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

TRANSLATION

Independent Auditor's Report

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

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 2022;

and, for the period from 1 January to 31 December 2022:

- 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 a summary of significant 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 2022, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards).

Registration No.: 17148656
Tax Identity No.: 100058593
Bank Account No.: 265-1100310000190-61

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.

Other Matter

The separate financial statements of the Bank as at and for the year ended 31 December 2021 were audited by another auditor who expressed an unmodified opinion on those financial statements on 14 February 2022.

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 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, 20 February 2023

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 KPMG D.O.O. 1 BEOGRAD

Nikola Đenić
Licensed Certified Auditor

Belgrade, 20 February 2023

UNICREDIT BANK SRBIJA A.D., BEOGRAD

Unconsolidated Financial Statements
Year Ended December 31, 2022

CONTENTS

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022
All amounts expressed in thousands of RSD, unless otherwise stated.

INCOME STATEMENT
Year Ended December 31, 2022
(Thousands of RSD)

	Note	2022	2021
Interest income	3.d, 7	19,149,083	15,110,996
Interest expenses	3.d, 7	(3,911,134)	(2,125,224)
Net interest income		**15,237,949**	**12,985,772**
Fee and commission income	3.e, 8	11,253,116	8,690,457
Fee and commission expenses	3.e, 8	(3,947,271)	(2,371,177)
Net fee and commission income		**7,305,845**	**6,319,280**
Net gains on changes in the fair value of financial instruments	3.f, 9	688,600	348,023
Net gains on derecognition of the financial instruments measured at fair value	3.g, 10	-	754,747
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	-	(6,504)
Net foreign exchange losses and positive currency clause effects	3.c, 11	(225,879)	(229,816)
Net losses on impairment of financial assets not measured at fair value through profit or loss	3.k, 12	(3,328,960)	(2,647,495)
Net gains on derecognition of the financial assets measured at amortized cost	3.i, 13	35,056	31,264
Other operating income	14	53,869	60,101
Total operating income, net		19,717,958	17,615,372
Salaries, salary compensations and other personal expenses	15	(3,547,979)	(3,382,880)
Depreciation and amortization charge	3.q, 3.r, 3.t, 16	(1,345,775)	(1,229,182)
Other income	17	728,660	174,085
Other expenses	18	(6,320,760)	(6,869,170)
Profit before tax		9,232,104	6,308,225
Current income tax expense	3.j, 19	(948,669)	(674,504)
Deferred tax gains	3.j, 37.2	94,847	242,168
Profit after tax		**8,378,282**	**5,875,889**
Result of the period - profit		**8,378,282**	**5,875,889**
EARNINGS PER SHARE			
Basic earnings per share (in dinars, without paras)	40.2	3,549	2,489
Diluted earnings per share (in dinars, without paras)	40.2	3,549	2,489

Belgrade, February 14, 2023

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

Nikola Vuletić
Management Board Chairperson

Milena Vukotić
Member of the Management Board
Head of Risk Management

Mirjana Kovačević
Head of Accounting and Regulatory Reporting

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

STATEMENT OF OTHER COMPREHENSIVE INCOME

Year Ended December 31, 2022
(Thousands of RSD)

	Note	2022	2021
Net profit for the year		8,378,282	5,875,889
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		45,454	4,774
- Actuarial gains		23,487	-
- Actuarial losses		-	(5,418)
Components of other comprehensive income that may subsequently be reclassified to profit or loss:			
- Negative effects of value adjustments of debt securities measured at fair value through other comprehensive income		(3,596,846)	(3,097,587)
- Losses on cash flow hedging instruments		(805,337)	(81,207)
Gains on taxes relating to other comprehensive income	37.2	649,987	476,915
Total negative other comprehensive income for the year	40.3	(3,683,255)	(2,702,523)
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE YEAR		**4,695,027**	**3,173,366**

Belgrade, February 14, 2023

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

Nikola Vuletić
Management Board Chairperson

Milena Vukotić
Member of the Management Board
Head of Risk Management

Mirjana Kovačević
Head of Accounting and Regulatory Reporting

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

STATEMENT OF FINANCIAL POSITION
As of December 31, 2022
(Thousands of RSD)

	Note	December 31, 2022	December 31, 2021
Cash and balances held with the central bank	3.l, 20	69,758,831	67,572,923
Pledged financial assets	21	7,220,590	-
Receivables under derivative financial instruments	3.m, 22	2,808,749	752,624
Securities	3.k, 3.p, 23	103,771,881	111,923,341
Loans and receivables due from banks and other financial institutions	3.k, 3.o, 24	77,537,136	42,241,484
Loans and receivables due from customers	3.k, 3.o, 25	311,854,618	307,662,701
Receivables under derivatives designated as risk hedging instruments	3.n, 26	1,083,998	9,493
Investments in subsidiaries	3.z, 27	112,644	112,644
Intangible assets	3.r, 3.u, 28	2,451,769	2,545,479
Property, plant and equipment	3.q, 3.t, 3.u, 29	3,097,481	3,306,813
Investment property	3.s, 30	7,274	3,527
Deferred tax assets	3.j, 37	1,363,095	618,261
Other assets	31	1,812,866	1,329,348
Total assets		**582,880,932**	**538,078,638**
Liabilities under derivative financial instruments	3.m, 32	2,819,396	723,925
Deposits and other liabilities due to banks, other financial institutions and the central bank	3.k, 3.v, 33	125,332,169	119,929,606
Deposits and other liabilities due to customers	3.k, 3.v, 34	358,140,581	314,207,092
Liabilities under derivatives designated as risk hedging instruments	3.n, 26	924,644	132,490
Provisions	3.w, 3.y, 36	5,642,566	4,085,707
Current tax liabilities	3.j, 19.4	292,139	61,747
Other liabilities	3.t, 38	6,917,629	14,946,085
Total liabilities		**500,069,124**	**454,086,652**
Issued (share) capital	40.1	24,169,776	24,169,776
Profit	40.1	8,380,827	5,877,750
Reserves	40.1	50,261,205	53,944,460
Total equity		82,811,808	83,991,986
Total liabilities and equity		**582,880,932**	**538,078,638**

Belgrade, February 14, 2023

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

Nikola Vuletić
Management Board Chairperson

Milena Vukotić
Member of the Management Board
Head of Risk Management

Mirjana Kovačević
Head of Accounting and Regulatory Reporting

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STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2022
(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	50,538,072	2,906,222	-	5,336,689	82,950,759
Adjusted opening balance as at 1 January of the previous year	23,607,620	562,156	50,538,072	2,906,222	-	5,336,689	82,950,759
Total negative other comprehensive income for the period	-	-	-	(2,702,523)	-	-	(2,702,523)
Profit for the current year	-	-	-	-	-	5,875,889	5,875,889
Transfer from reserves to result due to reversal of reserves-increase	-	-	-	-	-	1,861	1,861
Distribution of profit – increase	-	-	3,202,689	-	-	-	3,202,689
Distribution of profit , and/or coverage of losses - decrease	-	-	-	-	-	(3,202,689)	(3,202,689)
Dividend payments	-	-	-	-	-	(2,134,000)	(2,134,000)
Total transactions with owners	-	-	3,202,689	-	-	(5,336,689)	(2,134,000)
Balance as at 31 December of the previous year	**23,607,620**	**562,156**	**53,740,761**	**203,699**	**-**	**5,877,750**	**83,991,986**
Opening balance as at 1 January of the current 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 current 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 the owners	-	-	-	-	-	(5,877,750)	(5.877,750)
Balance as at 31 December of the current year	**23,607,620**	**562,156**	**53,740,761**	**-**	**(3,479,556)**	**8,380,827**	**82,811,808**

Belgrade, February 14, 2023

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

Nikola Vuletić
Management Board Chairperson

Milena Vukotić
Member of the Management Board
Head of Risk Management

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, 2022
(Thousands of RSD)

	Note	2022	2021
Cash inflows from operating activities		**26,205,723**	**20,518,742**
Interest receipts		14,619,366	11,636,875
Fee and commission receipts		11,245,993	8,704,167
Receipts of other operating income		340,364	177,700
Cash outflows from operating activities		**(15,465,008)**	**(12,451,774)**
Interest payments		(2,749,974)	(1,782,296)
Fee and commission payments		(3,921,924)	(2,393,751)
Payments to, and on behalf of employees		(3,568,890)	(3,304,103)
Taxes, contributions and other duties paid		(581,299)	(536,549)
Payments for other operating expenses		(4,642,921)	(4,435,075)
Net cash inflows from operating activities prior to increases/decreases in financial assets and financial liabilities		**10,740,715**	**8,066,968**
Decrease in financial assets and increase in financial liabilities		**45,858,261**	**47,035,554**
Increase in deposits and other liabilities due to banks, other financial institutions, the central bank and customers		45,223,514	46,888,661
Increase in other financial liabilities		634,747	146,893
Increase in financial assets and decrease in financial Liabilities		**(87,892,306)**	**(35,008,454)**
Increase in loans and receivables due from banks, other financial institutions, the central bank and customers		(83,212,677)	(34,383,176)
Increase in receivables under securities and other financial assets not intended for investment		(4,638,702)	(562,727)
Decrease in liabilities under derivatives designated as hedging instruments and changes in the fair value of hedged items		(40,927)	(62,551)
Net cash inflow by operating activities before income taxes		**-**	**20,094,068**
Net cash outflow by operating activities before income taxes		**(31,293,330)**	**-**
Income tax paid		(718,277)	(315,119)
Dividends paid		(15,043,750)	-
Net cash inflow by operating activities		**-**	**19,778,949**
Net cash outflow by operating activities		**(47,055,357)**	
Cash inflows from investing activities		**22,255,049**	**42,745,993**
Proceeds from investing in investment securities		22,251,943	42,745,973
Proceeds from sale of intangible assets, property, plant and equipment		3,106	20
Cash outflows from investing activities		**(18,538,058)**	**(39,667,095)**
Cash used for investing in investments securities		(17,862,589)	(38,452,876)
Cash used for the purchases of intangible assets, property, plant and equipment		(675,469)	(1,214,219)
Net cash generated by investing activities		**3,716,991**	**3,078,898**
Cash inflows from financing activities		**15,588,947**	**7,473,259**
Borrowings, inflows		15,588,947	7,473,259
Cash outflows from financing activities		**(11,360,477)**	**(8,131.,506)**
Cash outflows from loans taken		(10,916,626)	(7,690,268)
Other outflows from financing activities		(443,851)	(441,238)
Net cash generated by financing activities		**4,228,470**	**-**
Net cash used in financing activities		**-**	**(658,247)**

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

STATEMENT OF CASH FLOWS (Continued)
Year Ended December 31, 2022
(Thousands of RSD)

	Note	2022	2021
Total cash inflows		109,907,980	117,773,548
Total cash outflows		(149,017,876)	(95,573,948)
Net cash increase		-	22,199,600
Net cash decrease		(39,109,896)	-
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3.l, 41	**78,211,971**	**55,791,428**
Foreign exchange Gains, net		21,148	220,943
CASH AND CASH EQUIVALENTS, END OF YEAR	3.l, 41	**39,123,223**	**78,211,971**

Belgrade, February 14, 2023

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

Nikola Vuletić
Management Board Chairperson

Milena Vukotić
Member of the Management Board
Head of Risk Management

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, 2022, the Bank comprises of the Head Office in Belgrade, 72 branch offices and 2 counters located in towns throughout the Republic of Serbia (December 31, 2021: 72 branch offices and 2 counters).

As of December 31, 2022, the Bank has 1,359 employees (December 31, 2021: 1,342 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. 93/2021).

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 for 2022 were issued on February 14, 2023.

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).

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

In 2022, 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, 2022:

- Amendments to IFRS3 Business Combinations; IAS16 Property, Plant and Equipment; IAS37 Provisions, Contingent Liabilities and Contingent Assets; and Annual Improvements 2018-2020";

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.

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

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

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

- Amendments to IAS1 Presentation of Financial Statements: Disclosure of Accounting policies applicable to reporting starting from 1 January 2023
- Amendments to IAS8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates applicable to reporting starting from 1 January 2023
- Amendments to IAS12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction applicable to reporting starting from 1 January 2023;
- Amendments to IFRS17 Insurance contracts: Initial Application of IFRS17 and IFRS9 - Comparative Information applicable to reporting starting from 1 January 2023
- Amendments to IAS1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current - Deferral of Effective Date and Non-current Liabilities with Covenants
- Amendments to IFRS16 Leases: Lease Liability in a Sale and Leaseback

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) Impact of the Russian-Ukrainian conflict

The conflict between Russia and Ukraine has had a vast negative effect on the world economy, having caused large increases in the prices of raw materials, food and energy as well as additional disruptions in global supply chains, and leading to heightened geopolitical tensions on a global level. It has led to a slowdown of economic recovery following the pandemic and amplified the existing inflationary pressures, making it necessary for central banks to tighten their monetary policies.

