruption working instructions
5. Working instruction on whistleblowing

Belgrade, February 14th, 2024

Signed on behalf of the management of UniCredit Bank Serbia JSC Belgrade by:

Nikola Vuletić
Management Board Chairperson

Stefano Suppressa
Member of the Management Board
Head of Finance

"UniCredit Bank Serbia a.d. Beograd" UniCredit Bank Srbija a.d. Beograd 07

Bojan Dačić
Head of Performance, Capital and Shareholding Management