KPMG d.o.o. Beograd
Milutina Milankovića 1J
11070 Belgrade
Serbia
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TRANSLATION

Independent Auditor's Report

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

Opinion

We have audited the separate financial statements of UniCredit Banka Srbija a.d., Beograd (the "Bank"), which comprise:

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

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

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

and

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

(the "separate financial statements").

In our opinion, the accompanying separate financial statements give a true and fair view of the unconsolidated financial position of the Bank as at 31 December 2023, and of its unconsolidated financial performance and its unconsolidated 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 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 separate financial statements section of our report. We are independent of the Bank 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 separate 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.

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

Management is responsible for the preparation of separate 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 separate financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate 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 separate 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 separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 Bank’s separate 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
Unconsolidated Financial Statements
Year Ended December 31, 2023

CONTENTS

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

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

	Note	2023	2022
Interest income	3.d, 7	35,148,810	19,149,083
Interest expenses	3.d, 7	(10,682,092)	(3,911,134)
Net interest income		**24,466,718**	**15,237,949**
Fee and commission income	3.e, 8	12,027,696	11,253,116
Fee and commission expenses	3.e, 8	(3,923,385)	(3,947,271)
Net fee and commission income		**8,104,311**	**7,305,845**
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 positive currency clause effects	3.c, 11	(108,032)	(225,879)
Net losses on impairment of financial assets not measured at fair value through profit or loss	3.k, 12	(1,731,631)	(3,328,960)
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	88,260	53,869
Total operating income, net		31,108,261	19,717,958
Salaries, salary compensations and other personal expenses	15	(3,928,238)	(3,547,979)
Depreciation and amortization charge	3.q, 3.r, 3.t, 16	(1,327,778)	(1,345,775)
Other income	17	1,167,032	728,660
Other expenses	18	(6,076,906)	(6,320,760)
Profit before tax		20,942,371	9,232,104
Current income tax expense	3.j, 19	(2,391,472)	(948,669)
Deferred tax gains	3.j, 37.2	-	94,847
Loss from deferred taxes	3.j, 37.2	(90,811)	-
Profit after tax		**18,460,088**	**8,378,282**
Result of the period - profit		**18,460,088**	**8,378,282**
EARNINGS PER SHARE			
Basic earnings per share (in dinars, without paras)	40.2	7,820	3,549
Diluted earnings per share (in dinars, without paras)	40.2	7,820	3,549

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

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.

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

STATEMENT OF OTHER COMPREHENSIVE INCOME
Year Ended December 31, 2023
(Thousands of RSD)

	Note	2023	2022
Net profit for the year		18,460,088	8,378,282
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		19,269	23,487
- Actuarial losses		-	-
Components of other comprehensive income that may subsequently be reclassified to profit or loss:			
- Positive effects of change in value of equity instruments 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 in respect of cash flow hedging instruments		350,957	-
- Losses on cash flow hedging instruments		-	(805,337)
Gains on taxes relating to other comprehensive income	37.2	-	649,987
Tax losses pertaining to other comprehensive income for the period	37.2	(371,960)	-
Total positive other comprehensive income for the period	40.3	2,107,774	-
Total negative other comprehensive income for the year	40.3	-	(3,683,255)
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE YEAR		**20,567,862**	**4,695,027**

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, Belgrade, "UniCredit Bank Serbia JSC" 07

Mirjana Kovačević
Head of Accounting and Regulatory Reporting

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

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	65,178,291	77,537,136
Loans and receivables due from customers	3.k, 3.o, 25	327,094,076	311,854,618
Receivables under derivatives designated as risk hedging instruments	3.n, 26	636,909	1,083,998
Investments in subsidiaries	3.z, 27	-	112,644
Intangible assets	3.r, 3.u, 28	2,511,009	2,451,769
Property, plant and equipment	3.q, 3.t, 3.u, 29	3,026,923	3,097,481
Investment property	3.s, 30	7,734	7,274
Deferred tax assets	3.j, 37	900,324	1,363,095
Other assets	31	1,823,750	1,812,866
Total assets		**638,192,175**	**582,880,932**
Liabilities under derivative financial instruments	3.m, 32	2,119,142	2,819,396
Deposits and other liabilities due to banks, other financial institutions and the central bank	3.k, 3.v, 33	132,420,295	125,332,169
Deposits and other liabilities due to customers	3.k, 3.v, 34	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, 36	5,443,811	5,642,566
Current tax liabilities	3.j, 19.4	1,521,859	292,139
Other liabilities	3.t, 38	10,050,889	6,917,629
Total liabilities		**542,025,950**	**500,069,124**
Issued (share) capital	40.1	24,169,776	24,169,776
Profit	40.1	18,462,218	8,380,827
Reserves	40.1	53,534,231	50,261,205
Total equity		96,166,225	82,811,808
Total liabilities and equity		**638,192,175**	**582,880,932**

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 UNCONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023
All amounts expressed in thousands of RSD, unless otherwise stated.

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	203,699	-	5,877,750	83,991,986
Adjusted opening balance as at 1 January of the previous year	23,607,620	562,156	53,740,761	203,699	-	5,877,750	83,991,986
Total negative other comprehensive income for the period	-	-	-	(203,699)	(3,479,556)	-	(3,683,255)
Profit for the current year	-	-	-	-	-	8,378,282	8,378,282
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	-	(3,479,556)	8,380,827	82,811,808
Opening balance as at 1 January of the current year	23,607,620	562,156	53,740,761	-	(3,479,556)	8,380,827	82,811,808
Adjusted opening balance as at 1 January of the current year	23,607,620	562,156	53,740,761	-	(3,479,556)	8,380,827	82,811,808
Total positive other comprehensive income for the period	-	-	-	-	2,107,774	-	2,107,774
Profit for the current year	-	-	-	-	-	18,460,088	18,460,088
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**	**-**	**(1,371,782)**	**18,462,218**	**96,166,225**

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

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

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

	Note	2023	2022
Cash inflows from operating activities		**41,465,250**	**26,205,723**
Interest receipts		29,357,366	14,619,366
Fee and commission receipts		12,041,847	11,245,993
Receipts of other operating income		66,037	340,364
Cash outflows from operating activities		**(21,665,335)**	**(15,465,008)**
Interest payments		(8,481,508)	(2,749,974)
Fee and commission payments		(3,926,590)	(3,921,924)
Payments to, and on behalf of employees		(3,852,134)	(3,568,890)
Taxes, contributions and other duties paid		(566,189)	(581,299)
Payments for other operating expenses		(4,838,914)	(4,642,921)
Net cash inflows from operating activities prior to increases/decreases in financial assets and financial liabilities		**19,799,915**	**10,740,715**
Decrease in financial assets and increase in financial liabilities		**45,962,060**	**45,858,261**
Decrease in receivables arising from securities and other financial assets not held for investing		5,214,214	-
Increase in deposits and other liabilities due to banks, other financial institutions, the central bank and customers		40,465,281	45,223,514
Increase in other financial liabilities		129,986	634,747
Increase in liabilities arising from derivatives held for hedging and change in fair value of hedged items		152,579	-
Increase in financial assets and decrease in financial Liabilities		**(3.373.865)**	**(87,892,306)**
Increase in loans and receivables due from banks, other financial institutions, the central bank and customers		(3,373,865)	(83,212,677)
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		**62,388,110**	**-**
Net cash outflow by operating activities before income taxes		**-**	**(31,293,330)**
Income tax paid		(1,161,751)	(718,277)
Dividends paid		(7,215,575)	(15,043,750)
Net cash inflow by operating activities		**54,010,784**	**-**
Net cash outflow by operating activities		**-**	**(47,055,357)**
Cash inflows from investing activities		**30,655,055**	**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
Other inflow from investing activities		386,495	-
Cash outflows from investing activities		**(22,957,551)**	**(18,538,058)**
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		(997,290)	(675,469)
Net cash generated by investing activities		**7,697,504**	**3,716,991**
Cash inflows from financing activities		**10,108,960**	**15,588,947**
Borrowings, inflows		10,108,960	15,588,947
Cash outflows from financing activities		**(10,118,106)**	**(11,360,477)**
Cash outflows from loans taken		(9,614,709)	(10,916,626)
Other outflows from financing activities		(503,397)	(443,851)
Net cash generated by financing activities		**-**	**4,228,470**
Net cash used in financing activities		**(9,146)**	**-**

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

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

	Note	2023	2022
Total cash inflows		**128,191,325**	**109,907,980**
Total cash outflows		**(66,492,183)**	**(149,017,876)**
Net cash increase		61,699,142	-
Net cash decrease		-	(39,109,896)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3.l, 41	**39,123,223**	**78,211,971**
Foreign exchange Gains, net		53,250	21,148
CASH AND CASH EQUIVALENTS, END OF YEAR	3.l, 41	**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. BANK'S ESTABLISHMENT AND ACTIVITY

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.

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).

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

(a) Basis of Preparation and Presentation of the 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 Bank's financial statements (the "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).

The Bank separately prepares and presents its consolidated financial statements in accordance with the International Financial Reporting Standards. The Bank holds respective sole (100%) equity interests in the subsidiaries UniCredit Leasing d.o.o., Beograd and UniCredit Partner d.o.o., Beograd. In the accompanying unconsolidated financial statements the Bank's equity investments in subsidiaries are stated at cost. The Bank's consolidated financial statements were issued on February 14, 2024.

Pursuant to Article 41 of Accounting Law ("Official Gazete RS", No. 73/19 and 44/21-other laws), the Bank has decided to merge Annual Business report and the Consolidated Annual Business Report into one report.

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

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

These 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 Bank'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.

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 Bank 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 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 unconsolidated financial statements, the Bank adhered to the accounting policies described in Note 3.

The Bank's 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).

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

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

In 2023, the Bank 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 Bank's unconsolidated financial statements.

(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 Bank'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 Bank 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 Bank 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% at the end of November 2023, while m-o-m inflation in November was 0.5%. Core inflation rose slower than overall inflation (7%) 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% 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.

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

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

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

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.

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 Bank 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 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.

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

(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.

Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest Rate Benchmark Reform" (in further text: the Amendments) resolves of uncertainty on the effect of the Interbank offered rates (IBOR) reform on existing accounting hedge on which the IBOR reform impact, 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 Bank 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 31^{st} December 2023.