According to the available data, COVID 19 and Russian-Ukrainian conflict have so far had limited effects on Serbia thanks to its macroeconomic and financial stability, growth dynamics, a timely and extensive support measures package, as well as the overall structure of the economy. GDP growth in Q4 2022 was 0.4% according to the preliminary estimates of the National Statistics Office, bringing the overall 2022 growth in line with the current forecast of 2.3%, growth in 2023 is expected to stay within 2.0%-3.0% range owing to adverse developments in the international environment. In order to counteract the inflationary pressures resulting from the growth of energy prices and prices of other primary products coming as a consequence of the Russian-Ukrainian conflict, the NBS began tightening its monetary policy starting from April, hiking its reference rate by 450 bps in 2022 and the first two months of 2023 (from 1.0% to 5.5% in February 2023). NBS has also continued withdrawing liquidity from the banking sector through reverse repo auctions – the total amount of repo sold securities stood at 2,951 BRSD at the end of December, while the average weighted interest rate for repo sold securities was 4.06%, which is an increase of 367 bps compared to December 2021.

Calculation of the expected credit loss

During 2022, the uncertainties on the economic activities arising from Covid-19 pandemics progressively faded away as demonstrated by the lifting of the restrictive measures put in place by the governments to counteract the pandemic. As well, also the supply chain risk has started to decrease in relevance, given the evolving new geo-political context. Indeed, the start of the Russian-Ukrainian conflict acted as a headwind to the economic growth. Indeed, 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 order to factor-in into the risks underlying the sharp rise in energy costs, inflation and interest rates for both Corporate and private individuals, the geopolitical overlay were adopted during 2022.

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

(d) Impact of the Russian-Ukrainian conflict (continued)

Calculation of the expected credit loss (continued)

In this regard the adoption of this overlay is a complementary measure to the IFRS9 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 satellite models are able to capture the effect of macro-economic scenario at portfolio level, the geopolitical overlays act on specific sub-portfolios considered particularly vulnerable in case contingent situation may evolve to severe stressed conditions

Indeed as of 31 December 2022 geopolitical overlay amount to 10.4 €/million and is broken-down according to the following components:

- 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.

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

(e) Interest Rate Benchmark Reform (IBOR)

A comprehensive reference rates reform is currently taking place following the concerns raised in recent years about the integrity and reliability of major financial market benchmarks. In order to assess the relevant risks associated with the global benchmark reforms mandated by the Financial Stability Board (FSB), and taking appropriate actions to ensure an adequate transition to alternative or reformed benchmark rates ahead of the deadline of the end of 2022 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.

To address potential source of uncertainty on the effect of the Interbank offered rates (IBOR) reform on existing accounting hedge relationships the "Amendments to IFRS9, IAS39 and IFRS7 Interest Rate Benchmark Reform" (in further text: the Amendments) clarifies that the reform does not require to terminate such hedge relationships. The Amendments is effective for annual periods beginning on or after January 1, 2021. UniCredit Group and the Bank opted for early adoption of Amendments in 2019.

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 2022 and 2021 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 31st December 2022.

(f) Comparative Information

Comparative information in the accompanying financial statements represents the data from the Bank's unconsolidated financial statements for 2021. However, certain disclosures in these financial statements, relating to 2021, have been adjusted and amended, with the aim of better presentation.

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

(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").

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 and UniCredit Partner d.o.o., Beograd, each. 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.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Foreign Exchange Translation (Continued)

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, 2022	December 31, 2021
USD	110.1515	103.9262
EUR	117.3224	117.5821
CHF	119.2543	113.6388

(d) Interest Income and Expenses

(i) The Effective Interest Method

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

The effective interest rate is the rate that precisely discounts estimated future payments or receipts over the expected life of the financial instrument or over a shorter period, where appropriate, to the net carrying value of the financial asset or financial liability. In calculation of the effective interest rate, the 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Interest Income and Expenses (Continued)

(i) The Effective Interest Method (Continued)

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.

(ii) 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.

Interest income and expense from all trading assets and liabilities (other than interest on coupon securities) are deemed secondary to the trading activities of the Bank and are presented together with all other changes in the fair value of trading assets and liabilities within net gains on financial assets 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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 2022 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Income Tax Expenses (Continued)

(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).

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities (Continued)

(ii) Classification and Subsequent Measurement (Continued)

Financial Assets (Continued)

Debt Instruments (Continued)

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 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities (Continued)

(ii) Classification and Subsequent Measurement (Continued)

Financial Assets (Continued)

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.

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)).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities (Continued)

(iii) Derecognition (Continued)

Financial Assets (Continued)

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

(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).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities (Continued)

(iv) Modification (Continued)

Modifications of a Financial Asset that do not Lead to Derecognition (Continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities (Continued)

(vii) Fair Value Measurement (Continued)

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.

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

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.

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)

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; 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 IFRS9 Lifetime PD violates the transfer threshold estimated by the model the financial instruments is classified in Stage 2. The following additional four qualitative criteria are applied after the said quantitative parameter:

- Forbearance status classification results in automatic classification to Stage 2 for the following 9 months (as from that status classification date). 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 should be classified into Stage 2;
- All performing exposures transferred to the remit of the Loan Restructuring and Workout departments are automatically classified into Stage 2.

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

In 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities (Continued)

(ix) Write-Off (Continued)

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.

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 IAS39 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%.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(i) Fair Value Hedges

When a derivative is designated as the hedging instrument in a hedge against a change in the fair value of a recognized asset or liability that could affect the profit or loss, changes in the fair value of the derivative are recognized immediately in the profit or loss (income) statement, together with changes in the fair value of the hedged item that are attributable to the risk hedged.

If only certain risks attributable to hedged items are subject to hedging, the recognized changes in fair value of the hedged items that are not associated with the risk subject to hedging are recognized in accordance with the Bank's policy on financial instrument measurement depending on the instrument classification.

(ii) Cash Flow Hedges

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

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

The recognized changes in fair value of the hedged items are recognized in accordance with the 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Property, Plant and Equipment (continued)

(i) Recognition and Measurement (Continued)

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.

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.

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

Assets	**Estimated Useful Life (Years)**	**Minimum Annual Rate %**
Buildings	Maximum 50	2%
Furniture	Maximum 25	4%
IT equipment and electronic systems	Maximum 15	6.67%
Other	Maximum 10	10%

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Property, Plant and Equipment (continued)

(iii) Depreciation (continued)

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. There was no change compared to last year.

(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.

(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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Leases (Continued)

(i) The Bank as the Lessee (Continued)

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 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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, 2022 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 9.5%, and an annual discount rate of 7.35%. In addition, in 2022, 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. FINANCIAL 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.

4. FINANCIAL RISK MANAGEMENT (Continued)

Risk Management Framework

The most important role in the risk management as a part of internal control system is assigned to the Supervisory Board (SB) of the Bank, which is responsible for risk management system establishing and monitoring. SB is defining strategies and policies for managing key risk types that the 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 business area/activity/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 provided in its reports (action plans) and reports to the Management Board, Audit Committee and the Supervisory Board on all potential delays in the implementation of the measures.

(b) Credit Risk

Credit risk is the risk of possible negative effects on financial result and capital of the 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.

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

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.

The Bank takes into account when deciding on the assumption of credit risk, the outcome of the analysis of money laundering and terrorist financing risk.

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 main goal in 2022 was to control and mitigate the potential negative effects of geo-political situation through intensive monitoring process where entire portfolio was screened based on following criteria: cooperation with RU-UA markets, Russian ownership (connection), cooperation with Sber Bank and impact of sanction.

Taken actions for corporate portfolio were regular in-house calls since April 2022 between sales function, underwriting function and portfolio monitoring function concerning current status of potentially impacted clients, while regularly updating list of flagged clients. For all high impacted client immediate irregular review was performed and strategy/action plan adopted accordingly. Remaining clients are left on monitoring/screening list and are reviewed on regular basis. Initially screening was performed once per week, and as crisis effects became more and more visible and impacted clients analyzed, Bank. Bank also implemented that all credit applications contain information on UK/RU crisis effects on borrowers operations, with information incorporated into forward looking cash flow forecasts, special attention on macroeconomic developments and vulnerable sectors. Questionnaire was implemented in template of application which is used for credit approvals. Certainly, wherever it was relevant Bank used new guarantee scheme as option – risk sharing program with State covering 80% exposure and with 24 grace period. For Retail clients Bank adopted more conservative criteria exposed to RU-UA risk (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.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Credit Risk Reporting (Continued)

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. FINANCIAL 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. FINANCIAL 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. FINANCIAL 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	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Individually impaired												
Corporate clients, rating 10	-	-		-		-	201,017	253,827	3,994	8,879	110,965	-
Corporate clients, rating 9	-	-		-		-	-	-	-	-	-	-
Corporate clients, restructured loans*	-	-		-		-	7,966,649	9,540,658	4,565	3,149	471,747	141,810
Retail clients, > 90 days past due	-	-		-		-	4,290,824	3,755,615	66,245	56,656	4,423	3,461
Gross loans	-	-		-		-	12,458,490	13,550,100	74,804	68,684	587,135	145,271
Impairment allowance						-	8,100,949	7,831,960	63,776	62,163	371,023	82,855
Carrying value	-	-		-		-	4,357,541	5,718,140	11,028	6,521	216,112	62,416
Group-level impaired												
Corporate clients, rating 1 - 6	69,758,834	67,572,925	109,529,196	109,210,970	77,546,507	42,245,498	175,349,389	177,934,522	147,878	216,294	218,681,946	210,324,982
Corporate clients, rating 7	-	-	-	-	-	-	13,802,254	7,457,090	158	160	6,874,784	5,430,044
Corporate clients, rating 8	-	-	-	-	-	-	783,248	1,636,522	21	313	556,903	87,361
Retail clients, Stage 1	-	-	-	-	-	-	94,858,459	102,844,525	1,235	3,422	2,781,837	4,035,663
Retail clients, Stage 2	-	-	-	-	-	-	28,183,859	16,258,888	25,473	17,976	1,927,441	600,726
Gross loans	69,758,834	67,572,925	109,529,196	109,210,970	77,546,507	42,245,498	312,977,209	306,131,547	174,765	238,165	230,822,911	220,478,776
Impairment allowance	3	2	72,397	79,515	9,371	4,014	5,480,132	4,186,986	368	329	776,555	183,244
Carrying value	69,758,831	67,572,923	109,456,799	109,131,455	77,537,136	42,241,484	307,497,077	301,944,561	174,397	237,836	230,046,356	220,295,532
Carrying value of rated assets	69,758,831	67,572,923	109,456,799	109,131,455	77,537,136	42,241,484	311,854,618	307,662,701	185,425	244,357	230,262,468	220,357,948
Carrying value of non-rated assets	-	-	1,535,672	2,791,886	-	-	-	-	1,345,232	820,820	-	-
Total carrying value	**69.758.831**	**67,572,923**	**110,992,471**	**111,923,341**	**77,537,136**	**42,241,484**	**311,854,618**	**307,662,701**	**1,530,657**	**1,065,177**	**230,262,468**	**220,357,948**

* 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 282,209 thousand (2021: RSD 264,171 thousand) and impairment allowance of RSD 3 thousand (2021: RSD 0 thousand)

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

4. FINANCIAL 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 primarily on the continued development of models for medium-sized legal entities, as well as software implementation, testing and launch of a new rating model for individuals launched in September 2021.

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 Group. The Bank'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. FINANCIAL 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 II PD at the reporting date. This Basel II PD is compared to the mid-PD of the whole rating class and based on that the cPD curve is shifted upwards or downwards.

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. FINANCIAL 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
- 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
- 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 IFRS9 requirement, the 1Year LGD parameters that 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.

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:

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Methodology for Calculation of Expected Credit Losses (Continued)

Name	Severity	Weight	Comment
Bl	-	60%	Baseline
Cont	downturn	40%	Contagion
Pos	upturn	0%	Positive
Avg	-	-	It has been created taking the weighted average of each delta among all the scenarios above. It has to be used only for Staging purposes.

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.

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 all the financial instruments. Deterioration of the probability of default (PD) is the key parameter underlying the quantitative criterion of the transfer logic. The following additional four qualitative criteria are applied after the said quantitative parameter:

- Forbearance status classification results in automatic classification to Stage 2 for the following 9 months (as from that status classification date). 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 exposure per transaction reaches 30 days past due, it should be classified into Stage 2;
- All performing exposures included in Watch List 2 should be classified into Stage 2;
- All performing exposures transferred to the remit of the Loan Restructuring and Workout departments are automatically classified into Stage 2.

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.

4. FINANCIAL 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)

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:

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.

Impact of COVID-19 on ECL

Due to the complexity of the impact of COVID-19 pandemic on citizens and the economy, the Bank has introduced certain measures and activities in order to adequately manage credit risk during 2020 and 2021 which means timely recognition of potential difficulties with debtors and taking appropriate steps. Regarding ECL calculation, the impact of COVID-19 has resulted in updates to the macroeconomic assumptions used in determining ECL (especially forward looking information). Macroeconomic information and assumptions relating to COVID-19 have been considered in ECL scenarios in a way to adjusted current PD and LGD parameters resulting in increased level of ECL (reflecting forecast of GDP, unemployment rate, interest rates, etc.).