(f) Comparative Information

Comparative information in the accompanying financial statements represents the data from the Bank's unconsolidated financial statements for 2022.

(g) Use of Estimates

Preparation of the financial statements in accordance with IFRS requires the Bank'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 Bank'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 Bank for all years presented in the accompanying financial statements. The Bank's main accounting policies applied to the current and previous reporting periods are presented in greater detail hereunder.

(a) Consolidation

The Bank holds sole (100%) equity interests in entities UniCredit Leasing Srbija d.o.o., Beograd. During 2023, the liquidation procedure of subsidiary legal entity UniCredit Partner d.o.o., Belgrade, was initiated and completed. Equity investments in subsidiaries are presented at cost in these unconsolidated financial statements. The Bank prepares and issues consolidated financial statements separately.

(b) Going Concern

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

(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).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Interest Income and Expenses (Continued)

(i) The Effective Interest Method (Continued)

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 Bank 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 Bank receives a fee from a client that offsets similar charges paid by the Bank, 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 statutory statement of income, 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 Bank 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 Bank 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 Bank 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 Bank manages a financial asset; and
b) characteristics of the contractual cash flows of a financial assets (the so-called SPPI criterion).

Business Model

The business model reflects the manner in which the Bank 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 Bank does not expect frequent changes of its business models.

SPPI Criterion

In instances of "hold to collect" or "hold to collect and sell" business models, the Bank 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) Financial Assets at Amortized Cost (AC)
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) Financial Assets at Fair Value through Other Comprehensive Income (FVtOCI)
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)

Financial Assets (Continued)

(ii) Classification and Subsequent Measurement (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 Bank, 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 Bank'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 Bank 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 Bank'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 Bank 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 Bank'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 Bank derecognizes a financial asset when:

- the contractual rights to the cash flows from the financial asset expire;
- when the Bank 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 Bank 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 Bank retains all or substantially all the risks and rewards of ownership of such assets.

In transactions in which the Bank neither retains nor transfers substantially all the risk and rewards of ownership of a financial asset and it retains control over the asset, the Bank 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 Bank 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 Bank 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 Bank 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 and/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 Bank 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 Bank 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 Bank'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.

(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 Bank 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities (Continued)

(vii) Fair Value Measurement (Continued)

If a market for a financial instrument is not active, the Bank 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 Bank, 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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).

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 Bank uses forward-looking information and macroeconomic factors, i.e., the Bank 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.

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 Bank in Calculation of Allowances under IFRS 9

The Bank 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 Bank 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 Bank calculates 12-month expected credit losses.

For financial assets in Stage 2, the Bank calculates lifetime expected credit losses.

For financial assets in Stage 3, the Bank 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 Bank 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).

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.

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 Bank in Calculation of Allowances under IFRS 9 (Continued)

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 Bank 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 Bank 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 Bank estimates that it is economically justified to undertake further activities related to the collection of a financial asset. The Bank also has the right to calculate legally prescribed penalty interest after write off without debt acquittal, but ceases to record it until collection.

The Bank 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 Bank 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 Bank 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 Bank's competent bodies enact a decision on derecognition of the asset from the off-balance sheet items.

The Bank 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities (Continued)

(ix) Write-Off (Continued)

In the event that the Bank 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 Bank has exercised the option to continue applying the existing IAS 39 hedge accounting requirements for all its hedging relationships.

The Bank designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Bank 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 Bank 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%.

(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 Bank's policy on financial instrument measurement depending on the instrument classification.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(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 Bank'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 Bank'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 Bank 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.

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Property, Plant and Equipment (Continued)

(i) Recognition and Measurement (Continued)

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 Bank. 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 Bank 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. T

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 Bank'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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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, Bank use the fair value model for investment property measurement. The Bank'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 Bank 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 Bank 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 Bank'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 Bank'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 Bank.

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 Bank'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 Bank 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 Bank, as the lessee, is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Bank, 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 Bank recognizes depreciation charge and interest expenses in its income statement.

(ii) The Bank as the Lessor

As a lessor, the Bank needs to assess whether a lease is a finance or an operating lease. If the Bank 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 Bank'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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Deposits, Borrowings and Subordinated Liabilities

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

The Bank 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.

(w) Provisions

A provision is recognized if, as a result of a past event, the Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank. Liabilities for long-term employee benefits are recognized using the appropriate discount rate.

(z) Investments in Subsidiaries

A subsidiary is an entity under the Bank's control. Control over subsidiaries is achieved if the Bank has exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of returns. Investments in subsidiaries are initially measured at cost in accordance with IFRS 10 and IAS 27. At each reporting date, the Bank assesses whether there is objective evidence that investments in subsidiaries are impaired. Impairment losses are recognized in the income statement.

4. RISK MANAGEMENT

(a) Introduction and Overview

The main types of material risks that the Bank 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.

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 Bank 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 Bank 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 Bank ensures functional and organizational separation of risk management and other regular business activities. The Bank 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 Bank.

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.

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

4. RISK MANAGEMENT (Continued)

(b) Credit Risk

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

Credit process in the Bank 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.

With the aim to ensure adequate and timely risk management in the area of crediting activity, the Bank 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 Bank'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 Bank 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 Bank 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 Bank 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 Bank's 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, 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

4. RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

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 Bank 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 Bank'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.

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 Bank at default (EaD);
- Probability of default (PD); and
- Loss given default (LGD).

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

4. RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Credit Risk Reporting (Continued)

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.*

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.

4. RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Credit Risk Reporting (Continued)

Reports (Continued)

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.

The risk appetite report is compiled on a quarterly basis and presented at the ALCO board meeting. The organizational units of the Bank 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 Bank, 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 Bank'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 Bank 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 Bank'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 31)		Off-balance sheet items	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Individually impaired												
Corporate clients, rating 10	-	-	-	-	-	-	57,082	201,017	1,701	3,994	-	110,965
Corporate clients, rating 9	-	-	-	-	-	-	-	-	-	-	-	-
Corporate clients, restructured loans*	-	-	-	-	-	-	8,834,442	7,966,649	6,421	4,565	460,808	471,747
Retail clients, > 90 days past due	-	-	-	-	-	-	4,467,216	4,290,824	74,132	66,245	4,406	4,423
Gross loans	-	-	-	-	-	-	13,358,740	12,458,490	82,254	74,804	465,214	587,135
Impairment allowance							8,137,581	8,100,949	76,725	63,776	313,283	371,023
Carrying value	-	-	-	-	-	-	5,221,159	4,357,541	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	65,183,370	77,546,507	197,186,245	175,349,389	136,424	147,878	274,647,086	218,681,946
Corporate clients, rating 7	-	-	-	-	-	-	3,739,381	13,802,254	711	158	8,510,136	6,874,784
Corporate clients, rating 8	-	-	-	-	-	-	765,315	783,248	2,228	21	29,180	556,903
Retail clients, Stage 1	-	-	-	-	-	-	100,150,520	94,858,459	27,751	1,235	3,432,107	2,781,837
Retail clients, Stage 2	-	-	-	-	-	-	24,763,485	28,183,859	-	25,473	2,363,597	1,927,441
Gross loans	130,511,724	69,758,834	102,262,512	109,529,196	65,183,370	77,546,507	326,604,946	312,977,209	167,114	174,765	288,982,106	230,822,911
Impairment allowance	8	3	271,187	72,397	5,079	9,371	4,732,029	5,480,132	309	368	1,228,614	776,555
Carrying value	130,511,716	69,758,831	101,991,325	109,456,799	65,178,291	77,537,136	321,872,917	307,497,077	166,805	174,397	287,753,492	230,046,356
Carrying value of rated assets	130,511,716	69,758,831	101,991,325	109,456,799	65,178,291	77,537,136	327,094,076	311,854,618	172,334	185,425	287,905,423	230,262,468
Carrying value of non-rated assets	-	-	2,454,461	1,535,672	-	-	-	-	1,267,772	1,345,232	-	-
Total carrying value	**130,511,716**	**69,758,831**	**104,445,786**	**110,992,471**	**65,178,291**	**77,537,136**	**327,094,076**	**311,854,618**	**1,440,106**	**1,530,657**	**287,905,423**	**230,262,468**

* 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 383,673 thousand as of 31.12.2023 (2022: RSD 282.209 thousand) and impairment allowance of RSD 29 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 Bank uses the 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 Bank 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 (ie. 1+, 1 and 1-) are grouped together in one rating class (ie. 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 bank, 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 Bank 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 Bank 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 Bank calculates 12-month expected credit losses. For financial assets in Stage 2, the Bank 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 Bank 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 bank 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:

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

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.

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)

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:

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

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

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: 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 Bank specifically treats clients in the default status whose exposure is considered significant and such loans or clients are individually assessed by the Bank 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 Bank 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 Bank 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 Bank 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 Bank'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 Bank 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:

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)

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.

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 31)		Off-balance sheet items	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
December 31, 2023										
Corporate clients, rating 10		-		-	57,082	26,018	1,701	317	-	-
Corporate clients, rating 9		-		-	-	-	-	-	-	-
Corporate clients, restructured loans		-		-	8,834,442	3,837,967	6,421	930	460,808	150,260
Retail clients, > 90 days past due		-		-	4,467,216	1,357,174	74,132	4,282	4,406	1,671
Total		**-**		**-**	**13,358,740**	**5,221,159**	**82,254**	**5,529**	**465,214**	**151,931**
December 31, 2022										
Corporate clients, rating 10	-	-	-	-	201,017	34,231	3,994	1,135	110,965	55,550
Corporate clients, rating 9	-	-	-	-	-	-	-	-	-	-
Corporate clients, restructured loans	-	-	-	-	7,966,649	3,005,338	4,565	550	471,747	158,871
Retail clients, > 90 days past due	-	-	-	-	4,290,824	1,317,972	66,245	9,343	4,423	1,691
Total	**-**	**-**	**-**	**-**	**12,458,490**	**4,357,541**	**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	8,725,867	412,183	213,780	4,349	9,356,179
Impairment allowance	(393,531)	(100,280)	(68,343)	(979)	(563,133)
Net carrying value	**8,332,336**	**311,903**	**145,437**	**3,370**	**8,793,046**

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	77,288,055	6,084,928	(22,613,826)	283,009	(13,727)	296,736					(17,319,945)	21,442,107	65,164,328
Stage 2	258,452	-	(1,808)	(242,006)	12,688	(254,694)					(681)	5,085	19,042
Stage 3	-	-	-	-							-	-	-
Partial repayments				(41,003)	1,039	(42,042)							-
Total	**77,546,507**	**6,084,928**	**(22,615,634)**	**-**	**-**	**-**					**(17,320,626)**	**21,447,192**	**65,183,370**

		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	42,227,999	391,997	(40,069,923)	(282,572)	(295,665)	13,093	-	-			(216,138)	75,236,692	77,288,055
Stage 2	17,499	-	(1,016)	238,403	250,896	(12,493)			-	-	(912)	4,478	258,452
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Partial repayments				44,169	44,769	(600)	-	-	-	-			
Total	**42,245,498**	**391,997**	**(40,070,939)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(217,050)**	**75,241,170**	**77,546,507**

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	212,703,256	6,084,683	(26,633,703)	(20,546,226)	(30,383,124)	10,921,460	(1,126,781)	42,219			(36,857,875)	99,435,723	234,185,858
Stage 2	100,273,951	1,114,433	(11,418,940)	3,502,691	22,553,166	(14,436,809)			(4,982,750)	369,084	(24,155,612)	23,098,755	92,415,278
Stage 3	12,458,492	55,852	(3,476,818)	4,280,235			934,428	(50,827)	3,938,826	(542,192)	(1,492,582)	1,537,371	13,362,550
Partial repayments				12,763,300	7,829,958	3,515,349	192,353	8,608	1,043,924	173,108			
Total	**325,435,699**	**7,254,968**	**(41,529,461)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(62,506,069)**	**124,071,849**	**339,963,686**

(v) Loans and receivables due from customers

		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	251,277,375	4,444,895	(27,694,539)	(51,125,374)	(59,392,905)	9,742,415	(1,507,724)	32,840			(48,006,960)	83,807,859	212,703,256
Stage 2	54,854,170	149,149	(8,216,352)	30,627,007	44,862,668	(11,868,516)			(2,471,420)	104,275	(11,530,303)	34,390,280	100,273,951
Stage 3	13,550,102	29,830	(2,842,797)	2,724,046			1,097,414	(39,630)	1,791,505	(125,243)	(1,795,371)	792,682	12,458,492
Partial repayments				17,774,321	14,530,237	2,126,101	410,310	6,790	679,915	20,968			
Total	**319,681,647**	**4,623,874**	**(38,753,688)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(61,332,634)**	**118,990,821**	**325,435,699**

(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	1,765,852	38,543	(2,907)	(78,380)	(78,454)	75	(1)	-			(12,343)	5,746	1,716,511
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	**1,877,013**	**57,760**	**(11,614)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(77,120)**	**58,512**	**1,900,813**

		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	1,165,862	554,271	(4,671)	67,487	(2,430)	70,063	(146)	-			(27,049)	9,952	1,765,852
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	**1,391,840**	**572,712**	**(12,005)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(92,534)**	**66,229**	**1,877,013**

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

Stage	January 1, 2023	Changes within the Stage: Increases (+)	Changes within the Stage: Decreases (-)	Total transfers	Transfers among Stages: 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**

Stage	January 1, 2022	Changes within the Stage: Increases (+)	Changes within the Stage: Decreases (-)	Total transfers	Transfers among Stages: 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

Stage	January 1, 2023	Changes within the Stage: Increases (+)	Changes within the Stage: Decreases (-)	Total transfers	Transfers among Stages: 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)**	**-**	**-**

Stage	January 1, 2022	Changes within the Stage: Increases (+)	Changes within the Stage: Decreases (-)	Total transfers	Transfers among Stages: 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	8,345	971	(3,329)	1,129	(3)	1,132	-	-			(1,578)	595	6,133
Stage 2	121	-	(17)	(1,129)	3	(1,132)			-	-	(5)	194	(836)
Stage 3	-	-		-			-	-	-	-	-	-	-
Total transfers				-	-	-	-	-	-	-			-
Change*	905			(1,123)	(1)	(1,122)	-	-	-	-			(218)
Total	**9,371**	**971**	**(3,346)**	**(1,123)**	**(1)**	**(1,122)**	**-**	**-**	**-**	**-**	**(1,583)**	**789**	**5,079**

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)

(iv) Loans and receivables due from banks and other financial institutions (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	3,781	175	(2,595)	112	(19)	131	-	-			(507)	7,379	8,345
Stage 2	233	-	-	(112)	19	(131)			-	-	(82)	82	121
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total transfers				-	-	-	-	-	-	-			-
Change*				905	1,035	(130)	-	-	-	-			905
Total	**4,014**	**175**	**(2,595)**	**905**	**1,035**	**(130)**	**-**	**-**	**-**	**-**	**(589)**	**7,461**	**9,371**

(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	2,372,776	171,382	(657,354)	198,025	(277,056)	488,121	(44,603)	31,563			(400,749)	808,047	2,492,127
Stage 2	2,508,132	370,561	(884,493)	(451,329)	277,056	(488,121)			(408,073)	167,809	(585,883)	794,844	1,751,832
Stage 3	6,997,503	510,500	(2,725,781)	253,304			44,603	(31,563)	408,073	(167,809)	(1,081,621)	1,147,468	5,101,373
Total transfers				-	-	-	-	-	-	-			-
Change*	1,702,670			1,821,608	485,433	(417,511)	422,536	(30,525)	1,513,577	(151,902)			3,524,278
Total	**13,581,081**	**1,052,443**	**(4,267,628)**	**1,821,608**	**485,433**	**(417,511)**	**422,536**	**(30,525)**	**1,513,577**	**(151,902)**	**(2,068,253)**	**2,750,359**	**12,869,610**

		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	1,744,024	365,299	(397,136)	121,522	(404,050)	576,027	(78,033)	27,578			(308,916)	847,983	2,372,776
Stage 2	2,442,602	241,078	(413,033)	(543,368)	404,050	(576,027)			(441,925)	70,534	(357,046)	1,137,899	2,508,132
Stage 3	7,832,320	491,324	(1,607,036)	421,846			78,033	(27,578)	441,925	(70,534)	(529,010)	388,059	6,997,503
Total transfers				-	-	-	-	-	-	-			-
Change*				1,702,670	1,156,154	(476,830)	437,236	(25,765)	666,209	(54,334)			1,702,670
Total	**12,018,946**	**1,097,701**	**(2,417,205)**	**1,702,670**	**1,156,154**	**(476,830)**	**437,236**	**(25,765)**	**666,209**	**(54,334)**	**(1,194,972)**	**2,373,941**	**13,581,081**

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)

(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	333	3,447	(4)	(20)	(16)	-	(4)	-			(18)	1	3,739
Stage 2	1,032	43	(48)	526	16	-			(39)	549	(212)	146	1,487
Stage 3	56,621	16,597	(2,642)	(506)			4	-	39	(549)	(36,614)	28,370	61,826
Total transfers				-	-	-		-	-	-			-
Change*	6,161			3,850	-	-	4	-	4,394	(548)			10,011
Total	**64,147**	**20,087**	**(2,694)**	**3,850**	**-**	**-**	**4**	**-**	**4,394**	**(548)**	**(36,844)**	**28,517**	**77,063**

		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	7	(4)	295	(8)	305	(2)	-			(14)	13	333
Stage 2	580	67	(41)	345	8	(305)			(76)	718	(131)	212	1,032
Stage 3	61,876	15,866	(5,089)	(640)			2	-	76	(718)	(44,269)	28,877	56,621
Total transfers				-	-	-	-	-	-	-			-
Change*				6,161	14	(294)	179	-	6,978	(716)			6,161
Total	**62,492**	**15,940**	**(5,134)**	**6,161**	**14**	**(294)**	**179**	**-**	**6,978**	**(716)**	**(44,414)**	**29,102**	**64,147**

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	187,546,132	9,773,892	(11,767,741)	(17,492,793)	(29,244,813)	11,984,285	(232,339)	74			(65,251,519)	117,344,369	220,152,340
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	**231,410,046**	**12,201,225**	**(13,254,762)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(88,996,604)**	**144,095,962**	**289,447,320**

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

4. RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Movements of off- balance sheet exposures (Contined)

		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	195,770,773	11,840,100	(11,618,256)	(9,693,246)	(16,813,878)	7,461,582	(340,950)	-			(73,859,881)	75,106,642	187,546,132
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)			-
Ukupno	**220,624,046**	**12,085,544**	**(12,024,313)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(85,945,410)**	**94,781,405**	**231,410,046**

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	411,186	15,839	(107,100)	(26,448)	(70,300)	44.741	(918)	29			(147,552)	199,339	345,265
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
Total transfers	-												-
Change*	314,231			373,118	380,639	(32.889)	32,180	(29)	621	(7,404)			687,349
Total	**1,147,578**	**160,455**	**(164,241)**	**372,884**	**380,639**	**(32.889)**	**32,180**	**(29)**	**387**	**(7,404)**	**(570,051)**	**595,272**	**1,541,898**

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

4. RISK MANAGEMENT (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 Bank 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 Bank 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 Bank uses relevant policies and procedures for collateral management. The most significant collaterals accepted and used by the Bank 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 Bank'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 Bank'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 Bank'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 Bank'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 Bank in accordance with its risk-taking capacities.

One of the basic indicators for monitoring of the Bank'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 Bank 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 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 Bank'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 includes only the trading book items of the Bank:

	At December 31	Average	Maximum	Minimum
2023				
Foreign exchange risk	1,020	1,941	7,218	142
Interest rate risk	29,310	23,461	41,427	3,237
Credit spread risk	29,907	24,982	37,299	5,801
Covariance	(26,809)	-	-	-
Total	33,428	32,225	53,920	5,930
2022				
Foreign exchange risk	3,595	2,012	7,476	257
Interest rate risk	7,767	6,090	15,329	599
Credit spread risk	7,478	2,514	8,819	519
Covariance	(4,890)	-	-	-
Total	13,950	7,419	18,928	2,433

Retroactive testing (back-testing) of the VaR model is monitored monthly 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 Bank'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 Bank'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 Bank's capital, calculated in accordance with the relevant regulator's decision on the capital adequacy of banks. The Bank 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 Bank'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 Bank is exposed to the effects of exchange rate fluctuations for major foreign currencies on its financial position and cash flows. The Bank'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 Bank 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 Bank executes derivative contracts and loan contracts with a foreign currency index clause.