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.

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Methodology for Calculation of Expected Credit Losses (Continued)

Impact of COVID-19 on ECL (continued)

Overview of loans and receivables subject of the guarantee scheme as of 31.12.2022 (continued)

		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).

Overview of loans and receivables subject of the guarantee scheme as of 31.12.2021 (continued)

		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	29,563,672	408,406	7,078,165	652,820
2	of which: Collateralized by residential immovable property	-			-
3	of which: Non-financial corporations	29,558,576	408,406	7,076,941	652,820
4	of which: Small and Medium-sized Enterprises	28,145,407			652,820
5	of which: Collateralized by commercial immovable property	824,996			-

* Loans and receivables from customers as of December 31, 2021 by the presented categories.
** Category shows increase in Non-performing exposures after new approval under guarantee scheme (as of December 31, 2021).

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

4. FINANCIAL 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, 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**
December 31, 2021										
Corporate clients, rating 10	-	-	-	-	253,827	61,924	8,879	912	-	-
Corporate clients, rating 9	-	-	-	-	-	-	-	-	-	-
Corporate clients, restructured loans	-	-	-	-	9,540,658	4,427,138	3,149	537	141,810	61,230
Retail clients, > 90 days past due	-	-	-	-	3,755,615	1,229,078	56,656	5,072	3,461	1,186
Total	**-**	**-**	**-**	**-**	**13,550,100**	**5,718,140**	**68,684**	**6,521**	**145,271**	**62,416**

The aging structure of matured and unimpaired loans as of December 31, 2022 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	2,180,813	460,670	43,733	178,655	2,863,871
Impairment allowance	(201,480)	(147,506)	(17,516)	(63,849)	(430,351)
Net carrying value	**1,979,333**	**313,164**	**26,217**	**114,806**	**2,433,520**

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

4. FINANCIAL 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, 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**

		Changes within the Stage					Transfers among Stages						
Stage	**January 1, 2021**	**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, 2021**
Stage 1	57,151,931	10,420,994	-	-	-	-	-	-			-	-	67,572,925
Stage 2	-	-	-	-	-	-			-	-	-	-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**57,151,931**	**10,420,994**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**67,572,925**

(ii) Pledged financial assets

		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. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

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

(ii) Pledged financial assets (continued)

		Changes within the Stage			Transfers among Stages								
Stage	January 1, 2021	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, 2021
Stage 1	-	-	-	-	-	-	-	-			-	-	-
Stage 2	-	-	-	-	-	-			-	-	-	-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

(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, 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**

		Changes within the Stage			Transfers among Stages								
Stage	January 1, 2021	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, 2021
Stage 1	100,749,619	46,441,924	(26,452,050)	-	-	-	-	-			(15,454,816)	3,926,293	109,210,970
Stage 2	-	-	-	-	-	-			-	-	-	-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**100,749,619**	**46,441,924**	**(26,452,050)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(15,454,816)**	**3,926,293**	**109,210,970**

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

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

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

		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**

		Changes within the Stage		Transfers among Stages including Repayments									
Stage	January 1, 2021	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, 2021
Stage 1	27,754,792	18,262,859	(3,947,508)	(573)	(573)	-	-	-			(93,333)	251,762	42,227,999
Stage 2	11,139	959	-	425	425	-			-	-	(32)	5,008	17,499
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Partial repayments				148	148	-	-	-	-	-			
Total	**27,765,931**	**18,263,818**	**(3,947,508)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(93,365)**	**256,770**	**42,245,498**

(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**

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

4. FINANCIAL 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, 2021	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, 2021
Stage 1	216,379,827	3,261,464	(24,244,832)	(2,622,358)	(13,987,480)	14,801,410	(3,705,039)	268,751			(55,490,562)	113,993,836	251,277,375
Stage 2	61,574,717	1,299,870	(3,376,209)	(6,835,410)	12,464,244	(16,835,746)			(2,677,487)	213,579	(18,971,604)	21,162,806	54,854,170
Stage 3	10,361,141	68,848	(961,384)	5,096,513			3,293,965	(373,633)	2,433,430	(257,249)	(1,728,737)	713,721	13,550,102
Partial repayments				4,361,255	1,523,236	2,034,336	411,074	104,882	244,057	43,670			
Total	**288,315,685**	**4,630,182**	**(28,582,425)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(76,190,903)**	**135,870,363**	**319,681,647**

(vi) Other assets

	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**

	Changes within the Stage				Transfers among Stages including Repayments								
Stage	January 1, 2021	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, 2021
Stage 1	1,223,467	38,352	(41,917)	(49,004)	(42,551)	353	(6,806)	-			(42,937)	37,901	1,165,862
Stage 2	14,995	-	(2,352)	93,390	97,269	(3,879)			-	-	(2,980)	54,967	158,020
Stage 3	11,125	202	(1,270)	11,016			11,016	-	-	-	(8,008)	54,893	67,958
Partial repayments				(55,402)	(54,718)	3,526	(4,210)	-	-	-			
Total	**1,249,587**	**38,554**	**(45,539)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(53,925)**	**147,761**	**1,391,840**

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

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

(i) Cash and balances held with the central bank

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

		Changes within the Stage			Transfers among Stages								
Stage	**January 1, 2021**	**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, 2021**
Stage 1	84	-	(82)	-	-	-	-	-			-	-	2
Stage 2	-	-	-	-	-	-			-	-	-	-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**84**	**-**	**(82)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2**

(ii) Pledged financial assets

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

		Changes within the Stage			Transfers among Stages								
Stage	**January 1, 2021**	**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, 2021**
Stage 1	-	-	-	-	-	-	-	-			-	-	-
Stage 2	-	-	-	-	-	-			-	-	-	-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**-**	**-**	-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-	**-**	**-**

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

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

(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, 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**

		Changes within the Stage					Transfers among Stages						
Stage	**January 1, 2021**	**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, 2021**
Stage 1	268,440	16,679	(172,381)	-	-	-	-	-			(36,117)	2,894	79,515
Stage 2	-	-	-	-	-	-			-	-	-	-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**268,440**	**16,679**	**(172,381)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(36,117)**	**2,894**	**79,515**

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

		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**

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

4. FINANCIAL 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, 2021	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, 2021
Stage 1	36,093	643	(33,917)	(4)	(4)	-	-	-			(89)	1,055	3,781
Stage 2	6	3	-	4	4	-			-	-	-	101	114
Stage 3	-	-	-	-	-		-	-	-	-	-	-	-
Total transfers				-	-	-	-	-	-	-			-
Change*				119	119	-	-	-	-	-			119
Total	**36,099**	**646**	**(33,917)**	**119**	**119**	**-**	**-**	**-**	**-**	**-**	**(89)**	**1,156**	**4,014**

(v) Loans and receivables due from customers

		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**

		Changes within the Stage			Transfers among Stages								
Stage	January 1, 2021	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, 2021
Stage 1	1,420,820	309,778	(306,335)	644,433	(152,315)	668,395	(81,768)	210,121			(266,666)	653,851	2,455,881
Stage 2	2,402,252	324,936	(177,662)	(779,359)	152,315	(668,395)			(383,043)	119,764	(491,367)	312,067	1,590,867
Stage 3	5,833,418	711,485	(652,712)	134,926			81,768	(210,121)	383,043	(119,764)	(1,164,650)	507,376	5,369,843
Total transfers				-	-	-	-	-	-	-	-	-	-
Change*				2,602,355	896,708	(510,433)	1,822,377	(201,424)	640,100	(44,973)	-	-	2,602,355
Total	**9,656,490**	**1,346,199**	**(1,136,709)**	**2,602,355**	**896,708**	**(510,433)**	**1,822,377**	**(201,424)**	**640,100**	**(44,973)**	**(1,922,683)**	**1,473,294**	**12,018,946**

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

4. FINANCIAL 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, 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**

		Changes within the Stage			Transfers among Stages								
Stage	**January 1, 2021**	**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, 2021**
Stage 1	21,747	-	(118)	(3,600)	(106)	22	(3,516)	-			(18,003)	32	58
Stage 2	68	-	(24)	84	106	(22)			-	-	(21)	275	382
Stage 3	10,223	302	(1,106)	3,516			3,516	-	-	-	(7,478)	49,866	55,323
Total transfers				-	-	-	-	-	-	-			-
Change*				6,729	198	(22)	6,553	-	-	-			6,729
Total	**32,038**	**302**	**(1,248)**	**6,729**	**198**	**(22)**	**6,553**	**-**	**-**	**-**	**(25,502)**	**50,173**	**62,492**

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. FINANCIAL 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. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Security Instruments - Collaterals
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	
	2022	2021	2022	2021	2022	2021
Corporate clients, rating 10	-	**-**	**4,465**	**76,195**	**137**	
Real estate	-	-	-	75,855	-	
Cash deposit	-	-	-	-	137	
Guarantee	-	-	4,465	340	-	
Pledge	-	-	-	-	-	
Other	-	-	-	-	-	
Corporate clients, rating 9	-	-	**-**	**-**	**-**	**-**
Real estate	-	-	-	-	-	-
Cash deposit	-	-	-	-	-	-
Guarantee	-	-	-	-	-	-
Pledge	-	-	-	-	-	-
Other	-	-	-	-	-	-
Corporate clients, restructured loans	-	**-**	**5,675,278**	**6,697,392**	**27,758**	**61,427**
Real estate	-	-	5,290,116	5,644,361	18,991	61,027
Cash deposit	-	-	179,705	126,288	8,767	400
Guarantee	-	-	149,304	821,296	-	-
Pledge	-	-	56,153	105,447	-	-
Other	-	-	-	-	-	-
Retail clients, > 90 days past due	-	**-**	**429,666**	**425,624**	**-**	**-**
Real estate	-	-	392,721	414,831	-	-
Cash deposit	-	-	5,281	186	-	-
Guarantee	-	-	31,664	10,607	-	-
Pledge	-	-	-	-	-	-
Other	-	-	-	-	-	-
Group-level impairment allowance based on collateral appraisal	**1,266**	**295,210**	**115,362,621**	**110,862,404**	**17,761,035**	**18,915,487**
Real estate	-	-	96,692,170	89,846,414	6,124,208	6,951,173
Cash deposit	-	293,935	2,741,287	3,914,158	5,245,716	4,921,100
Guarantee	1,266	1,275	12,957,068	13,781,267	6,358,446	6,787,427
Pledge	-	-	2,708,734	3,133,154	32,665	255,787
Other	-	-	263,362	187,411	-	-
Total	**1,266**	**295,210**	**121,472,030**	**118,061,615**	**17,788,930**	**18,976,914**

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

4. FINANCIAL 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 2022 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 taken into account in VaR analyses. The most important of these indicators are sensitivity analyses – BPV (Basis Point Value Sensitivity) and CPV (Credit Point Value Sensitivity).

During 2022, 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
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
2021				
Foreign exchange risk	540	1,441	4,634	157
Interest rate risk	633	2,956	5,601	633
Credit spread risk	3,070	14,208	31,876	2,650
Covariance	(951)	-	-	-
Total	3,292	14,595	34,459	3,041

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

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market Risks (Continued)

There were no strategic changes relating to liquidity and market risk management compared to 2021. 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). During 2022, the increased focus was on the simulation of indicators due to the Russian-Ukrainian conflict, as well as monitoring market trends and interventions in the local market.

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 particular 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.

	2022	2021
Foreign exchange risk ratio:		
- as at December 31	1.78	2.98
- maximum for the period – December	5.12	4.04
- minimum for the period – December	0.33	0.27

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

4. FINANCIAL 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 derivatives 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	(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

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market Risks (Continued)

Foreign Exchange (Currency) Risk (Continued)

The Bank's net currency position as at December 31, 2021:

	USD	EUR	CHF	Other currencies	RSD	Total
Cash and balances held with the central bank	167,190	32,197,297	163,048	143,607	34,901,781	67,572,923
Receivables under derivative financial instruments	-	671,133	-	-	81,491	752,624
Securities	-	18,066,958	-	-	93,856,383	111,923,341
Loans and receivables due from banks and other financial institutions	3,877,858	37,755,753	63,529	524,714	19,630	42,241,484
Loans and receivables due from customers	475,554	180,285,573	114,404	-	126,787,170	307,662,701
Receivables under derivative financial instruments designated as risk hedging instruments	-	9,493	-	-	-	9,493
Other assets	16,143	186,986	-	8	1,126,211	1,329,348
Total assets	**4,536,745**	**269,173,193**	**340,981**	**668,329**	**256,772,666**	**531,491,914**
Liabilities under derivative financial instruments	-	701,365	-	-	22,560	723,925
Deposits and other liabilities due to banks, other financial institutions and the central bank	88,324	92,998,313	3,108	827	26,839,034	119,929,606
Deposits and other liabilities due to customers	9,782,687	154,442,018	3,775,055	943,720	145,263,612	314,207,092
Liabilities under derivatives designated as risk hedging instruments	-	132,490	-	-	-	132,490
Other liabilities	152,983	3,747,838	10,724	35,470	10,999,070	14,946,085
Total liabilities	**10,023,994**	**252,022,024**	**3,788,887**	**980,017**	**183,124,276**	**449,939,198**
Off-balance sheet financial instruments	5,496,681	(19,167,005)	3,448,938	346,169	9,939,373	64,156
Net currency position as of December 31, 2021	**9,432**	**(2,015,836)**	**1,032**	**34,481**	**83,587,763**	**81,616,872**

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(d) Operational Risks

Operational risk is the risk of loss resulting from errors, breaches, interruptions or damages caused by internal processes, employees or systems or external events. Operational risk is defined as an event occurring as a result of inappropriate or unsuccessful internal processes, actions of employees and systems or systemic and other external events: internal or external embezzlement, employment practice and safety at work, receivables from clients, distribution of products, fines and penalties for injury, damage to property, disruption in operations and system errors and failures in the process management. Strategic risks, business risks and reputational risks differ from operational risks, while legal risk and compliance risk are included in the definition of operational risk.