The Bank'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	3.51	1.78
- maximum for the period – December	4.38	5.12
- minimum for the period – December	0.12	0.33

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

4. RISK MANAGEMENT (Continued)

(c) Market Risks (Continued)

Foreign Exchange (Currency) Risk (Continued)

The Bank'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	15,750,384	49,580	372,249	28,205,893	65,178,291
Loans and receivables due from customers	-	224,206,835	102,530	-	102,784,711	327,094,076
Receivables under derivatives designated as risk hedging instruments	-	636,909	-	-	-	636,909
Other assets	9,267	511,669	-	1	1,302,813	1,823,750
Total assets	**21,012,518**	**299,821,562**	**440,287**	**474,951**	**309,996,867**	**631,746,185**
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	109,978,918	280	4,819	22,020,130	132,420,295
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	6,505,181	18,157	136,104	2,945,746	10,050,889
Total liabilities	**16,436,708**	**294,606,233**	**4,574,384**	**1,261,281**	**218,181,674**	**535,060,280**
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)**	**(2,849,741)**	**(14,884)**	**45,345**	**99,513,307**	**96,656,546**

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

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

4. RISK MANAGEMENT (Continued)

(c) Market Risks (Continued)

Foreign Exchange (Currency) Risk (Continued)

The Bank'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	26,317,317	48,612	374,452	35,090,861	77,537,136
Loans and receivables due from customers	-	203,591,455	110,680	-	108,152,483	311,854,618
Receivables under derivative financial instruments designated as risk hedging instruments	-	1,083,998	-	-	-	1,083,998
Other assets	20,238	157,512	-	4	1,635,112	1,812,866
Total assets	**16,014,356**	**283,742,127**	**377,957**	**529,398**	**275,184,831**	**575,848,669**
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	91,111.152	1,191	1,503	34,079,106	125,332,169
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	3,920,001	17,703	68,247	2,499,796	6,917,629
Total liabilities	**13,576,978**	**275,465,810**	**4,401,185**	**1,262,116**	**199,428,330**	**494,134,419**
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**	**(2,308,472)**	**(4,358)**	**18,290**	**83,784,882**	**81,726,702**

**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 Bank's financial performance and capital caused by the Bank's inability to settle its matured liabilities due to drawdown of the existing sources of financing, i.e., the Bank'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 Bank is to maintain adequate liquidity and financing position, which will enable the Bank to fulfil its payment obligations not only in regular business, but in stressful circumstances as well.

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

- Intraday liquidity risk – the liquidity risk during the day occurs when the Bank 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 Bank 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 Bank;
- The risk of unforeseen or stressful circumstances relates to future and unexpected obligations that could require the Bank to maintain higher liquidity than what is considered a sufficient amount for conducting regular business operations;
- Financing concentration risk occurs when the Bank 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 Bank 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 Bank 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 Bank 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 Bank's committees or functions that are set at a lower hierarchy level in the Bank'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), and
- the net stable funding ratio (NSFR).

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

The Bank's liquidity ratio and narrow liquidity ratio

The liquidity ratio of a bank 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.

Bank 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.

Bank 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 Bank 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)

The Bank's liquidity ratio and the rigid/cash liquidity ratio (Continued)

The Bank's 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 Bank'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 Bank and twice annually for at the Group's consolidation level.

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

The Bank'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	114,682,641	92,669,549
LCR	162%	157%

Net Stable Funding Ratio (NSFR)

This ratio is calculated based on group methodology, due to the fact that there was no local regulatory requirements. In 2023, National Bank of Serbia has announced introduction of this report as of June 2024. During 2023, Bank 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 monthly 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 Bank'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 Bank); and
- Combined scenario (combination of the above two scenarios).

4. RISK MANAGEMENT (Continued)

(e) Liquidity Risk (Continued)

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.

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

- Precisely defines procedures for early detection of the Bank'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 effects that climate-related risks can potentially have on liquidity risk are reflected in the increased need for liquidity in companies with high CO2 emissions, which have a problem adapting to the need for neutral carbon dioxide emissions (transition risk); or due to the increased need for liquidity in companies facing the consequences of severe weather events (psychical risk).

Contingency liquidity or capital policy was not activated (nor was there a need for it). With a stable and adequate liquidity potential, the Bank 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, both for the Bank and the market, are set at an appropriate distance from the RAF or the level of regulatory limits, leaving time for the Bank 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 Bank's financial assets and liabilities as of December 31, 2023:

Assets	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Cash and balances held with the central bank	130,511,716	-	-	-	-	130,511,716
Pledged financial assets	-	-	-	-	-	-
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	439,968	628,732	646,026	8,463	65,178,291
Loans and receivables due from customers	29,006,544	18,700,355	82,385,103	103,555,289	93,446,785	327,094,076
Receivables under derivatives designated as risk hedging instruments	-	-	636,909	-	-	636,909
Other assets	1,459,526	-	364,224	-	-	1,823,750
Total assets	**227,200,442**	**19,140,323**	**157,438,444**	**105,571,661**	**122,395,315**	**631,746,185**
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	21,929,317	7,827,236	64,759,341	19,808,970	18,095,431	132,420,295
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	7,085,573	73,932	1,851,383	921,290	118,711	10,050,889
Total liabilities	**335,663,654**	**12,680,491**	**120,205,104**	**42,179,582**	**24,331,449**	**535,060,280**
Off-balance sheet items	5,994,644	2,096,687	5,232,387	-	-	13,323,718
Net liquidity gap as at December 31, 2023	**(114,457,856)**	**4,363,145**	**32,000,953**	**63,392,079**	**98,063,866**	**83,362,187**

In the analysis of liquidity risk, the Bank 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

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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 Bank 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 Bank'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 Bank'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	75,369,075	279,555	702,391	779,796	406,319	77,537,136
Loans and receivables due from customers	21,309,615	26,076,777	76,518,368	89,241,990	98,707,868	311,854,618
Receivables under derivative financial instruments designated as risk hedging instruments	-	-	1,083,998	-	-	1,083,998
Other assets	1,548,338	-	264,528	-	-	1,812,866
Total assets	**173,909,629**	**26,356,332**	**107,635,153**	**129,718,424**	**138,229,131**	**575,848,669**
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	15,668,285	18,486,920	56,022,250	18,186,887	16,967,827	125,332,169
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	4,267,454	68,348	1,334,542	1,075,917	171,368	6,917,629
Total liabilities	**317,818,139**	**22,847,731**	**100,671,954**	**34,871,155**	**17,925,440**	**494,134,419**
Off-balance sheet items	4,174,297	5,772,359	10,111,576	-	-	20,058,232
Net liquidity gap as at December 31, 2022	**(148,082,807)**	**(2,263,758)**	**(3,148,377)**	**94,847,269**	**120,303,691**	**61,656,018**

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 taken into account 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 Bank's financial performance and capital due to the failure of the Bank 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 Bank'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 Bank has organized a special organizational unit whose competence covers compliance review.

The primary task of the Compliance is to identify and asses the Bank'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 Bank's compliance function supports other organizational units of the Bank in defining procedures, introducing new products or modifying the existing ones, in implementation of the laws and bylaws, rules, standards and the Bank'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 Bank's compliance function.

4. RISK MANAGEMENT (Continued)

(g) AML Risks (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 Bank's financial performance, capital or reputation due to the use of the Bank 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 Bank 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 Bank's internal bylaws governing this matter.

The Bank has in place policies and procedures for identification, measurement, assessment and management of the risk of money laundering and terrorist financing. The Bank 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 Bank 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 bank'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 bank operates or failure of the bank to adequately respond to these changes.

Strategic risk management is the responsibility of every employee of the Bank 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 Bank'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 Bank operates. The Bank's management reporting system, established in all business segments, provides an adequate and timely set of information needed for the Bank's decision-making process in order to respond to business changes.

Organizational structure of the Bank, 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 Bank 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 Bank's financial result and capital.

An important element in the management of strategic risk is the Bank's internal control system, described in the Rulebook on risk management, which provides continuous monitoring of the risks to which the Bank 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 Bank 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 Bank.

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 Bank, 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 Bank.

(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 Bank’s financial performance and equity per items in the Bank’s banking book due to changes in interest rates.

The Bank'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;
- Basis risk to which the Bank 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 Bank 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 Bank 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 Bank's ALM & Funding is to establish procedures for the Bank 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 Bank's preferred risk profile. At the same time, those organizational units are involved in the management of the Bank'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, Bank undertake hedging transactions to hedge certain portfolios or transactions.

An analysis of the Bank'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	(2,259,900)	2,328,528
Average for the year	(1,717,037)	1,798,543
Maximum for the year	73,817	2,928,359
Minimum for the year	(2,586,831)	(517,396)
2022		
As at December 31	29,907	(453,212)
Average for the year	(380,225)	(201,612)
Maximum for the year	360,712	815,379
Minimum for the year	(1,433,326)	(925,527)

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December 31, 2023
All amounts expressed in thousands of RSD, unless otherwise stated.

4. RISK MANAGEMENT (Continued)

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

The Bank'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	65,178,291	61,869,584	2,456,413	296,425	927	-	554,942
Loans and receivables due from customers	327,094,076	38,792,810	155,850,806	77,611,010	31,714,346	20,207,471	2,917,633
Receivables under derivatives designated as risk hedging instruments	636,909	-	-	-	-	-	636,909
Other assets	1,823,750	-	-	-	-	-	1,823,750
Total assets	**631,746,185**	**146,217,669**	**158,320,686**	**79,277,781**	**102,334,933**	**47,421,923**	**98,173,193**
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	132,420,295	13,518,997	71,842,651	36,322,316	424,658	-	10,311,673
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	10,050,889	-	-	-	-	-	10,050,889
Total liabilities	**535,060,280**	**55,854,858**	**102,719,884**	**69,698,789**	**15,429,062**	**2,601,264**	**288,756,423**
Net interest rate risk exposure at December 31, 2023	**96,685,905**	**90,362,811**	**55,600,802**	**9,578,992**	**86,905,871**	**44,820,659**	**(190,583,230)**

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

4. RISK MANAGEMENT (Continued)

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

The Bank'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	77,537,136	73,011,153	1,988,490	257,433	504	-	2,279,556
Loans and receivables due from customers	311,854,618	48,187,787	144,228,205	90,335,125	12,243,718	14,342,089	2,517,694
Receivables under derivatives designated as risk hedging instruments	1,083,998	-	-	-	-	-	1,083,998
Other assets	1,812,866	-	-	-	-	-	1,812,866
Total assets	**575,848,669**	**155,993,770**	**146,236,789**	**116,080,699**	**51,250,265**	**53,326,659**	**52,960,487**
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	125,332,169	5,191,193	66,629,165	43,213,331	30,000	304,111	9,964,369
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	6,917,629	-	-	-	-	-	6,917,629
Total liabilities	**494,134,419**	**38,503,140**	**101,101,883**	**68,145,682**	**1,772,989**	**8,270,161**	**276,340,564**
Net interest rate risk exposure at December 31, 2022	**81,714,250**	**117,490,630**	**45,134,906**	**47,935,017**	**49,477,276**	**45,056,498**	**(223,380,077)**

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	(22,437)	(12,246)
EUR	10,950	12,763
USD	223	126
GBP	3	6
CHF	(20)	(28)
Other currencies	-	-
Total effect*	**33,634**	**25,169**

* 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 Bank 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 Bank applies and regularly evaluates an appropriate set of internal bylaws.