Monitoring and managing of the operational risks is in the responsibility of the Risk Management (CRO) within Non-financial Risks. Decision making, management and reporting is done through Management Board while monitoring of mitigation actions as a result of 2nd level controls is performed through Non-financial risk committee (NFRC).

(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. FINANCIAL 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, taking into account 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 2022 were:
- the Bank's liquidity ratio and narrow liquidity ratio,
- the liquidity coverage ratio (LCR), and
- the net stable funding ratio (NSFR).

During 2022, 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 regulatory report, 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 on a daily basis.

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

4. FINANCIAL 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:

	2022	2021
The Bank's liquidity ratio		
- as at 31 December	2.00	1.98
- average for the period – December	1.98	1.99
- maximum for the period – December	2.10	2.15
- minimum for the period – December	1.89	1.86

	2022	2021
The Bank's narrow liquidity ratio		
- as at 31 December	1.27	1.73
- average for the period – December	1.32	1.45
- maximum for the period – December	1.44	1.73
- minimum for the period – December	1.19	1.31

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 on a monthly basis 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:

As at December 31	2022	2021
Liquidity buffer	145,269,360	121,061,671
Net outflows of liquid assets	92,669,549	74,965,955
LCR	157%	161%

The liquidity risk management system also defines specific limits that ensure that the liquidity reserves are high enough to cover even the intense stress periods. The liquidity risk stress test is carried out on a monthly basis and is based on the scenario analyses. If necessary, frequency of stress testing can be increased to weekly basis. The objective of the scenario analysis is testing of the 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. FINANCIAL RISK MANAGEMENT (Continued)

(e) Liquidity Risk (Continued)

Liquidity Coverage Ratio (LCR) (Continued)

In order 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.

Impact of Russian-Ukrainian conflict on the Bank's liquidity

With escalation of the crisis, in accordance with the Contingency Liquidity Policy, the Bank decided on March 10 to activate the attention phase, even though the Bank's liquidity position was stable and unchanged compared to the previous period. All indicators according to local and group regulations were at normal levels and within the defined target values and at a safe distance from the established limits throughout the year. The activation of the attention phase was implemented as a precautionary measure to ensure early identification of potential risks and higher flexibility in the management, monitoring and decision making process in case of any changes on the market that could affect liquidity situation in Banks.

Emergency 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 indicators, 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. FINANCIAL 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 derivatives 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**

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.

The structure of asset and liability maturities as at December 31, 2022 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, 2021, 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. The negative gap in the buckets from 1 to3 months and from 3 months to 1 year originates from potential outflows that may arise from off-balance positions, which are calculated using models. 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. FINANCIAL 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, 2021:

	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	67,572,923	-	-	-	-	67,572,923
Receivables under derivative financial instruments	-	-	752,624	-	-	752,624
Securities	1,846	601,947	11,030,754	58,972,937	41,315,857	111,923,341
Loans and receivables due from banks and other financial institutions	41,755,252	323,654	89,649	59,620	13,309	42,241,484
Loans and receivables due from customers	15,417,660	17,760,852	93,121,658	80,647,617	100,714,914	307,662,701
Receivables under derivative financial instruments designated as risk hedging instruments	-	-	9,493	-	-	9,493
Other assets	-	-	1,329,348	-	-	1,329,348
Total assets	**124,747,681**	**18,686,453**	**106,333,526**	**139,680,174**	**142,044,080**	**531,491,914**
Liabilities						
Liabilities under derivative financial instruments	-	-	723,925	-	-	723,925
Deposits and other liabilities due to banks, other financial institutions and the central bank	24,677,183	917,657	66,537,845	15,146,662	12,650,259	119,929,606
Deposits and other liabilities due to customers	279,227,184	1,834,531	20,813,017	6,646,886	5,685,474	314,207,092
Liabilities under derivatives designated as risk hedging instruments	-	-	132,490	-	-	132,490
Other liabilities	3,943,127	69,586	9,497,784	1,253,028	182,560	14,946,085
Total liabilities	**307,847,494**	**2,821,774**	**97,705,061**	**23,046,576**	**18,518,293**	**449,939,198**
Off-balance sheet items	5,333,457	6,594,065	11,522,720	-	-	23,450,242
Net liquidity gap as at December 31, 2021	**(188,433,270)**	**9,270,614**	**(2,894,255)**	**116,633,598**	**123,525,787**	**58,102,474**

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

4. FINANCIAL 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	189,234,762	545,555	25,864,893	-	-	215,645,210
FX derivative financial instruments – pay side	189,151,341	539,715	25,865,240	-	-	215,556,296
Net maturity gap as at December 31, 2022	**83,421**	**5,840**	**(347)**	**-**	**-**	**88,914**

	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	29,141,616	190,102	4,166,596	427,990	-	33,926,304
FX derivative financial instruments – pay side	29,098,857	190,090	4,152,119	426,348	-	33,867,414
Net maturity gap as at December 31, 2021	**42,759**	**12**	**14,477**	**1,642**	-	**58,890**

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. FINANCIAL 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.

	2022	2021
EUR FX Gap >1Y		
Liabilities in time baskets >1Y	135,697,466	136,700,140
Receivables in time baskets >1Y	167,795,543	124,704,716
Trigger (max)	(76,259,560)	(17,637,315)
FX Gap	**(32,098,077)**	**11,995,424**

	2022	2021
Other FX Gap >1Y		
Liabilities in time baskets >1Y	-	10,245,759
Receivables in time baskets >1Y	103,837	90,725
Trigger (max)	(12,905,464)	(2,351,642)
FX Gap	**(103,837)**	**10,155,034**

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.

Up to June 2022, structural FX gap was calculated based on Structural Liquidity Gap which was based on contractual approach. As of June 2022, 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.

(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. FINANCIAL 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. FINANCIAL 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 a current or future risk of falling profits as a result of the negative perception of the Bank's image by clients, contracting parties, shareholders, investors or the regulator.

In order to adequately organize the risk management process and clearly segregate the responsibilities of the employees within the Risk Management, as well as define and implement risk mitigation measures in this area, the Bank has adopted and implemented policies and other subordinate bylaws.

(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 and or slope;
- 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. FINANCIAL 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 2022:

- 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, the 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 to increases or decreases in the 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
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)
2021		
As at December 31	(246,246)	(247,927)
Average for the year	(30,331)	(921,490)
Maximum for the year	1,564,277	707,931
Minimum for the year	(1,172,994)	(3,124,315)

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

4. FINANCIAL 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. FINANCIAL RISK MANAGEMENT (Continued)

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

The Bank's exposure to interest rate changes as at December 31, 2021 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	67,572,923	25,629,593	-	-	-	-	41,943,330
Receivables under derivative financial instruments	752,624	-	-	-	-	-	752,624
Securities	111,923,341	13,075	20,663	10,465,653	60,201,939	41,222,011	-
Loans and receivables due from banks and other financial institutions	42,241,484	37,251,986	102	515,868	775	-	4,472,753
Loans and receivables due from customers	307,662,701	2,569,916	59,767,232	227,529,585	3,882,695	11,616,629	2,296,644
Receivables under derivative financial instruments designated as risk hedging instruments	9,493	-	-	-	-	-	9,493
Other assets	1,329,348	-	-	-	-	-	1,329,348
Total assets	**531,491,914**	**65,464,570**	**59,787,997**	**238,511,106**	**64,085,409**	**52,838,640**	**50,804,192**
Liabilities under derivative financial instruments	723,925	-	-	-	-	-	723,925
Deposits and other liabilities due to banks, other financial institutions and the central bank	119,929,606	20,586,452	10,790,013	74,575,553	5,952,105	-	8,025,483
Deposits and other liabilities due to customers	314,207,092	38,489,753	12,605,181	14,455,655	2,786,424	-	245,870,079
Liabilities under derivatives designated as risk hedging instruments	132,490	-	-	-	-	-	132,490
Other liabilities	14,946,085	-	-	-	-	-	14,946,085
Total liabilities	**449,939,198**	**59,076,205**	**23,395,194**	**89,031,208**	**8,738,529**	**-**	**269,698,062**
Net interest rate risk exposure at December 31, 2021	**81,552,716**	**6,388,365**	**36,392,803**	**149,479,898**	**55,346,880**	**52,838,640**	**(218,893,870)**

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

4. FINANCIAL 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, 2022 The effect of a parallel change in the interest rate by 1 bp	December 31, 2021 The effect of a parallel change in the interest rate by 1 bp
RSD	(12,246)	(17,305)
EUR	12,763	17,955
USD	126	67
GBP	6	-
CHF	(28)	(42)
Other currencies	-	-
Total effect*	**25,169**	**35,369**

* 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 2022 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.

(l) Climate and environmental risk

Climate and environmental risk is derived from climate and environmental degradation which are sources of structural changes that affect economic activity. It is split in two main risk drivers: physical risk (refers to the financial impact of a changing climate, including more frequent extreme weather events and gradual changes in climate, as well as of environmental degradation) and transition risk (refers to an institution's financial loss that can result, directly or indirectly, from the process of adjustment towards a lower-carbon and more environmentally sustainable economy).

The UniCredit Bank ESG strategy shows that embedding sustainability in all that we do is one of the imperatives for the following period. The ESG Strategy is rooted in the Bank's principles and beliefs across the Environmental, Social and Governance dimensions, based on clear business goals and key strategic actions across three blocks, ensuring deliverables through transparent enablers.

In addition ESG strategy is defining specific activities related to:
- Governance process including adoption of group policies and procedures as well as development of local policies and procedures
- Implementation of projects initiated by the group related to Net Zero commitment and Climate Risk (UniCredit Group joined the Net-Zero Banking Alliance committing to achieve Net Zero greenhouse gas emissions from our operations by 2030 and from our financing portfolio by 2050.)
- Development of financial products related to Green and Social financing
- Set of social activities (Financial education, Voluntary club, cooperation with Belgrade University)

4. FINANCIAL RISK MANAGEMENT (Continued)

(l) Climate and environmental risk (continued)

Climate & Environmental risk assessment

In order to integrate climate and environmental risks in business strategy, correctly take them into account through all stages of the credit-granting process and monitor this kind of risk in credit portfolio, the Group has designed a Climate and Environmental Risk Assessment Questionnaire to determine clients' position on the transition pathway. The questionnaire has been designed to assess transition risk exposure along three key dimensions: level of current exposure, level of future vulnerability and economic impact. Currently mentioned questionnaire is used for specific group of clients.

In addition, taking into account future expectations related to Net Zero alliance signed also by UniCredit Group, the Bank realized the importance of data related to the emission of harmful gases by clients. The Bank has initiated project which would result in prediction of CO2 emission by industries and clients in portfolio. The aim of this project is related to future target setting in line with Net Zero commitment.

(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 2022, 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. FINANCIAL 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. FINANCIAL 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.

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, 2022, 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.

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, 2022, 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.

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(n) Capital Management (Continued)

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, 2022, the Bank had no supplementary Tier 2 capital.

The following table presents the Bank's balance of capital and total risk-weighted assets as of December 31, 2022 and 2021:

	2022	2021
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	97,641	317,947
(-) Unrealized losses	(1,618,333)	(114,248)
Other reserves	53,740,761	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	753,562	69,026
(-) Intangible assets, including goodwill, decreased for the amount of deferred tax liabilities)	(2,451,769)	(2,545,479)
(-) 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	(88,445)	(87,713)
(-) 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:	(503,739)	(147,482)
of which (-) whose contractual maturity is longer than 2920 days – if these loans are approved in period from January 1 to December 31 2019	(38,887)	(57,275)
of which (-) whose contractual maturity is longer than 2920 days – if these loans are approved in period from January 1 to December 31 2021	(25,398)	(37,358)
of which (-) whose contractual maturity is longer than 2190 days – if these loans are approved in period from January 1 to December 31 2022	(439,454)	(52,849)
Total common equity Tier 1 capital - CET1	**74,099,454**	**75,402,588**
Additional Tier 1 capital - AT1	-	-
Total core Tier 1 capital - T1 (CET1 + AT1)	**74,099,454**	**75,402,588**
Supplementary capital - T2	-	-
Total regulatory capital (T1 + T2)	**74,099,454**	**75,402,588**

In both 2022 and 2021 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.

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

The 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)

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. Due to the fact that 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:

2022	Note	Level 1	Level 2	Level 3	Total
Receivables under derivatives	22	-	2,807,888	861	2,808,749
Receivables under derivatives designated as risk hedging	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 (Eurobonds) and listed in EU Stock Exchanges
** Securities at FVtOCI – Level 3 include municipal bonds for which there are no quatations and other observable market parameters for its evaluation

2021	Note	Level 1	Level 2	Level 3	Total
Receivables under derivatives	22	-	752,624	-	752,624
Receivables under derivatives designated as risk hedging	26		9,493	-	9,493
Securities					
- at FVtPL	23	522,382*	2,269,504	-	2,791,886
- at FVtOCI	23	24,935,338*	47,292,312	730,454**	72,958,104
		25,457,720	**50,323,933**	**730,454**	**76,512,107**
Liabilities under derivatives	32	-	723,925	-	723,925
Liabilities per derivatives designated as risk hedging instruments	26	-	132,490	-	132,490
		-	**856,415**	**-**	**856,415**

* 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 and RSD treasury bills (benchmark securities) as highly liquid assets.
** In 2021 municipal bond measured at FVtOCI has been transferred from Level 2 to Level 3 due to the lack of quotations and other observable market parameters for its evaluation.

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

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

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

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

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**

2021.	Note	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value
Cash and balances held with the central bank	20	-	67,572,923	-	67,572,923	67,572,923
Securities						
- securities measured at amortized cost (AC)	23	30,934,871	5,204,742	33,796	36,173,409	36,173,351
Loans and receivables due from banks and other financial institutions	24	-	-	42,238,803	42,238,803	42,241,484
Loans and receivables due from customers	25	-	-	310,547,068	310,547,068	307,662,701
Other assets	31	-	-	1,329,348	1,329,348	1,329,348
		30,934,871	**72,777,665**	**354,149,015**	**457,861,551**	**454,979,807**
Deposits and other liabilities due to banks, other financial institutions and the central bank	33	-	-	120,934,198	120,934,198	119,929,606
Deposits and other liabilities due to customers	34	-	-	314,320,425	314,320,425	314,207,092
Other liabilities	38	-	-	14,946,085	14,946,085	14,946,085
		-	**-**	**450,200,708**	**450,200,708**	**449,082,783**

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 are highly liquid or having 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, for highly liquid assets, no significant market changes will occur that can affect the fair value. This assumption is also applied to demand deposits, savings accounts without specified maturity and all variable interest rate financial instruments.

(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:

	2022	2021
Interest income from		
Cash and balances held with the central bank	317,897	66,746
Securities at fair value through profit or loss	72,144	138,164
Securities at fair value through OCI	1,924,912	2,664,350
Securities at amortized cost	1,276,752	661,811
Loans and receivables due from banks and other financial institutions	519,259	41,539
Loans and receivables due from customers	14,234,365	10,994,143
Total interest income using effective interest rate	**18,345,329**	**14,566,753**
Receivables under derivative financial instruments	365,539	362,230
Financial derivatives and assets held for risk hedging purposes	438,215	182,013
Total interest income	**19,149,083**	**15,110,996**
Interest expenses from		
Liabilities under derivative financial instruments	(459,516)	(362,231)
Liabilities per financial derivatives designated as risk hedging instruments	(168,739)	(64,697)
Deposits and other liabilities due to banks, other financial institutions and the central bank	(1,887,911)	(1,155,537)
Deposits and other liabilities due to customers	(1,354,767)	(499,687)
Lease liabilities	(40,201)	(43,072)
Total interest expenses	**(3,911,134)**	(2,125,224)
Net interest income	**15,237,949**	**12,985,772**

In accordance with the Bank's accounting policy 3 (d), interest income from non-performing impaired loans amounted to RSD 284,287 thousand in 2022 (2021: RSD 265,877 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	
	2022	2021	2022	2021	2022	2021
Fee and commission income						
Payment transfer activities	446,598	363,829	1,917,412	1,610,172	2,364,010	1,974,001
Fees related loans	106,874	147,192	362,336	470,090	469,210	617,282
Fees arising from card operations	526,684	395,182	1,702,083	1,319,310	2,228,767	1,714,492
Maintaining of current accounts	585,697	464,067	190,417	131,603	776,114	595,670
Brokerage fees	-	-	1,045	13,869	1,045	13,869
Custody fees	122	36	344,932	453,472	345,054	453,508
Fee on foreign exchange purchases/sales and foreign cash transactions	352,066	193,458	3,291,347	1,953,798	3,643,413	2,147,256
Other fees and commissions	139,330	136,755	298,251	208,822	437,581	345,577
Total fee and commission income from contracts with customers	2,157,371	1,700,519	8,107,823	6,161,136	10,265,194	7,861,655
Fees on issued guarantees and other contingent liabilities	2,762	2,432	985,160	826,370	987,922	828,802
Total fee and commission income	2,160,133	1,702,951	9,092,983	6,987,506	11,253,116	8,690,457
Fee and commission expenses						
Payment transfer activities	-	-	(494,491)	(297,321)	(494,491)	(297,321)
Fees arising from card operations	-	-	(1,833,805)	(1,419,009)	(1,833,805)	(1,419,009)
Fees arising on guarantees, sureties and letters of credit	-	-	(13,117)	(12,927)	(13,117)	(12,927)
Fee arising on on foreign exchange purchases/sales and foreign cash transactions	(35,614)	(6,211)	(1,443,173)	(504,621)	(1,478,787)	(510,832)
Other fees and commissions	-	-	(127,071)	(131,088)	(127,071)	(131,088)
Total fee and commission expenses	(35,614)	(6,211)	(3,911,657)	(2,364,966)	(3,947,271)	(2,371,177)
Net fee and commission income	**2,124,519**	**1,696,740**	**5,181,326**	**4,622,540**	**7,305,845**	**6,319,280**

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:

	2022	2021
Net gains on the changes in the fair value of derivatives at FVtPL	685,902	361,832
Net gains/(losses) on the changes in the fair value of securities at FVtPL	2,698	(13,809)
Net gains on the changes in the fair value of financial instruments	**688,600**	**348,023**

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:

	2022	2021
Net gains on derecognition of securities measured at FVtOCI	21,794	710,534
Net (losses)/gains on derecognition of securities measured at FVtPL	(87,649)	44,213
Net (losses)/gains on derecognition of financial assets measured at fair value	**(65,855)**	**754,747**

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:

	2022	2021
Foreign exchange gains and positive currency clause effects	26,944,822	9,965,398
Foreign exchange losses and negative currency clause effects	(27,170,701)	(10,195,214)
Net foreign exchange losses	**(225,879)**	**(229,816)**

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:

	2022	2021
Loans and receivables due from customers		
Net increase in individual impairment allowance	(161,827)	(1,488,302)
Net increase in collectively assessed impairment	(2,636,403)	(1,740,288)
	(2,798,230)	(3,228,590)
Net decrease in impairment charge per securities measured at FVtOCI	3,641	112,493
Contingent liabilities		
Net (increase)/decrease in individual impairment allowance (Note 36.2)	(284,009)	21,383
Net (increase)/decrease in collectively assessed impairment (Note 36.2)	(597,470)	52,081
	(881,479)	73,464
Gains on modification	26,386	61,006
Write-offs	(5,754)	(5,243)
Recovery of the receivables previously written off	326,476	339,375
Total net losses	**(3,328,960)**	**(2,647,495)**

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

Net gains on derecognition of financial assets measured at amortized cost include:

	2022	2021
Gains on the sales of placements measured at amortized cost	35,056	31,264
Total net gains	**35,056**	**31,264**

14. OTHER OPERATING INCOME

Other operating income includes:

	2022	2021
Rental income, reimbursement and other operating income	53,869	60,101
Total other operating income	**53,869**	**60,101**

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:

	2022	2021
Employee salaries, net	(2,235,634)	(2,099,555)
Payroll taxes and contributions	(875,830)	(807,464)
Net expenses per provisions for employee retirement benefits and unused annual leaves	(18,631)	(33,496)
Other personnel expenses	(417,884)	(442,365)
Total personnel expenses	**(3,547,979)**	**(3,382,880)**

16. DEPRECIATION/AMORTIZATION CHARGE

Depreciation/amortization charge includes:

	2022	2021
Amortization charge for intangible assets (Notes 28.2; 28.3)	(598,004)	(513,525)
Depreciation charge for property, plant and equipment (Notes 29.2; 29.3)	(276,933)	(258,548)
Depreciation charge for right-of-use assets (Note 29.5, 29.6)	(470,838)	(457,109)
Total depreciation/amortization charge	**(1,345,775)**	**(1,229,182)**

17. OTHER INCOME

Other income includes:

	2022	2021
Reversal of provisions for litigations (Note 36.2)	432,406	39,907
Gains on the valuation of investment property	3,761	-
Gains on the valuation of tangible assets	27,121	20,465
Other income	265,372	113,713
Total other income	**728,660**	**174,085**

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:

	2022	2021
Business premises costs	(139,656)	(111,656)
Office and other supplies	(73,983)	(54,320)
Rental costs (Note 18.2)	(381,953)	(370,026)
Information system maintenance	(1,081,453)	(1,026,745)
Property and equipment maintenance	(86,155)	(80,758)
Marketing, advertising, entertainment, culture and donations	(210,347)	(137,180)
Lawyer fees, other consultant and research services and auditing fees	(226,533)	(411,036)
Telecommunications and postage services	(96,858)	(138,163)
Insurance premiums	(848,407)	(777,356)
Security services – for property and money transport and handling	(182,405)	(152,309)
Professional training costs	(27,876)	(25,519)
Servicing costs	(127,273)	(97,365)
Transportation services	(6,739)	(2,711)
Employee commuting allowances	(36,948)	(30,519)
Accommodation and meal allowances – business travel costs	(18,133)	(6,410)
Other taxes and contributions	(552,048)	(519,901)
Provisions for litigations (Note 36.2)	(1,587,398)	(2,348,950)
Losses on the valuation of investment property	(14)	-
Losses on the valuation of tangible assets	(614)	(50)
Losses on disposal, retirement and impairment of property, equipment and intangible assets	-	(8,281)
Other costs	(635,967)	(569,915)
Total other expenses	**(6,320,760)**	**(6,869,170)**

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

18.2 Rental costs of RSD 381,953 thousand incurred in 2022 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:

	2022	2021
Rental cost per leases with low-value underlying assets	(148,560)	(147,554)
Rental costs per short-term leases	(9,647)	(8,910)
VAT payable per leases recognized in accordance with IFRS 16	(78,269)	(74,935)
Assets not identifiable in accordance with IFRS 16	(143,646)	(137,885)
Variable lease payments	(1,036)	(742)
Other	(795)	-
Total	**(381,953)**	**(370,026)**

19. INCOME TAXES

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

	2022	2021
Current income tax expense	(948,669)	(674,504)
Increase in deferred tax assets and decrease in deferred tax liabilities	94,847	242,168
Total	**(853,822)**	**(432,336)**

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:

	2022	2021
Profit before taxes	9,232,104	6,308,225
Income tax at the legally prescribed tax rate of 15%	(1,384,816)	(946,234)
Tax effects of permanent differences:		
Tax effects of expenses not recognized for tax purposes	(15,261)	(30,750)
Tax effects of income adjustment relate to interest on debt securities issued by RS	548,609	545,771
Tax effects of temporary differences:		
Tax effects of first application of IFRS9	13,662	13,662
Differences in amortization for tax and accounting purposes	(7,351)	(24,861)
Tax effects of IAS19	(1,229)	(2,836)
Tax effects of losses which will be recognized in future periods	(248,849)	(270,966)
Tax effects of reductions of current tax according to legal regulations and IFRS application	146,566	41,710
Effects of temporary differences	94,847	242,168
Tax effects presented in the income statement	**(853,822)**	**(432,336)**
Effective tax rate	**9.25%**	**6.85%**

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

	2022			2021		
	Before taxes	Tax expense	After taxes	Before taxes	Tax expense	After taxes
Losses on the change in the fair value of debt instruments at FVtOCI	(3,596,846)	539,527	(3,057,319)	(3,097,587)	464,638	(2,632,949)
Increase in revaluation reserves based on intangible assets and fixed assets (Notes 40.3)	45,454	(6,818)	38,636	4,774	(716)	4,058
Actuarial(losses)/gains	23,487	(3,523)	19,964	(5,418)	812	(4,606)
Losses on cash flow hedging instruments	(805,337)	120,801	(684,536)	(81,207)	12,181	(69,026)
Balance at December 31	**(4,333,242)**	**649,987**	**(3,683,255)**	**(3,179,438)**	**476,915**	**(2,702,523)**

19.4 The calculated current income tax payable for the year 2022 amounted to RSD 948,669 thousand (for 2021: RSD 674,504 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, 2022, the Bank reported current tax liabilities in the amount of RSD 292,139 thousand (for 2021: current tax assets of RSD 61,747 thousand).