(m) 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 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 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)

(m) 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 Bank'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 Bank monitors its capital adequacy ratio on a quarterly basis using the standardized approach.

The Bank is required to calculate the following capital adequacy ratios:

1. the Common Equity Tier 1 capital ratio (CET 1 ratio) represents the Bank's 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 Bank's 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 Bank's capital relative to the risk-weighted assets, expressed as percentage. The minimum CAR defined by the Decision is 8%

The Bank 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 Bank is required to maintain at all times its capital in the amount necessary for coverage of all risks the Bank 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 Bank to achieve and maintain capital adequacy ratios higher than the prescribed ones.

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

The Bank'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 Bank'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.

4. RISK MANAGEMENT (Continued)

(n) Capital Management (Continued)

Regulatory adjustments – When calculating the value of its capital components, the Bank 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.

The Bank 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 Bank's liabilities measured at fair value, resulting from the changes in the Bank's credit quality;
- gains or losses arising from the credit risk for liabilities per derivatives measured at fair value, where the Bank 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 Bank's future profitability in line with the effective regulations;
- defined benefit pension fund assets on the Bank's balance sheet;
- the Bank's direct, indirect and synthetic holdings of its own common equity Tier 1 instruments, including those that the Bank is under an actual or contingent obligation to repurchase by virtue of a constructive obligation;
- the Bank's direct, indirect and synthetic holdings of common equity Tier 1 instruments of FSI entities where those entities have reciprocal holdings in the Bank, designed to artificially inflate the bank's capital;
- the Bank's applicable direct, indirect and synthetic holdings of common equity Tier 1 instruments of FSI entities where the Bank holds no significant investments in accordance with Articles 19 and 20 of the Decision;
- the Bank's applicable direct, indirect and synthetic holdings of common equity Tier 1 instruments of FSI entities where the Bank holds significant investments in accordance with Sections 19 and 20 of the Decision;
- the amount for which the Bank's additional Tier 1 capital deductible items exceed the Bank's additional Tier 1 capital;
- the amount of exposures qualifying for application of a risk weight of 1.25%, where the Bank 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 Bank 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 Bank'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 provisions.

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

As of December 31, 2023, the Bank 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 Bank'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 bank's capital, the bank 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 bank 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 Bank'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 Bank had no additional Tier 1 capital.

The Bank'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 Bank had no supplementary Tier 2 capital.

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

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

4. RISK MANAGEMENT (Continued)

(n) Capital Management (Continued)

The following table presents the Bank'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
Revaluation reserves and other unrealized gains	103,671	97,641
(-) Unrealized losses	(767,526)	(1,618,333)
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)	(2,511,009)	(2,451,769)
(-) 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 2019	*(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	**75,515,190**	**74,099,454**
Additional Tier 1 capital - AT1	-	-
Total core Tier 1 capital - T1 (CET1 + AT1)	**75,515,190**	**74,099,454**
Supplementary capital - T2	-	-
Total regulatory capital (T1 + T2)	**75,515,190**	**74,099,454**

In both 2023 and 2023 the Bank 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 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 Bank's Accounting Policies

(i) Provisions for Expected Credit Losses

Impairment of financial assets is assessed in the manner described 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 Bank'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 Bank'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 Bank regularly reviews, maintains and adjusts its models within the context of its actually experienced credit losses.

The Bank 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.

5. USE OF ESTIMATES AND JUDGMENTS (Continued)

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

(i) Provisions for Expected Credit Losses (Continued)

The Bank 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.

Upon performing the said assessment, the Bank 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 Bank's methodology.

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

The preparation of the 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.

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 Bank 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 Bank 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.

5. USE OF ESTIMATES AND JUDGMENTS (Continued)

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

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

The Bank 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.

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), 28 and 29)

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 Bank'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), 29 and 30)

The Bank 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.

5. USE OF ESTIMATES AND JUDGMENTS (Continued)

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

(vi) Deferred Tax Assets (Notes 3 (j) and 37)

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 Bank'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.

(vii) Provisions for Litigations (Notes 3 (w) and 36)

The Bank is involved in a number of lawsuits and labor disputes. Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of past events, it is probable that the Bank 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 Bank'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 36)

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:

	Note	Level 1	Level 2	Level 3	Total
2023					
Receivables under derivatives	22	-	2,054,579	1,078	2,055,657
Receivables under derivatives designated as risk hedging	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	32	-	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

	Note	Level 1	Level 2	Level 3	Total
2022					
Receivables under derivatives	22	-	2,807,888	861	2,808,749
Receivables under derivatives designated as risk hedging	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	32	-	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 bonds issued by local government and do not have quotations and other market parameters for their valuation.

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:

2023.	Note	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value
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	-	-	65,167,653	65,167,653	65,178,291
Loans and receivables due from customers	25	-	-	322,483,955	322,483,955	327,094,076
Other assets	31	-	-	1,823,750	1,823,750	1,823,750
		6,888,426	**184,386,367**	**389,498,022**	**580,772,815**	**586,822,564**
Deposits and other liabilities due to banks, other financial institutions and the central bank	33	-	-	134,414,831	134,414,831	132,420,295
Deposits and other liabilities due to customers	34	-	-	389,761,376	389,761,376	389,735,404
Other liabilities	38	-	-	10,050,889	10,050,889	10,050,889
		-	**-**	**534,227,096**	**534,227,096**	**532,206,588**

2022.	Note	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value
Cash and balances held with the central bank	20	-	69,758,831	-	69,758,831	69,758,831
Pledged financial assets	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	-	-	77,378,776	77,378,776	77,537,136
Loans and receivables due from customers	25	-	-	311,850,152	311,850,152	311,854,618
Other assets	31	-	-	1,812,866	1,812,866	1,812,866
		5,747,773	**109,293,261**	**391,096,070**	**506,137,104**	**511,073,678**
Deposits and other liabilities due to banks, other financial institutions and the central bank	33	-	-	126,041,218	126,041,218	125,332,169
Deposits and other liabilities due to customers	34	-	-	357,576,112	357,576,112	358,140,581
Other liabilities	38	-	-	6,917,629	6,917,629	6,917,629
		-	**-**	**490,534,959**	**490,534,959**	**490,390,379**

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 Bank 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	4,029,227	519,259
Loans and receivables due from customers	24,901,164	14,234,365
Total interest income using effective interest rate	**33,124,262**	**18,345,329**
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	**35,148,810**	**19,149,083**
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	(5,484,757)	(1,887,911)
Deposits and other liabilities due to customers	(3,856,319)	(1,354,767)
Lease liabilities	(50,329)	(40,201)
Total interest expenses	**(10,682,092)**	**(3,911,134)**
Net interest income	**24,466,718**	**15,237,949**

In accordance with the Bank's accounting policy 3 (d), interest income from non-performing impaired loans amounted to RSD 439,704 thousand in 2023 (2022: RSD 284,287 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	2,114,037	1,917,412	2,567,581	2,364,010
Fees related loans	74,750	106,874	417,054	362,336	491,804	469,210
Fees arising from card operations	626,552	526,684	1,993,701	1,702,083	2,620,253	2,228,767
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	3,290,569	3,291,347	3,673,120	3,643,413
Other fees and commissions	138,003	139,330	262,280	298,251	400,283	437,581
Total fee and commission income from contracts with customers	2,367,261	2,157,371	8,625,620	8,107,823	10,992,881	10,265,194
Fees on issued guarantees and other contingent liabilities	4,115	2,762	1,030,700	985,160	1,034,815	987,922
Total fee and commission income	2,371,376	2,160,133	9,656,320	9,092,983	12,027,696	11,253,116
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	-	-	(12,873)	(13,117)	(12,873)	(13,117)
Fee arising on on foreign exchange purchases/sales and foreign cash transactions	(56,528)	(35,614)	(1,139,504)	(1,443,173)	(1,196,032)	(1,478,787)
Other fees and commissions	-	-	(148,755)	(127,071)	(148,755)	(127,071)
Total fee and commission expenses	(56,528)	(35,614)	(3,866,857)	(3,911,657)	(3,923,385)	(3,947,271)
Net fee and commission income	**2,314,848**	**2,124,519**	**5,789,463**	**5,181,326**	**8,104,311**	**7,305,845**

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**

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

Net (losses)/gains 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 (losses)/gains on derecognition of securities measured at FVtPL	215,214	(87,649)
Net (losses)/gains on derecognition of financial assets measured at fair value	**182,916**	**(65,855)**

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

11. NET FOREIGN EXCHANGE LOSSES AND NEGATIVE CURRENCY CLAUSE EFFECTS

Net foreign exchange losses and negative currency clause effects include:

	2023	2022
Foreign exchange gains and positive currency clause effects	23,966,620	26,944,822
Foreign exchange losses and negative currency clause effects	(24,074,652)	(27,170,701)
Net foreign exchange losses	**(108,032)**	**(225,879)**

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	(48,958)	(161,827)
Net increase in collectively assessed impairment	(510,123)	(2,636,403)
	(559,081)	(2,798,230)
Net (increase)/ decrease in impairment charge per securities measured at FVtOCI	(72,116)	3,641
Contingent liabilities		
Net (decrease)/increase in individual impairment allowance (Note 36.2)	52,515	(284,009)
Net increase in collectively assessed impairment (Note 36.2)	(446,834)	(597,470)
	(394,319)	(881,479)
(Losses)/Gains on modification*	(1,138,945)	26,386
Write-offs	(3,963)	(5,754)
Recovery of the receivables previously written off	436,793	326,476
Total net losses	**(1,731,631)**	**(3,328,960)**

* 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.