20. CASH AND BALANCES HELD WITH THE CENTRAL BANK

20.1 Cash and balances held with the central bank include:

	2022	2021
RSD cash on hand	5,421,415	4,446,621
Gyro account balance	28,634,728	30,454,163
Foreign currency cash on hand	2,831,588	1,567,279
Other foreign currency cash funds	49,609	35,344
Obligatory foreign currency reserve held with NBS	32,821,494	31,069,518
	69,758,834	67,572,925
Impairment allowance	(3)	(2)
Balance at December 31	**69,758,831**	**67,572,923**

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

20. CASH AND BALANCES HELD WITH THE CENTRAL BANK (continued)

The gyro account balance includes the RSD required reserves, which represent the minimum amount of RSD reserves allocated in accordance with the Decision on Required Reserves Held with the NBS. In accordance with the said Decision, the required RSD reserves are calculated based on the average daily carrying amount of RSD deposits, loans, securities and other RSD liabilities during a single calendar month, using a rate in the range between 0% and 5%, depending on the maturity of liabilities and their sources of funding. Bank is obliged to keep the average daily balance of allocated dinar reserves at the level of the calculated dinar reserve requirements. During 2022 NBS paid interest on the balance of the Bank's obligatory RSD reserve at interest rate of: 0.10% per year until April 17th, at the rate of 0.25% per year from April 18th to May 17th, at the rate of 0.50% per year in period from May 18th to June 17th, at the rate of 0.75% per year from June 18th to 17th December.

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 represent 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 remained unaltered during 2022 and equaled 20% for foreign currency liabilities with maturities of up to 2 years and 13% for foreign currency liabilities with maturities of over 2 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	
	2022	2021	2022	2021
Balance at January 1	-	-	(2)	(84)
Impairment losses:				
(Charge)/reversal for the year	-	-	(1)	82
Total for the year	-	-	(1)	82
Balance at December 31	**-**	**-**	**(3)**	**(2)**

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

21. 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. As of 31 December 2021, the Bank does not have pledged financial assets.

	2022	2021
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:

	2022	2021
Receivables per forward revaluation and currency swaps	24,169	81,491
Receivables per interest rate swaps	2,765,798	631,878
Receivables per interest rate options	18,782	39,255
Balance at December 31	**2,808,749**	**752,624**

23. SECURITIES

23.1 Securities include:

	2022	2021
Securities measured at amortized cost	42,915,030	36,199,498
Securities measured at fair value through OCI	59,388,886	73,011,472
Securities measured at fair value through profit or loss	1,535,672	2,791,886
Total	103,839,588	112,002,856
Impairment allowance	(67,707)	(79,515)
Balance at December 31	**103,771,881**	**111,923,341**

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	
	2022	2021	2022	2021
Balance at January 1	-	-	(79,515)	(268,440)
Impairment losses:				
Reversal for the year	-	-	4,391	114,010
Foreign exchange effects	-	-	20	(49)
Effects of the sales of securities	-	-	7,397	74,964
Total for the year	-	-	11,808	188,925
Balance at December 31	**-**	**-**	**(67,707)**	**(79,515)**

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

	Measurement	2022	2021
Receivables discounted bills of exchange	AC	54,275	33,738
Treasury bills issued by the Republic of Serbia	AC	37,950,434	36,139,613
	FVtOCI	50,813,433	66,027,993
	FVtPL	1,535,672	2,791,886
Treasury bills of the Republic of Serbia and municipal bonds – hedged items	FVtOCI	8,533,139	6,930,111
	AC	4,884,928	-
Balance at December 31		**103,771,881**	**111,923,341**

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

23. SECURITIES (Continued)

As of December 31, 2022, the Bank's receivables per discounted bills of exchange of RSD 54,275 thousand represent investments with maturities of up to a year and at a discount rate equal to 1-month BELIBOR plus 2% to 3.5% per annum and 1-month BEONIA plus 3.5% per annum.

As of December 31, 2022, the Bank's securities measured at amortized cost of RSD 37,950,434 thousand refer to the investments in the Treasury bills issued by the Republic of Serbia maturing up to 2032.

As of December 31, 2022, the Bank's securities measured at fair value through other comprehensive income of RSD 50,813,433 thousand pertain to the investments in the Treasury bills issued by the Republic of Serbia maturing up to 2032.

As of December 31, 2022, the Bank's securities measured at fair value through profit or loss of RSD 1,535,672 thousand pertain to the investments in the Treasury bills issued by the Republic of Serbia maturing up to 2032.

As of December 31, 2022, the Bank's securities measured at fair value through other comprehensive income totaling RSD 8,533,139 thousand refer to the investments in the local governance (municipal) bonds as hedging items maturing up to 2023 and 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 4,884,928 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:

	2022	2021
Foreign currency accounts held with:		
- other banks within UniCredit Group	1,266,240	32,146,962
- other foreign banks	917,833	9,538,776
- Central Bank	1,810	22,826
Total foreign currency accounts	2,185,883	41,708,564
Overnight deposits:		
- in foreign currency	22,528,297	-
Total overnight deposits	22,528,297	-
Guarantee foreign currency deposit placed for purchase and sale of securities	4,693	4,703
Foreign currency short term deposits	15,466,107	-
Foreign currency earmarked deposits	12,791	12,068
Short-term loans:		
- in RSD	66,401	12,540
Total short-term loans	66,401	12,540
Long-term loans:		
- in RSD	2,266,075	507,623
Total long-term loans	2,266,075	507,623
REPO with NBS in RSD	35,016,260	-
Total	77,546,507	42,245,498
Impairment allowance	(9,371)	(4,014)
Balance at December 31	**77,537,136**	**42,241,484**

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	
	2022	2021	2022	2021
Balance at January 1	-	-	(4,014)	(36,099)
Impairment losses:				
(Charge for the year)/reversal	-	-	(5,695)	32,244
Foreign exchange effects	-	-	338	(172)
Write-off without debt acquittal	-	-	-	13
Total for the year	-	-	(5,357)	32,085
Balance at December 31	**-**	**-**	**(9,371)**	**(4,014)**

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

	2022	2021
UniCredit Bank Austria AG, Vienna	493,423	309,231
UniCredit Bank AG, Munich	22,879	15,878
UniCredit Bank Hungary Z.r.t., Hungary	12,217	9,882
UniCredit Bank Czech Republic and Slovakia A.S.	321	261
UniCredit S.P.A. Milan	733,550	31,647,616
Zagrebačka banka d.d.	231	1,183
UniCredit Bank BIH	1,965	2,474
UniCredit Bank ZAO Moscow	1,654	160,437
Balance at December 31	**1,266,240**	**32,146,962**

25. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

25.1 Loans and receivables due from customers include:

	2022	2021
Short-term loans:		
- in RSD	46,499,704	40,420,193
- in foreign currencies	269,682	104,787
Total short-term loans	46,769,386	40,524,980
Long-term loans:		
- in RSD	265,084,725	272,093,149
- in foreign currencies	12,341,449	6,225,948
Total long-term loans	277,426,174	278,319,097
RSD factoring receivables	1,239,774	837,570
Other RSD loans and receivables	365	-
Total	325,435,699	319,681,647
Impairment allowance	(13,581,081)	(12,018,946)
Balance at December 31	**311,854,618**	**307,662,701**

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	
	2022	2021	2022	2021
Balance at January 1	(5,252,897)	(4,051,629)	(6,766,049)	(5,604,861)
Impairment losses:				
Charge for the year	(322,139)	(1,579,435)	(2,602,515)	(1,723,069)
Foreign exchange effects	8,201	(234)	1,374	(1,435)
Unwinding (time value)	-	6,165	13,789	572
Effects of the portfolio sales	85,564	47	-	-
Write-off with debt acquittal	1,327	586	2,931	9,077
Write-off without debt acquittal*	360,239	371,603	889,094	553,667
Total for the year	133,192	(1,201,268)	(1,695,327)	(1,161,188)
Balance at December 31	**(5,119,705)**	**(5,252,897)**	**(8,461,376)**	**(6,766,049)**

*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:

	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**

	2021		
	Gross Amount	Impairment Allowance	Carrying Amount
Public sector	11,006,289	(56,358)	10,949,931
Corporate customers	206,779,476	(6,880,143)	199,899,333
Retail customers	101,895,882	(5,082,445)	96,813,437
Balance at December 31	**319,681,647**	**(12,018,946)**	**307,662,701**

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 2.76%, on the average, while RSD short-term loans accrued interest at the rates between 1-month, 3-month or 6-month BELIBOR increased by 3.07% 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 3.17% 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 1.96% annually on the average, in line with the other costs and the Bank's interest rate policy.

In its product mix, the Bank has housing loans at fixed, variable and combined interest rates. Retail housing loans were approved for periods of 5 to 30 years, at the nominal interest rates ranging from 6-month EURIBOR plus 2.55% annually for loans at variable rates, while the fixed interest rates ranged from 2.35% to 6.95% per annum.

During 2022, the Bank initiated several offers in which clients had the opportunity to apply for cash loans with a repayment period of up to 71 months, with variable and fixed interest rates, thus responding to customer needs when it comes to interest rate variability for this type of loans. Interest rates on cash loans at variable interest rates ranged from 3-month BELIBOR increased by 0.3% to 9.91% annually. While those applied to cash loans at fixed interest rates were in the range between 5.5% and 14.10% annually.

In 2022, interest rates applied to investment foreign currency funding of small entities and entrepreneurs equaled 6-month or 12-month EURIBOR plus 3.4% to 5.5% per annum, or,. interest rates applied to RSD investments loans were in the range between 1-month or 3-month BELIBOR increased by 3.06% to 6.10% annually, or, in instances of fixed-rate loans, from 3.00% to 7.25% annually.

Interest rates applicable to loans for financing of the working and permanent working capital were set in the range from 6-month/12-month EURIBOR plus 1.70% to 7.00% annually. Annual interest rates on RSD working capital loans equaled 1-month or 3-month BELIBOR plus 1.23% to 7.41% or ranged from 3.50% to 14.2% if fixed.

During 2021, 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)

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

25. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

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

	2022	2021
Corporate customers		
- Energy	15,716,867	11,661,724
- Agriculture	5,042,655	7,680,333
- Construction industry	24,601,269	26,774,564
- Mining and industry	47,155,814	53,146,566
- Trade	43,582,536	41,021,481
- Services	32,757,214	28,296,640
- Transportation and logistics	25,903,660	31,416,336
- Other	10,511,835	6,781,832
	205,271,850	206,779,476
Public sector	12,573,242	11,006,289
Retail customers		
- Private individuals	100,631,461	95,655,605
- Entrepreneurs	6,959,146	6,240,277
	107,590,607	101,895,882
Total	**325,435,699**	**319,681,647**
Impairment allowance	(13,581,081)	(12,018,946)
Balance at December 31	**311,854,618**	**307,662,701**

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

	2022	2021
- Overdrafts	589,418	583,746
- Consumer loans	322,852	475,190
- Working capital loans	578,203	481,978
- Investment loans	3,419,038	2,793,787
- Mortgage loans	40,884,279	38,155,568
- Cash loans	53,775,954	52,344,722
- Credit cards	1,061,717	820,614
Total	**100,631,461**	**95,655,605**

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, the Bank controls credit risk through regular analysis of borrowers and potential borrowers solvency to determine their ability to meet interest and principal repayment obligations and by changing the limits set for a single borrower, as appropriate. Exposure to credit risk is also partially managed by obtaining collaterals.

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

26. HEDGE ACCOUNTING

Net gains/(losses) on risk hedging include:

	2022	2021
Net losses on the change in the value of hedged loans, receivables and securities	(1,146,250)	(76,189)
Net gains on the change in the value of derivatives designated as risk hedging instruments	1,163,583	69,685
Net gains/(losses) on risk hedging	**17,333**	**(6,504)**

26.1 Fair value hedge

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

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

	Maturity 2022			Maturity 2021		
	Less than 1 year	1-5 years	More than 5 years	Less than 1 year	1-5 years	More than 5 years
Nominal amount	340,235	12,107,671	2,581,093	4,703,284	681,976	1,410,985
Average fixed interest rate	2.51%	1.67%	0.34%	0.23%	2.51%	0.03%

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

Instrument	Line item in the statement of financial position	2022 Nominal amount	2022 Carrying amount Assets	2022 Carrying amount Liabilities	2021 Nominal amount	2021 Carrying amount Assets	2021 Carrying amount Liabilities
Interest rate swap	Receivables under derivatives designated as risk hedging instruments	14,207,742	1,083,998	-	1,410,985	9,493	-
Interest rate swap	Liabilities under derivatives designated as risk hedging instruments	821,257	-	76,888	5,385,260	-	52,461

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 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)	-	-

The amounts relating to items designated as hedged items and hedge effectiveness at 31 December 2021 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	6,930,111	(31,291)	26,616	(6,504)	26,616	-	1,956

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

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

	Maturity 2022			Maturity 2021		
	Less than 1 year	1-5 years	More than 5 years	Less than 1 year	1-5 years	More than 5 years
Nominal amount	-	-	3,953,765	-	-	3,962,517
Average fixed interest rate	-	-	0.01%	-	-	0.01%

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

		2022			2021		
Instrument	Line item in the statement of financial position	Nominal amount	Carrying amount		Nominal amount	Carrying amount	
			Assets	Liabilities		Assets	Liabilities
Interest rate swap	Liabilities under derivatives designated as risk hedging instruments	3,953,765	-	847,756	3,962,517	-	80,029

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 2022 were as follows:

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

The amounts relating to items designated as hedged items and hedge effectiveness at 31 December 2021 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	(81,207)	82,416	-	(81,207)	-

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:

	2022	2021
UniCredit Leasing Srbija d.o.o.	-	-
UniCredit Partner d.o.o.	112,644	112,644
	112,644	112,644
Impairment allowance	-	-
Balance at December 31	**112,644**	**112,644**

28. INTANGIBLE ASSETS

28.1 Intangible assets, net:

	2022	2021
Software and licenses	1,934,500	1,506,471
Investments in progress	517,269	1,039,008
Balance at December 31	**2,451,769**	**2,545,479**

28.2 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**

28.3 Movements in intangible assets in 2021 are presented in the table below:

	Software and licences	Investment in Progress	Total
Cost			
Balance at January 1, 2021	4,897,472	701,194	5,598,666
Additions	-	962,816	962,816
Transfer from investment in progress	617,148	(617,148)	-
Impairment losses	-	(7,384)	(7,384)
Other	(16,506)	(470)	(16,976)
Balance at December 31, 2021	5,498,114	1,039,008	6,537,122
Accumulated amortization and impairment losses			
Balance at January 1, 2021	3,478,955	-	3,478,955
Amortization charge for the year	513,525	-	513,525
Impairment losses	-	-	-
Other	(837)	-	(837)
Balance at December 31, 2021	3,991,643	-	3,991,643
Net book value at December 31, 2021	**1,506,471**	**1,039,008**	**2,545,479**
Net book value at January 1, 2021	**1,418,517**	**701,194**	**2,119,711**

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

29. PROPERTY, PLANT AND EQUIPMENT

29.1 Property, plant and equipment comprise:

	2022	2021
Buildings	614,984	556,145
Equipment and other assets	591,306	560,964
Leasehold improvements	118,399	135,917
Investments in progress	115,079	217,345
Right-of-use assets	1,657,713	1,836,442
Balance at December 31	**3,097,481**	**3,306,813**

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

29. PROPERTY, PLANT AND EQUIPMENT (Continued)

29.2 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**

Following the change in accounting policy as of December 31, 2019, property used for performance of the Bank's own business activity is valued using the revaluation method. As of December 31, 2022, 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 11 properties and comparative approach for 2 properties 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, the net present value as of December 31, 2022 would have been RSD 494,382 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 2021 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, 2021	704,469	2,119,558	564,815	30,316	2,974,101	6,393,259
Additions	-	-	-	251,383	70,666	322,049
Transfer from investments in progress	-	63,023	1,331	(64,354)	-	-
Disposal and retirement	-	(32,750)	(1,441)	-	(32,540)	(66,731)
Effect of the change in fair value	35,877	-	-	-	-	35,877
Modifications	-	-	-	-	120,171	120,171
Balance at December 31, 2021	740,346	2,149,831	564,705	217,345	3,132,398	6,804,625
Accumulated depreciation and impairment losses						
Balance at January 1, 2021	161,131	1,419,856	387,065	-	854,038	2,822,090
Depreciation charge for the year	14,242	201,142	43,164	-	457,109	715,657
Disposal and retirement	-	(32,131)	(1,441)	-	(15,191)	(48,763)
Effect of the change in fair value	8,828	-	-	-		8,828
Balance at December 31, 2021	184,201	1,588,867	428,788	-	1,295,956	3,497,812
Net book value at December 31, 2021	**556,145**	**560,964**	**135,917**	**217,345**	**1,836,442**	**3,306,813**
Net book value at January 1, 2021	**543,338**	**699,702**	**177,750**	**30,316**	**2,120,063**	**3,571,169**

29.4 The right-of-use assets include:

	2022	2021
Business premises	1,586,840	1,746,442
Storage and warehouse area	2,405	2,972
Parking spots	52,830	64,146
Automobiles	15,523	22,023
Other equipment	115	859
Balance at December 31	**1,657,713**	**1,836,442**

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 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**

29.6 Movements in the right-of-use assets during 2021 are presented below:

	Business premises	Storage and warehouse	Parking spots	Automobiles	Other equipment	Total
Gross carrying value						
Balance at January 1, 2021	2,829,040	4,862	107,375	28,401	4,423	2,974,101
Additions	62,986	-	-	7,680	-	70,666
Disposal and retirement	(31,022)	-	-	(1,518)	-	(32,540)
Modifications						-
- positive effects	120,730	36	728	1,054	2,053	124,601
- negative effects	(4,430)	-	-	--	-	(4,430)
	116,300	36	728	1,054	2,053	120,171
Balance at December 31, 2021	2,977,304	4,898	108,103	35,617	6,476	3,132,398
Accumulated depreciation						
Balance at January 1, 2021	812,523	1,240	29,139	7,951	3,185	854,038
Depreciation charge	432,012	686	14,818	7,161	2,432	457,109
Disposal and retirement	(13,673)	-	-	(1,518)	-	(15,191)
Balance at December 31, 2021	1,230,862	1,926	43,957	13,594	5,617	1,295,956
Net book value at December 31, 2021	**1,746,442**	**2,972**	**64,146**	**22,023**	**859**	**1,836,442**

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

30. INVESTMENT PROPERTY

Movements in the account of investment property in 2022 are presented below:

	Investment property	Investments in progress	Total
Fair value			
Balance at January 1, 2022	3,527	-	3,527
Effect of the change in fair value	3,747	-	3,747
Balance at December 31, 2022	**7,274**	**-**	**7,274**

Following the change in accounting policy as of December 31, 2019, investment property is valued at fair value. 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, 2022 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, the net present value as of December 31, 2022 would have been RSD 1,200 thousand for investment property.

31. OTHER ASSETS

31.1. Other assets relate to:

	2022	2021
Other assets in RSD:		
Fee and commission receivables calculated per other assets	129,211	104,206
Advances paid, deposits and retainers	12,681	13,644
Receivables per actual costs incurred	152,851	221,526
Receivables from the RS Health Insurance Fund	74,095	58,583
Other receivables from operations	1,205,024	702,630
Assets acquired in lieu of debt collection	4,927	4,927
Accrued other income receivables	25,868	32,021
Deferred other expenses	150,425	137,341
	1,755,082	1,274,878
Other assets in foreign currencies:		
Fee and commission receivables calculated per other assets	3	7
Other receivables from operations	33,693	40,719
Accrued other income receivables	88,235	76,236
	121,931	116,962
Total	1,877,013	1,391,840
Impairment allowance	(64,147)	(62,492)
Balance at December 31	**1,812,866**	**1,329,348**

31.2. Movements on the impairment allowance accounts of other assets during the year are provided in the table below:

	Individual		Collective	
	2022	2021	2022	2021
Balance at January 1	(24,416)	(2,132)	(38,076)	(29,906)
Impairment losses:				
(Charge for the year)/reversals	20,307	(22,284)	(155,304)	(145,478)
Foreign exchange effects	-	-	95	4
Write-off with debt acquittal	-	-	3,740	11,364
Write-off without debt acquittal	-	-	129,507	125,940
Total for the year	20,307	(22,284)	(21,962)	(8,170)
Balance at December 31	**(4,109)**	**(24,416)**	**(60,038)**	**(38,076)**

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

32. LIABILITIES UNDER DERIVATIVE FINANCIAL INSTRUMENTS

Liabilities under derivative financial instruments include:

	2022	2021
Types of instruments:		
- currency swaps and forwards	14,189	22,560
- interest rate swaps	2,786,425	662,110
- interest rate options	18,782	39,255
Balance at December 31	**2,819,396**	**723,925**

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:

	2022	2021
Demand deposits:		
- in RSD	8,557,775	6,519,563
- in foreign currencies	1,525,442	1,320,007
Total demand deposits	10,083,217	7,839,570
Overnight deposits:		
- in RSD	394,059	46,305
- in foreign currencies	332,329	11,803,912
Total overnight deposits	726,388	11,850,217
Short-term deposits:		
- in RSD	9,828,732	11,270,490
- in foreign currencies	14,060,358	8,304,260
Total short-term deposits	23,889,090	19,574,750
Long-term deposits:		
- in RSD	187,277	350,688
- in foreign currencies	38,418,341	39,179,451
Total long-term deposits	38,605,618	39,530,139
Long-term borrowings:		
- in RSD	9,289,649	8,698,036
- in foreign currencies	36,456,137	32,243,988
Total long-term borrowings	45,745,786	40,942,024
Loans under repo transactions:		
- in RSD	5,846,941	-
Total loans under repo transactions:	5,846,941	-
Other financial liabilities:		
- in RSD	567	179
- in foreign currencies	434,562	192,727
Total other financial liabilities	435,129	192,906
Balance at December 31	**125,332,169**	**119,929,606**

Short-term RSD deposits were placed by other banks for periods of up to a year at annual interest rates up to 3.95%, while short-term foreign currency deposits of other banks maturing within a year accrued interest at the rates ranging from -0.29% to 2.98% 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 0.24% to 5.94% per annum. Loans under repo transactions were received at interest rates ranging from 0.45% to 4.18%.

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:

	2022	2021
European Bank for Reconstruction and Development (EBRD)	19,263,833	21,914,935
Kreditanstalt fur Wiederaufbau Frankfurt am Main (KfW)	5,664,652	3,625,937
European Investment Bank, Luxembourg	6,046,622	
European Fund for Southeast Europe SA, Luxembourg	8,179,214	9,509,448
Green for Growth Fund, Southeast Europe, Luxembourg	6,591,465	5,891,704
Balance at December 31	**45,745,786**	**40,942,024**

The above listed long-term borrowings were approved to the Bank for periods from 3 to 15 years at nominal interest rates up to 5.215% per annum.

34. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

34.1. Deposits and other liabilities due to customers comprise:

	2022	2021
Demand deposits:		
- in RSD	124,981,180	123,469,458
- in foreign currencies	142,884,879	143,489,003
Total demand deposits	267,866,059	266,958,461
Overnight deposits:		
- in RSD	2,085,566	1,552,569
- in foreign currencies	6,979,330	751,026
Total overnight deposits	9,064,896	2,303,595
Short-term deposits:		
- in RSD	33,819,325	16,025,631
- in foreign currencies	29,619,938	12,771,675
Total short-term deposits	63,439,263	28,797,306
Long-term deposits:		
- in RSD	1,835,897	4,042,078
- in foreign currencies	12,752,766	10,844,998
Total long-term deposits	14,588,663	14,887,076
Long-term borrowings:		
- in foreign currencies	223,977	311,656
Total long-term borrowings	223,977	311,656
Other financial liabilities:		
- in RSD	113,276	173,876
- in foreign currencies	2,844,447	775,122
Total other financial liabilities	2,957,723	948,998
Balance at December 31	**358,140,581**	**314,207,092**

34.2. Breakdown of deposits and other liabilities due to customers:

	2022	2021
Public sector	5,090,073	3,835,211
Corporate customers	235,690,614	204,247,536
Retail customers	117,135,917	105,812,689
Long-term borrowings (Note 34.3)	223,977	311,656
Balance at December 31	**358,140,581**	**314,207,092**

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 0.13%, on the average, while EUR-denominated demand deposits accrued interest at the annual rate of 0.03%. Corporate RSD term deposits accrued interest at the rates of as much as up to 3,81% annually on the average, while EUR-denominated corporate deposits were placed at an interest rate of 2,02% 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 4.5% annually, depending on the currency and period of placement. Short-term RSD deposits of retail customers accrued interest at the rates up to 5.2% annually, depending on the period of placement.

RSD deposits placed by small business clients and entrepreneurs were deposited at annual interest rates up to 4.7% depending from the period of placement, while foreign currency deposits for these customers had accrued interest at the rates up to 3.7% annually.

34.3. Breakdown of long-term foreign currency borrowings from customers is provided below:

	2022	2021
NBS - European Investment Bank, Luxembourg	223,977	311,656
Balance at December 31	**223,977**	**311,656**

Long-term borrowings obtained from customers were approved to the Bank for periods from 8 to 13 years at nominal interest rates to 3.258% per annum.