13. NET GAINS ON DERECOGNITION OF FINANCIAL ASSETS MEASURED AT AMORTIZED COST

Net 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 gains	**(1,999)**	**35,056**

14. OTHER OPERATING INCOME

Other operating income includes:

	2023	2022
Rental income, reimbursement and other operating income	88,260	53,869
Total other operating income	**88,260**	**53,869**

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

15. SALARIES, SALARY COMPENSATIONS AND OTHER PERSONAL EXPENSES

Salaries, salary compensations and other personal expenses include:

	2023	2022
Employee salaries, net	(2,395,786)	(2,235,634)
Payroll taxes and contributions	(950,526)	(875,830)
Net expenses per provisions for employee retirement benefits and unused annual leaves	(37,980)	(18,631)
Other personnel expenses	(543,946)	(417,884)
Total personnel expenses	**(3,928,238)**	**(3,547,979)**

16. DEPRECIATION/AMORTIZATION CHARGE

Depreciation/amortization charge includes:

	2023	2022
Amortization charge for intangible assets (Notes 28.2, 28.3)	(581,885)	(598,004)
Depreciation charge for property, plant and equipment (Notes 29.2, 29.3)	(247,323)	(276,933)
Depreciation charge for right-of-use assets (Note 29.5, 29.6)	(498,570)	(470,838)
Total depreciation/amortization charge	**(1,327,778)**	**(1,345,775)**

17. OTHER INCOME

Other income includes:

	2023	2022
Reversal of provisions for litigations (Note 36.2)	782,049	432,406
Gains on the valuation of investment property	469	3,761
Gains on the valuation of tangible assets	-	27,121
Gain on derecognition of investments in subsidiary legal entities	273,851	-
Other income	110,663	265,372
Total other income	**1,167,032**	**728,660**

The gain from the derecognition of investments in subsidiary legal entities in 2023 was realized by the Bank after the completion of the liquidation procedure of UniCredit Partner d.o.o., Belgrade and the transfer of the liquidation balance (note 27). 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	(170,358)	(139,656)
Office and other supplies	(67,247)	(73,983)
Rental costs (Note 18.2)	(420,448)	(381,953)
Information system maintenance	(1,082,361)	(1,081,453)
Property and equipment maintenance	(95,707)	(86,155)
Marketing, advertising, entertainment, culture and donations	(216,584)	(210,347)
Lawyer fees, other consultant and research services and auditing fees	(287,292)	(226,533)
Telecommunications and postage services	(99,979)	(96,858)
Insurance premiums	(953,293)	(848,407)
Security services – for property and money transport and handling	(220,595)	(182,405)
Professional training costs	(35,317)	(27,876)
Servicing costs	(95,456)	(127,273)
Transportation services	(10,574)	(6,739)
Employee commuting allowances	(40,846)	(36,948)
Accommodation and meal allowances – business travel costs	(23,478)	(18,133)
Other taxes and contributions	(584,394)	(552,048)
Provisions for litigations (Note 36.2)	(773,310)	(1,587,398)
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	(889,592)	(635,967)
Total other expenses	**(6,076,906)**	**(6,320,760)**

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 of personalization and distribution of payment cards, costs of printing and envelopes, costs of using licenses for up to one year, costs related to lost litigations, archiving and scanning costs, compensation costs from regular business and similar expenses.

18.2 Rental costs of RSD 420,448 thousand incurred in 2023 relate to the costs which, in line with IFRS 16 and the Bank'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	(160,000)	(143,646)
Variable lease payments	(700)	(1,036)
Other	(473)	(795)
Total	**(420,448)**	**(381,953)**

19. INCOME TAXES

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

	2023	2022
Current income tax expense	(2,391,472)	(948,669)
Increase in deferred tax assets and decrease in deferred tax liabilities	-	94,847
Decrease in deferred tax assets and increase in deferred tax liabilities	(90,811)	-
Total	**(2,482,283)**	**(853,822)**

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	20,942,371	9,232,104
Income tax at the legally prescribed tax rate of 15%	(3,141,356)	(1,384,816)
Tax effects of permanent differences:		
Tax effects of expenses not recognized for tax purposes	(31,398)	(15,261)
Tax effects of income adjustment relate to interest on debt securities issued by RS	643,251	548,609
Tax effects of income adjustment realized from dividends and profit shares, including the remainder of the liquidation, or the surplus of the bankruptcy estate, in cash or non-cash assets, over the value of invested capital	41,078	-
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	117,307	146,608
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	7,937	-
Tax effects of temporary differences:		
Tax effects of first application of IFRS 9	-	13,662
Differences in amortization for tax and accounting purposes	4,846	(7,351)
Tax effects of IAS 19	(3,267)	(1,229)
Tax effects of losses which will be recognized in future periods	(127,560)	(250,122)
Tax effects of reductions of current tax according to legal regulations and IFRS application	97,690	1,231
Tax effects presented in the income statement	**(2,391,472)**	**(948,669)**
Effective tax rate	*11.42%*	*10.28%*

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 40.3)	7,094	(1,064)	6,030	45,454	(6,818)	38,636
Actuarial gains	19,269	(2,890)	16,379	23,487	(3,523)	19,964
Losses/(gains) on cash flow hedging instruments	350,957	(52,644)	298,313	(805,337)	120,801	(684,536)
Balance at December 31	**2,479,734**	**(371,960)**	**2,107,774**	**(4,333,242)**	**649,987**	**(3,683,255)**

19.4 The calculated current income tax payable for the year 2023 amounted to RSD 2,391,472 thousand (for 2022: RSD 948,669 thousand). Given that the calculated amount of the tax payable was above the sum of the monthly income tax advance payments the Bank paid during the year, as of December 31, 2023, the Bank reported current tax liabilities in the amount of RSD 1,521,859 thousand (for 2022: current tax assets of RSD 292,139 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 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. During 2023, the NBS paid interest on the required reserve at the 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 to 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 Bank 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 at 31 December 2023, the Bank has no pledged financial assets . As at 31 December 2022, in order to secure liabilities based on repo transactions with NBS, the Bank 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:	-			
Change 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 Bank'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 Bank'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 Bank'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 Bank's securities measured at fair value through other comprehensive income totaling RSD 10,838,874 thousand refer to the investments in the 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 Bank 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
Foreign currency short term deposits	4,688,315	15,466,107
Foreign currency earmarked deposits	12,293	12,791
Short-term loans:		
- in RSD	1,565,062	66,401
Total short-term loans	1,565,062	66,401
Long-term loans:		
- in RSD	1,716,191	2,266,075
Total long-term loans	1,716,191	2,266,075
REPO with NBS in RSD	27,692,035	35,016,260
Total	65,183,370	77,546,507
Impairment allowance	(5,079)	(9,371)
Balance at December 31	**65,178,291**	**77,537,136**

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	-	-	(9,371)	(4,014)
Impairment losses:	-			
Change for the year	-	-	3,552	(5,695)
Foreign exchange effects	-	-	79	338
Write-off without debt acquittal	-	-	661	-
Total for the year	-	-	4,292	(5,357)
Balance at December 31	**-**	**-**	**(5,079)**	**(9,371)**

24.3. The Bank'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
RSD factoring receivables		
- in RSD	4,174,137	1,239,774
- in foreign currencies	10,166	-
Total factoring receivables	4,184,303	1,239,774
Other RSD loans and receivables	365	365
Total	339,963,686	325,435,699
Impairment allowance	(12,869,610)	(13,581,081)
Balance at December 31	**327,094,076**	**311,854,618**

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	(5,119,705)	(5,252,897)	(8,461,376)	(6,766,049)
Impairment losses:				
Change for the year	(328,324)	(322,139)	(432,123)	(2,602,515)
Foreign exchange effects	4,807	8,201	1,923	1,374
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	94,115	133,192	617,356	(1,695,327)
Balance at December 31	**(5,025,590)**	**(5,119,705)**	**(7,844,020)**	**(8,461,376)**

*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 Bank 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 Bank'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	10,770,437	(27,614)	10,742,823
Corporate customers	218,560,405	(8,004,610)	210,555,795
Retail customers	110,632,844	(4,837,386)	105,795,458
Balance at December 31	**339,963,686**	**(12,869,610)**	**327,094,076**

	2022		
	Gross Amount	Impairment Allowance	Carrying Amount
Public sector	12,573,242	(34,534)	12,538,708
Corporate customers	205,271,850	(7,934,754)	197,337,096
Retail customers	107,590,607	(5,611,793)	101,978,814
Balance at December 31	**325,435,699**	**(13,581,081)**	**311,854,618**

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 Bank's interest rate policy.

The Bank 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 six-month Euribor. Loans with variable interest rate were realized at interest rates ranging from 2.55% to 3.30% increased by the six-month Euribor.

The Bank 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 NBS 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 September 13, 2023. year 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 October 1, 2023, and ending with December 31, 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. year - 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% (these are loans that were released in the period from 1.8.2022 to 7.2.2023, when the 6M 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 (these are loans realized after February 8, 2023, when the 6M Euribor was 3.008%, and as of 8/8/2023 is 3.94%)

The NBS Decision was applied to housing loans in the amount of RSD 33,580,831. On this basis, the Bank 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.

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

25. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

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

The Bank 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)

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

	2023	2022
Corporate customers		
- Energy	21,355,691	15,716,867
- Agriculture	4,598,848	5,042,655
- Construction industry	21,917,997	24,601,269
- Mining and industry	53,588,878	47,155,814
- Trade	40,878,802	43,582,536
- Services	36,507,666	32,757,214
- Transportation and logistics	26,565,502	25,903,660
- Other	13,147,021	10,511,835
	218,560,405	205,271,850
Public sector	10,770,437	12,573,242
Retail customers		
- Private individuals	103,320,726	100,631,461
- Entrepreneurs	7,312,118	6,959,146
	110,632,844	107,590,607
Total	**339,963,686**	**325,435,699**
Impairment allowance	(12,869,610)	(13,581,081)
Balance at December 31	**327,094,076**	**311,854,618**

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
Total	**103,320,726**	**100,631,461**

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

The Bank 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

The Bank applies accounting for the protection against the risk of Treasury bills of the Republic of Serbia and municipal bonds using interest rate swaps as a hedging instrument, while the hedged risk is interest rate risk

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:

		2023			2022		
Instrument	**Line item in the statement of financial position**	**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 value.

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

26. HEDGE ACCOUNTING (continued)

26.2 Cash flow hedge

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:

		2023			2022		
Instrument	Line item in the statement of financial position	Nominal amount	Carrying amount		Nominal amount	Carrying amount	
			Assets	Liabilities		Assets	Liabilities
Interest rate swap	Receivables 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 used**	**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 Bank 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 Bank 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. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries represent equity investments in the following entities, where the Bank holds 100% equity interests:

	2023	2022
UniCredit Leasing Srbija d.o.o.	-	-
UniCredit Partner d.o.o.	-	112,644
	-	112,644
Impairment allowance		-
Balance at December 31	**-**	**112,644**

As of December 31, 2023, the bank has a 100% stake in UniCredit Leasing d.o.o. During 2023, the liquidation procedure of subsidiary UniCredit Partner d.o.o. was initiated and completed. The Bank derecognized the investment in the aforementioned legal entity and realized a profit from the derecognition of the investment (note 17).

28. INTANGIBLE ASSETS

28.1 Intangible assets, net:

	2023	2022
Software and licenses	1,558,490	1,934,500
Investments in progress	952,519	517,269
Balance at December 31	**2,511,009**	**2,451,769**

28.2 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	6,521,801	517,269	7,039,070
Additions	-	666,043	666,043
Transfer from investment in progress	215,587	(215,587)	-
Impairment losses	(28,699)	(6,709)	(35,408)
Other	(9,062)	(8,497)	(17,559)
Balance at December 31, 2023	6,699,627	952,519	7,652,146
Accumulated amortization and impairment losses			
Balance at January 1, 2023	4,587,301	-	4,587,301
Amortization charge for the year	581,885	-	581,885
Impairment losses	(26,987)	-	(26,987)
Other	(1,062)	-	(1,062)
Balance at December 31, 2023	5,141,137	-	5,141,137
Net book value at December 31, 2023	**1,558,490**	**952,519**	**2,511,009**
Net book value at January 1, 2023	**1,934,500**	**517,269**	**2,451,769**

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

28. INTANGIBLE ASSETS (continued)

28.3 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	5,498,114	1,039,008	6,537,122
Additions	-	535,647	535,647
Transfer from investment in progress	1,052,729	(1,052,729)	-
Other	(29,042)	(4,657)	(33,699)
Balance at December 31, 2022	6,521,801	517,269	7,039,070
Accumulated amortization and impairment losses			
Balance at January 1, 2022	3,991,643	-	3,991,643
Amortization charge for the year	598,004	-	598,004
Other	(2,346)	-	(2,346)
Balance at December 31, 2022	4,587,301	-	4,587,301
Net book value at December 31, 2022	**1,934,500**	**517,269**	**2,451,769**
Net book value at January 1, 2022	**1,506,471**	**1,039,008**	**2,545,479**

29. PROPERTY, PLANT AND EQUIPMENT

29.1 Property, plant and equipment comprise:

	2023	2022
Buildings	610,605	614,984
Equipment and other assets	560,842	591,306
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	**3,026,923**	**3,097,481**

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

29. PROPERTY, PLANT AND EQUIPMENT (Continued)

29.2 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	2,313,345	587,905	115,079	3,424,507	7,285,047
Additions	-	-	-	346,876	71,975	418,851
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 changes	-	-	-	(2,926)	-	(2,926)
Modifications	-	-	-	-	298,023	298,023
Balance at December 31, 2023	857,277	2,457,850	642,161	238,259	3,676,371	7,871,918
Accumulated depreciation and impairment Losses						
Balance at January 1, 2023	229,227	1,722,039	469,506	-	1,766,794	4,187,566
Depreciation charge for the year	13,603	185,034	48,686	-	498,570	745,893
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	1,897,008	507,799	-	2,193,516	4,844,995
Net book value at December 31, 2023	**610,605**	**560,842**	**134,362**	**238,259**	**1,482,855**	**3,026,923**
Net book value at January 1, 2023	**614,984**	**591,306**	**118,399**	**115,079**	**1,657,713**	**3,097,481**

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 Bank 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 Bank does not have pledged property, plant and equipment.

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

29. PROPERTY, PLANT AND EQUIPMENT (Continued)

29.3 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	2,149,831	564,705	217,345	3,132,398	6,804,625
Additions	-	-	-	172,621	99,725	272,346
Transfer from investments in progress	-	245,172	28,935	(274,107)	-	-
Disposal and retirement	-	(81,658)	(5,735)	-	-	(87,393)
Effect of the change in fair value	103,865	-	-	-	-	103,865
Other changes	-	-	-	(780)	-	(780)
Modifications	-	-	-	-	192,384	192,384
Balance at December 31, 2022	844,211	2,313,345	587,905	115,079	3,424,507	7,285,047
Accumulated depreciation and impairment losses						
Balance at January 1, 2022	184,201	1,588,867	428,788	-	1,295,956	3,497,812
Depreciation charge for the year	15,666	214,814	46,453	-	470,838	747,771
Disposal and retirement	-	(81,642)	(5,735)	-	-	(87,377)
Effect of the change in fair value	29,360	-	-	-	-	29,360
Balance at December 31, 2022	229,227	1,722,039	469,506	-	1,766,794	4,187,566
Net book value at December 31, 2022	**614,984**	**591,306**	**118,399**	**115,079**	**1,657,713**	**3,097,481**
Net book value at January 1, 2022	**556,145**	**560,964**	**135,917**	**217,345**	**1,836,442**	**3,306,813**

29.4 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.

29. PROPERTY, PLANT AND EQUIPMENT (Continued)

29.5 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	1,676,755	2,648	59,557	20,094	7,740	1,766,794
Balance at January 1, 2023	473,347	787	17,176	5,664	1,596	498,570
Depreciation charge	(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**

29.6 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.

30. INVESTMENT PROPERTY

Movements in the account of 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 Bank had continued to apply the cost model (from 31.12.2019 the Bank uses the fair value), the net present value as of December 31, 2023 would have been RSD 1,167 thousand for investment property.

31. OTHER ASSETS

31.1. Other assets relate to:

	2023	2022
Other assets in RSD:		
Fee and commission receivables calculated per other assets	160,956	129,211
Advances paid, deposits and retainers	14,522	12,681
Receivables per actual costs incurred	103,415	152,851
Receivables from the RS Health Insurance Fund	72,997	74,095
Other receivables from operations	929,896	1,205,024
Assets acquired in lieu of debt collection	4,927	4,927
Accrued other income receivables	37,756	25,868
Deferred other expenses	126,932	150,425
Total	1,451,401	1,755,082
Other assets in foreign currencies:		
Other receivables from operations	249,876	33,696
Accrued other income receivables	199,536	88,235
	449,412	121,931
Total	1,900,813	1,877,013
Impairment allowance	(77,063)	(64,147)
Balance at December 31	**1,823,750**	**1,812,866**

31.2. 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	(4,109)	(24,416)	(60,038)	(38,076)
Impairment losses:				
Change for the year	(11,983)	20,307	(156,266)	(155,304)
Foreign exchange effects	-	-	88	95
Write-off with debt acquittal	-	-	388	3,740
Write-off without debt acquittal	14,550	-	140,307	129,507
Total for the year	2,567	20,307	(15,483)	(21,962)
Balance at December 31	**(1,542)**	**(4,109)**	**(75,521)**	**(60,038)**

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

32. 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**

33. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, OTHER FINANCIAL INSTITUTIONS AND THE CENTRAL BANK

33.1. Deposits and other liabilities due to banks, other financial institutions and the central bank include:

	2023	2022
Demand deposits:		
- in RSD	7,670,142	8,557,775
- in foreign currencies	3,102,760	1,525,442
Total demand deposits	10,772,902	10,083,217
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	6,234,346	9,828,732
- in foreign currencies	21,953,561	14,060,358
Total short-term deposits	28,187,907	23,889,090
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	39,885,676	36,456,137
Total long-term borrowings	46,345,252	45,745,786
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	**132,420,295**	**125,332,169**

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 Bank 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.

33. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, OTHER FINANCIAL INSTITUTIONS AND THE CENTRAL BANK (Continued)

33.2. Breakdown of long-term borrowings from banks is provided below:

	2023	2022
European Bank for Reconstruction and Development (EBRD)	15,209,520	19,263,833
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
Balance at December 31	**46,345,252**	**45,745,786**

The above listed long-term borrowings were approved to the Bank for periods from 3 to 15 years at nominal interest rates up to 6.80% per annum.

34. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

34.1. 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**

34.2. 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 34.3)	167,621	223,977
Balance at December 31	**389,735,404**	**358,140,581**

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

34. 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 3,24% per annum.

Interest rate for newly opened demand deposits in RSD and foreign currency, as well as for current accounts in foreign currency for retail customers was 0%.

Short-term foreign currency deposits of retail customers were placed at interest rates ranging up to 5% 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 bank 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.

34.3. 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 Bank for periods from 8 to 13 years at nominal interest rates to 6.20% per annum.