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	
	2022	2021	2022.	2021.
Balance at January 1	40,942,024	40,559,295	311,656	874,197
Cash inflow (new borrowing)	15,588,947	7,473,259	-	-
Cash outflow (repayment)	(10,829,231)	(7,127,757)	(87,395)	(562,511)
Total change in cash flows from financing activities	**4,759,716**	**345,502**	**(87,395)**	**(562,511)**
Foreign exchange effects	(70,627)	327	(571)	(45)
Accrued and deferred interest	114,673	36,900	287	15
Balance at December 31	**45,745,786**	**40,942,024**	**223,977**	**311,656**

36. PROVISIONS

36.1 Provisions relate to:

	2022	2021
Individual provisions for off-balance sheet items	360,380	76,371
Collective provisions for off-balance sheet items	787,198	189,728
Provisions for other long-term employee benefits	144,063	159,864
Provisions for potential litigation losses	4,350,925	3,659,744
Balance at December 31	**5,642,566**	**4,085,707**

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	76,371	189,728	159,864	3,659,744	4,085,707
Charge for the year:					
- in the income statement	335,680	705,298	-	1,587,398	2,628,376
- in the statement of other comprehensive income	-	-	(23,487)	-	(23,487)
	335,680	705,298	(23,487)	1,587,398	2,604,889
Use of provisions	-	-	(504)	(463,811)	(464,315)
Reversal of provisions (Notes 12 and 17)	(51,671)	(107,828)	8,190	(432,406)	(583,715)
Balance at December 31	**360,380**	**787,198**	**144,063**	**4,350,925**	**5,642,566**

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:

	2022			2021		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Difference in net carrying amount of tangible assets for tax and financial reporting purposes	59,180	-	59,180	56,347	-	56,347
Deferred tax assets in respect of unrecognized current year expenses	689,875	-	689,875	584,199	-	584,199
Deferred tax assets in respect of the first-time adoption of IFRS	-	-	-	13,662	-	13,662
Deferred tax assets on gains/losses in respect of cash flow hedging instruments	132,982		132,982	12,181	-	12,181
Deferred tax liabilities as per change in the value of fixed assets	-	(17,230)	(17,230)	-	(10,412)	(10,412)
Deferred tax liabilities arising from revaluation of securities	493,831	-	493,831	-	(45,696)	(45,696)
Deferred tax assets in respect of actuarial losses on defined benefit plans	4,457	-	4,457	7,980	-	7,980
Total	**1,380,325**	**(17,230)**	**1,363,095**	**674,369**	**(56,108)**	**618,261**

37.2 Movements on temporary differences during 2022 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	56,347	2,833	-	59,180
Deferred tax assets in respect of unrecognized current year expenses	584,199	105,676	-	689,875
Deferred tax assets in respect of the first-time adoption of IFRS	13,662	(13,662)	-	-
Deferred tax assets on gains/losses in respect of cash flow hedging instruments	12,181	-	120,801	132,982
Deferred tax liabilities as per change in the value of fixed assets	(10,412)	-	(6,818)	(17,230)
Deferred tax liabilities arising from revaluation of securities	(45,696)	-	539,527	493,831
Deferred tax assets in respect of actuarial losses on defined benefit plans	7,980	-	(3,523)	4,457
Total	**618,261**	**94,847**	**649,987**	**1,363,095**

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

38. OTHER LIABILITIES

38.1. Other liabilities include:

	2022	2021
Advances received. deposits and retainers:		
- in RSD	38,507	24,161
- in foreign currencies	1,896	3,575
Trade payables:		
- in RSD	328,168	271,014
- in foreign currencies	156,588	152,747
Lease liabilities (Note 38.2):		
- in RSD	393,015	423,018
- in foreign currencies	1,333,304	1,458,629
Other liabilities:		
- in RSD	1,341,226	9,821,581
- in foreign currencies	2,288,265	1,660,087
Fees and commissions payable per other liabilities:		
- in RSD	3,898	1,945
- in foreign currencies	190	251
Deferred other income:		
- in RSD	295,220	269,478
- in foreign currencies	34,076	60,769
Accrued other expenses:		
- in RSD	599,939	609,659
- in foreign currencies	37,134	95,742
Liabilities per managed funds	21,606	19,586
Taxes and contributions payable	44,597	73,843
Balance at December 31	**6,917,629**	**14,946,085**

Decrease of Other liabilities in RSD is due to payment of dividend during 2022 (note 40).

38.2. Breakdown of maturities of the lease liabilities is provided below:

	2022		2021	
	Present value	**Undiscounted cash flows**	**Present value**	**Undiscounted cash flows**
Maturity:				
- within a year	479,034	515,522	446,059	482,446
- within 2 years	406,448	433,224	394,890	422,584
- within 3 years	377,868	395,307	368,610	388,182
- within 4 years	214,186	224,112	339,641	351,513
- within 5 years	77,414	84,313	149,887	155,851
- after 5 years	171,369	187,021	182,560	197,602
Balance at December 31	**1,726,319**	**1,839,499**	**1,881,647**	**1,998,178**

38.3. Breakdown of the total payments, i.e., outflows per lease arrangements is provided below:

	2022	2021
Fixed payments	274,504	249,094
Variable payments	209,548	235,215
Total outflows	**484,052**	**484,309**

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 484,052 thousand, RSD 443,851 thousand pertains to the repayment of principal, which is presents within cash flows from financing activities, while RSD 40,201 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 2022 is provided in the following table:

	2022	2021
Depreciation charge of the right-of-use assets (Note 29.5, 29.6)	(470,838)	(457,109)
Interest expenses per lease liabilities (Note 7)	(40,201)	(43,072)
Rental costs (Note 18.2)	(381,953)	(370,026)
Sublease income	8,647	9,473
Balance at December 31	**(884,345)**	**(860,734)**

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 257,479 thousand (520 open items) which represents 0,07% of total amount of receivables for balance reconciliation (RSD 350,378,328 thousand), i.e. 2.01% of total number of receivable items (25,844 open items).

Unreconciled liabilities totaled to RSD 13,690,897 thousand (798 open items) which represents 3.76% of total amount of liabilities for balance reconciliation (RSD 364,141,363 thousand), i.e. 1.58% of total number of items of liabilities (50,612 open items).

40. EQUITY

40.1. Equity is comprised of:

	2022	2021
Issued capital – share capital	23,607,620	23,607,620
Share premium	562,156	562,156
Retained earnings	8,380,827	5,877,750
Reserves	50,261,205	53,944,460
Balance at December 31	**82,811,808**	**83,991,986**

As of December 31, 2022, 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. During 2022 the Bank has made payments of dividends in traches based on part of profit for 2019 and 2020 and whole profit for 2021 in gross amount of RSD 15.043.750 thousand comprised of:

- RSD 7.032.000 thousand of 2019 profit
- RSD 2.134.000 thousand of 2020 profit
- RSD 5.877.750 thousand of 2021 profit

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 3,549 in 2022 (2021: RSD 2,489).

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:

	2022	2021
Actuarial gains/(losses) per defined employee benefits	19,964	(4,605)
Net fair value adjustments of debt financial instruments measured at FVtOCI	(3,047,923)	(2,473,654)
Net fair value adjustments of debt financial instruments measured at FVtOCI due to impairment	(9,396)	(159,296)
Net fair value adjustments of fixed assets	38,636	4,058
Net change related to cash flow hedging instruments	(684,536)	(69,026)
Other comprehensive income after taxes	**(3,683,255)**	**(2,702,523)**

41. CASH AND CASH EQUIVALENTS

Breakdown of cash and cash equivalents as reported within the statement of cash flows is provided below:

	2022	2021
In RSD:		
Gyro account (Note 20)	28,634,728	30,454,163
Cash on hand (Note 20)	5,421,415	4,446,621
	34,056,143	34,900,784
In foreign currencies:		
Foreign currency accounts (Note 24)	2,185,883	41,708,564
Cash on hand (Note 20)	2,831,588	1,567,279
Other cash funds (Note 20)	49,609	35,344
	5,067,080	43,311,187
Balance at December 31	**39,123,223**	**78,211,971**

42. CONTINGENT LIABILITIES AND COMMITMENTS

42.1 Litigation

As of December 31, 2022, there were 41,979 legal suits filed against the Bank (including 12 labor lawsuits) with claims totaling RSD 5,489,366 thousand. In 446 of these proceedings plaintiffs are legal entities and in 41,533 proceedings private individuals appear as plaintiffs/claimants.

The Bank made provisions of RSD 4,350,925 thousand in respect of the legal suits filed against it (Note 36). The aforesaid amount of provisions includes those for the labor lawsuits filed, lawyers fees and administrative taxes from appeals and revisions.

In the majority of lawsuits filed against the 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:

	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)**

	2021	
	Off-Balance Sheet Items exposed to credit risk	Provisions for Off - Balance Sheet Items
Guarantees and other irrevocable commitments	125,392,186	(162,167)
Other Off-Balance Sheet Items	95,231,861	(103,932)
Balance at December 31	**220,624,047**	**(266,099)**

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

	2022	2021
Contingent liabilities		
Payment guarantees		
- in RSD	15,119,533	11,803,314
- in foreign currencies	17,224,268	16,975,135
Performance guarantees		
- in RSD	73,423,663	74,384,398
- in foreign currencies	3,003,503	2,879,064
Letters of credit		
- in RSD	-	-
- in foreign currencies	2,062,547	2,465,590
Foreign currency sureties issued	5,085,475	5,408,777
Foreign currency sureties received	11,536,703	3,645,045
Irrevocable commitments for undrawn loans	14,982,048	19,395,896
Other irrevocable commitments	26,235,199	16,743,290
Balance at December 31	**168,672,939**	**153,700,509**

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:

	2022	2021
Commitments		
Current account overdrafts approved	5,512,478	3,442,151
Unused portion of approved credit card loan facilities	1,464,031	1,224,823
Unused framework loans	5,653,764	12,167,619
Letters of intent	2,351,775	2,561,303
Other irrevocable commitments	26,235,199	16,743,290
Balance at December 31	**41,217,247**	**36,139,186**

42.5 The Bank's undrawn foreign line of credit funds amounted to RSD 10,939,727 thousand as of December 31, 2022 (2021: RSD 13,639,524 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%).

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, 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

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, 2021 arising from related party transactions are presented below:

	2021			
	Parent Bank	Subsidiaries	Key management	Other related parties*
Financial assets				
- Investment in subsidiaries	-	112,644	-	-
- Loans, receivables and other assets	31,731,984	566	79,090	3,003,771
Financial liabilities				
- Deposits and other liabilities	47,130,981	1,559,844	96,084	1,321,236
Off balance sheet items				
- Contingent liabilities for given guarantees and sureties	3,749,030	5,408,777	-	8,847,629
- Commitments for undrawn loans	-	-	-	632,970
- Received guarantees and sureties	5,914,036	-	-	9,393,716
- Liabilities for guarantees issued in favor of creditors of the bank	3,645,045	-	-	-
- Nominal value of the derivatives	-	-	-	52,685,584

	2022				2021			
	Parent Bank	Subsidiaries	Key management	Other related parties*	Parent Bank	Subsidiaries	Key management	Other related parties*
Impairment allowance for balance and off balance exposures	2,308	7,974	204	23,023	2,074	6,939	89	10,098

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)**

Revenues and expenses generated in 2021 arising from transactions with related parties are presented in the following table:

	2021			
	Parent Bank	Subsidiaries	Key management	Other related parties*
Interest incomes	-	-	2,057	152,941
Interest expenses	(348,734)	(11,096)	(156)	(483,312)
Fee and commission incomes	90,399	12,418	199	364,684
Fee and commission expenses	(11,051)	-	-	(313,267)
Other incomes	10,018	47,566	-	23,212
Other expenses	(51,662)	-	-	(748,015)
Total	**(311,030)**	**48,888**	**2,100**	**(1,003,757)**

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:

	2022				2021			
	Parent Bank	Subsidiaries	Key management	Other related parties*	Parent Bank	Subsidiaries	Key management	Other related parties*
Net increase/(decrease) in impairment allowance	234	1,035	115	12,925	33,705	(4,741)	(75)	(3,975)

*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 2022 and 2021 are presented below:

	2022	2021
Short-term employee benefits	188,373	194,252
Other long-term benefits	1,285	1,724
Share-based payments	9,124	6,265
Balance at December 31	**198,782**	**202,241**

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 2022 amounts to RSD 6,144 thousand (in 2021: RSD 5,453 thousand) and they are included in the amount of short-term remuneration of key management.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022
All amounts expressed in thousands of RSD, unless otherwise stated.

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, 2023

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

Nikola Vuletić
Management Board Chairperson

Milena Vukotić
Member of the Management Board
Head of Risk Management

"UniCredit Bank Srbija a.d." Beograd
"UniCredit Bank Serbia JSC" Belgrade
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Mirjana Kovačević
Head of Accounting and Regulatory Reporting