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

35. 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	45,745,786	40,942,024	223,977	311,656
Cash inflow (new borrowing)	10,108,960	15,588,947	-	-
Cash outflow (repayment)	(9,558,478)	(10,829,231)	(56,231)	(87,395)
Total change in cash flows from financing activities	**550,482**	**4,759,716**	**(56,231)**	**(87,395)**
Foreign exchange effects	(42,087)	(70,627)	(255)	(571)
Accrued and deferred interest	91,071	114,673	130	287
Balance at December 31	**46,345,252**	**45,745,786**	**167,621**	**223,977**

36. PROVISIONS

36.1 Provisions relate to:

	2023	2022
Individual provisions for off-balance sheet items	307,865	360,380
Collective provisions for off-balance sheet items	1,234,032	787,198
Provisions for other long-term employee benefits	143,336	144,063
Provisions for potential litigation losses	3,758,578	4,350,925
Balance at December 31	**5,443,811**	**5,642,566**

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

36. PROVISIONS (Continued)

36.2 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 42.1)	Total
Balance at January 1	360,380	787,198	144,063	4,350,925	5,642,566
Charge for the year:					
- in the income statement	179,624	995,428	21,791	773,310	1,970,153
- in the statement of other comprehensive income	-	-	(19,269)	-	(19,269)
	179,624	995,428	2,522	773,310	1,950,884
Use of provisions			(3,249)	(583,608)	(586,857)
Reversal of provisions (Notes 12 and 17)	(232,139)	(548,594)	-	(782,049)	(1,562,782)
Balance at December 31	**307,865**	**1,234,032**	**143,336**	**3,758,578**	**5,443,811**

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

37. DEFERRED TAX ASSETS AND LIABILITIES

37.1 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	52,539	-	52,539	59,180	-	59,180
Deferred tax assets in respect of unrecognized current year expenses	605,705	-	605,705	689,875	-	689,875
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	1,567	-	1,567	4,457	-	4,457
Total	**918,618**	**(18,294)**	**900,324**	**1,380,325**	**(17,230)**	**1,363,095**

37.2 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	59,180	(6,641)		52,539
Deferred tax assets in respect of unrecognized current year expenses	689,875	(84,170)		605,705
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	4,457	-	(2,890)	1,567
Total	**1,363,095**	**(90,811)**	**(371,960)**	**900,324**

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

38. OTHER LIABILITIES

38.1. Other liabilities include:

	2023	2022
Advances received. deposits and retainers:		
- in RSD	38,228	38,507
- in foreign currencies	2,106	1,896
Trade payables:		
- in RSD	439,296	328,168
- in foreign currencies	468,954	156,588
Lease liabilities (Note 38.2):		
- in RSD	434,266	393,015
- in foreign currencies	1,109,021	1,333,304
Other liabilities:		
- in RSD	1,751,908	1,341,226
- 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	598,580	295,220
- in foreign currencies	194,548	34,076
Accrued other expenses:		
- in RSD	665,460	599,939
- in foreign currencies	33,505	37,134
Liabilities per managed funds	-	21,606
Taxes and contributions payable	62,522	44,597
Balance at December 31	**10,050,889**	**6,917,629**

38.2. 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**

38.3. 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 Bank's statement of cash flows.

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

38. OTHER LIABILITIES (Continued)

38.4. Breakdown of income and expenses per lease arrangements in 2023 is provided in the following table:

	2023	2022
Depreciation charge of the right-of-use assets (Note 29.5, 29.6)	(498,570)	(470,838)
Interest expenses per lease liabilities (Note 7)	(50,329)	(40,201)
Rental costs (Note 18.2)	(420,448)	(381,953)
Sublease income	8,953	8,647
Balance at December 31	**(960,394)**	**(884,345)**

39. RECONCILIATION OF OUTSTANDING BALANCES OF RECEIVABLES AND LIABILITIES WITH CREDITORS AND DEBTORS

In accordance with the Law on Accounting, the Bank 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 395,901,842 thousand), i.e. 1.91% of total number of receivable items (87,823 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 374,346,933 thousand), i.e. 2.27% of total number of items of liabilities (82,279 open items).

Unreconciled receivables and liabilities comprise mostly of receivables and liabilities for which Bank has not received confirmations from debtors and creditors.

40. EQUITY

40.1. Equity is comprised of:

	2023	2022
Issued capital – share capital	23,607,620	23,607,620
Share premium	562,156	562,156
Retained earnings	18,462,218	8,380,827
Reserves	53,534,231	50,261,205
Balance at December 31	**96,166,225**	**82,811,808**

As of December 31, 2023, the Bank'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 Bank 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.

40.2. Earnings per Share

The basic earnings per share amounted to RSD 7,820 in 2023 (2022: RSD 3,549).

Diluted earnings per share are equal to the basic earnings per share given that the Bank has no contingent shares, i.e., shares embedded in other financial instruments or contracts that may entitle their holders to the ordinary shares of the Bank.

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

40. EQUITY (Continued)

40.3. Breakdown of other comprehensive income after taxes is provided in the table below:

	2023	2022
Actuarial gains/(losses) per defined employee benefits	16,379	19,964
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	**2,107,774**	**(3,683,255)**

41. 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**

42. CONTINGENT LIABILITIES AND COMMITMENTS

42.1 Litigation

As of December 31, 2023, there were 36,792 legal suits filed against the Bank (including 12 labor lawsuits) with claims totaling RSD 2,571,923 thousand. In 414 of these proceedings plaintiffs are legal entities and in 36,378 proceedings private individuals appear as plaintiffs/claimants.

The Bank made provisions of RSD 3,758,578 thousand in respect of the legal suits filed against it (Note 36). The aforesaid amount of provisions includes those for the labor lawsuits filed, lawyer's fees and administrative taxes from appeals and revisions. In the majority of lawsuits filed against the Bank, 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 Bank 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 Bank 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.

42. CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

42.1 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 Bank, i.e., the estimate that the Bank will incur no outflows in respect of those legal suits or that there are minor contingent liabilities at issue, which require no provisioning.

The Bank estimates adequacy of provisions every 6 months.

42.2 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	158,051,823	(856,315)
Other Off-Balance Sheet Items	131,395,497	(685,583)
Balance at December 31	**289,447,320**	**(1,541,898)**

	2022	
	Off-Balance Sheet Items exposed to credit risk	**Provisions for Off - Balance Sheet Items**
Guarantees and other irrevocable commitments	123,952,227	(615,465)
Other Off-Balance Sheet Items	107,457,819	(532,113)
Balance at December 31	**231,410,046**	**(1,147,578)**

42.3 The Bank's contingent liabilities are provided in the table below:

	2023	2022
Contingent liabilities		
Payment guarantees		
- in RSD	15,885,314	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 RSD		-
- in foreign currencies	2,129,938	2,062,547
Foreign currency sureties issued	5,065,509	5,085,475
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	**212,005,508**	**168,672,939**

In the ordinary course of business, the Bank 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.

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

42. CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

42.4 Breakdown of the Bank'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**

42.5 The Bank'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).

43. RELATED PARTY DISCLOSURES

The Bank is under control of UniCredit S.p.A., Milan, domiciled and registered in Italy, which is the sole owner of the Bank's common stock shares (100%). The bank is the parent legal entity, considering that it has a 100% share in the capital of subsidiary UniCredit Leasing d.o.o., Belgrade, and also had a 100% share in the capital of subsidiary UniCredit Partner d.o.o., Belgrade, which was liquidated during 2023.

Related parties of the Bank are: parent bank, subsidiaries of the 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 Bank's board (ALCO and credit committees) have the authority and responsibility to plan, direct and control the activities of the Bank ("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.

43.1 Related party transactions

Exposures and liabilities as of December 31, 2023 arising from related party transactions are presented below:

	2023			
	Parent Bank	Subsidiaries	Key management	Other related parties *
Financial assets				
- Investment in subsidiaries	-	-	-	-
- Loans, receivables and other assets	24,243,156	2,183,188	88,307	2,132,549
Financial liabilities				
- Deposits and other liabilities	50,196,038	1,222,580	119,427	2,457,277
Off balance sheet items				
- Contingent liabilities for given guarantees and sureties	4,081,645	5,846,179	-	9,006,543
- Commitments for undrawn loans	-	234,347	317	1,820,783
- 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

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

43. RELATED PARTY DISCLOSURES (Continued)

43.1 Related party transactions (Continued)

Exposures and liabilities as of December 31, 2022 arising from related party transactions are presented below:

	2022			
	Parent Bank	Subsidiaries	Key management	Other related parties*
Financial assets				
- Investment in subsidiaries	-	112,644	-	-
- Loans, receivables and other assets	36,922,037	1,652,034	93,833	2,640,300
Financial liabilities				
- Deposits and other liabilities	44,004,813	1,523,452	84,533	791,843
Off balance sheet items				
- Contingent liabilities for given guarantees and sureties	3,181,450	5,085,475	-	10,941,343
- Commitments for undrawn loans	-	1,173,224	160	1,187,752
- 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

	2023				2022			
	Parent Bank	Subsidiaries	Key management	Other related parties*	Parent Bank	Subsidiaries	Key management	Other related parties*
Impairment allowance for balance and off balance exposures	1,662	6,638	204	23,929	2,308	7,974	204	23,023

Revenues and expenses generated in 2023 arising from transactions with related parties are presented in the following table:

	2023			
	Parent Bank	Subsidiaries	Key management	Other related parties*
Interest incomes	1,197,811	92,052	5,839	1,535,594
Interest expenses	(2,045,591)	(40,817)	(2,267)	(319,825)
Fee and commission incomes	184,659	19,901	317	327,459
Fee and commission expenses	(22,072)	-	-	(488,570)
Other incomes	(66,160)	48,402	-	(892,789)
Other expenses	18,215	-	-	1,739
Total	**(733,138)**	**119,538**	**3,889**	**163,608**

Revenues and expenses generated in 2022 arising from transactions with related parties are presented in the following table:

	2022			
	Parent Bank	Subsidiaries	Key management	Other related parties*
Interest incomes	278,786	25,162	2,572	275,517
Interest expenses	(466,390)	(12,772)	(65)	(433,238)
Fee and commission incomes	190,799	16,973	269	301,556
Fee and commission expenses	(16,938)	-	-	(411,434)
Other incomes	5,023	48,096	-	63,580
Other expenses	(47,967)	-	-	(760,266)
Total	**(56,687)**	**77,459**	**2,776**	**(964,285)**

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

43. RELATED PARTY DISCLOSURES (Continued)

43.1 Related party transactions (Continued)

Loan loss provison (ECL) for balance and off-balance exposures of relatied parties recognized in income statement are presented below:

	2023				2022			
	Parent Bank	Subsidiaries	Key management	Other related parties*	Parent Bank	Subsidiaries	Key management	Other related parties*
Net increase/(decrease) in impairment allowance	(646)	(1,336)	-	906	234	1,035	115	12,925

*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.

43.2 Key management payments

Key management payments during 2023 and 2022 are presented below:

	2023	2022
Short-term employee benefits	197,643	188,373
Other long-term benefits	2,710	1,285
Share-based payments	25,288	9,124
Balance at December 31	**225,641**	**198,782**

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 Bank.

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 5,329 thousand (in 2022: RSD 6,144 thousand).

44. 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 Bank 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 Bank (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

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

Stefano Suppressa
Member of the Management Board
Head of Finance

Mirjana Kovačević
Head of Accounting and Regulatory Reporting