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 Bank Srbija a.d., Beograd Group

Opinion

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

- the consolidated statement of financial position as at 31 December 2022;

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

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

and

- notes, comprising a summary of significant accounting policies and other explanatory information;

(the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated 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 and the Law on Accounting of the Republic of Serbia, the Decision on External Audit of Banks and applicable auditing standards in the Republic of Serbia. Our responsibilities under those regulations are further described in the Auditor's Responsibility for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Serbia and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The consolidated financial statements of the Group 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.

Other Information

Management is responsible for the other information. The other information comprises the consolidated Annual Business Report for the year ended 31 December 2022.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

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

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

KPMG d.o.o. Beograd

Signed on the Serbian original

Nikola Đenić
Licensed Certified Auditor

Belgrade, 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 Group's consolidated 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

Consolidated Financial Statements
Year Ended December 31, 2022

CONTENTS

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

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

	Note	2022	2021
Interest income	3.d, 7	19,653,118	15,524,904
Interest expenses	3.d, 7	(4,015,857)	(2,200,614)
Net interest income		**15,637,261**	**13,324,290**
Fee and commission income	3.e, 8	11,387,453	8,805,522
Fee and commission expenses	3.e, 8	(3,978,066)	(2,399,157)
Net fee and commission income		**7,409,387**	**6,406,365**
Net gains on changes in the fair value of financial instruments	3.f, 9	668,600	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 negative currency clause effects	3.c, 11	(225,929)	(229,352)
Net losses on impairment of financial assets not measured at fair value through profit or loss	3.k, 12	(3,449,330)	(2,782,818)
Net gains on derecognition of the financial assets measured at amortized cost	3.i, 13	35,056	31,264
Other operating income	14	6,958	13,342
Total operating income, net		20,053,481	17,859,357
Salaries, salary compensations and other personal expenses	15	(3,635,777)	(3,466,822)
Depreciation and amortization charge	3.q, 3.r, 3.t, 16	(1,359,333)	(1,239,950)
Other income	17	731,063	190,569
Other expenses	18	(6,388,712)	(6,928,423)
Profit before tax		9,400,722	6,414,731
Current income tax expense	3.j, 19	(993,730)	(714,380)
Deferred tax gains	3.j, 36.2	93,298	262,263
Profit after tax		**8,500,290**	**5,962,614**
Result of the period - profit		**8,500,290**	**5,962,614**
Profit attributable to the parent entity		**8,500,290**	**5,962,614**

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.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

Year Ended December 31, 2022
(Thousands of RSD)

	Note	2022	2021
Net profit for the year		8,500,290	5,962,614
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		24,142	-
- Actuarial losses		-	(5,699)
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	36.2	649,889	476,957
Total negative other comprehensive income for the year	39.2	(3,682,698)	(2,702,762)
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE YEAR		**4,817,592**	**3,259,852**
Total positive comprehensive income for the year attributable to the parent entity		**4,817,592**	**3,259,852**

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.

CONSOLIDATED 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	75,893,639	42,249,257
Loans and receivables due from customers	3.k, 3.o, 25	328,843,714	322,594,841
Receivables under derivatives designated as risk hedging instruments	3.n, 26	1,083,998	9,493
Intangible assets	3.r, 3.u, 27	2,469,691	2,571,469
Property, plant and equipment	3.q, 3.t, 3.u, 28	3,103,911	3,312,289
Investment property	3.s, 29	7,274	3,527
Deferred tax assets	3.j, 36	1,384,026	640,839
Other assets	30	1,996,573	1,445,276
Total assets		**598,342,877**	**553,075,879**
Liabilities under derivative financial instruments	3.m, 31	2,819,396	723,925
Deposits and other liabilities due to banks, other financial institutions and the central bank	3.k, 3.v, 32	139,195,655	133,461,922
Deposits and other liabilities due to customers	3.k, 3.v, 33	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, 35	5,647,543	4,087,748
Current tax liabilities	3.j, 19.4	302,396	71,242
Other liabilities	3.t, 37	7,149,535	15,170,720
Total liabilities		**514,179,750**	**467,855,139**
Issued (share) capital	39.1	24,169,776	24,169,776
Profit	39.1	9,732,221	7,107,136
Reserves	39.1	50,261,130	53,943,828
Total equity		84,163,127	85,220,740
Total liabilities and equity		**598,342,877**	**553,075,879**

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.

CONSOLIDATED 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	2,905,829	-	6,479,350	84,093,027
Adjusted opening balance as at 1 January of the previous year	23,607,620	562,156	50,538,072	2,905,829	-	6,479,350	84,093,027
Total negative other comprehensive income for the period	-	-	-	(2,702,762)	-	-	(2,702,762)
Profit for the current year	-	-	-	-	-	5,962,614	5,962,614
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	203,067	-	7,107,136	85,220,740
Opening balance as at 1 January of the current year	23,607,620	562,156	53,740,761	203,067	-	7,107,136	85,220,740
Adjusted opening balance as at 1 January of the current year	23,607,620	562,156	53,740,761	203,067	-	7,107,136	85,220,740
Total negative other comprehensive income for the period	-	-	-	(203,067)	(3,479,631)	-	(3,682,698)
Profit for the current year	-	-	-	-	-	8,500,290	8,500,290
Transfer from reserves to result due to reversal of reserves-increase	-	-	-	-	-	2,545	2,545
Dividend payments	-	-	-	-	-	(5,877,750)	(5,877,750)
Total transactions with 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**	**-**	**(3,479,631)**	**9,732,221**	**84,163,127**

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.

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

	Note	2022	2021
Cash inflows from operating activities		**26,915,255**	**21,020,299**
Interest receipts		15,040,117	11,972,891
Fee and commission receipts		11,344,674	8,794,303
Receipts of other operating income		530,464	253,105
Cash outflows from operating activities		**(15,923,054)**	**(12,845,570)**
Interest payments		(2,832,002)	(1,855,814)
Fee and commission payments		(3,928,333)	(2,404,534)
Payments to, and on behalf of employees		(3,675,707)	(3,397,561)
Taxes, contributions and other duties paid		(652,466)	(660,551)
Payments for other operating expenses		(4,834,546)	(4,527,110)
Net cash inflows from operating activities prior to increases/decreases in financial assets and financial liabilities		**10,992,201**	**8,174,729**
Decrease in financial assets and increase in financial liabilities		**45,901,982**	**47,761,596**
Increase in deposits and other liabilities due to banks, other financial institutions, the central bank and customers		45,267,235	47,614,703
Increase in other financial liabilities		634,747	146,893
Increase in financial assets and decrease in financial Liabilities		**(88,453,002)**	**(37,546,215)**
Increase in loans and receivables due from banks, other financial institutions, the central bank and customers		(83,773,373)	(36,920,937)
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		**-**	**18,390,110**
Net cash outflow by operating activities before income taxes		**(31,558,819)**	**-**
Income tax paid		(760,298)	(339,374)
Dividends paid		(15,043,750)	-
Net cash inflow by operating activities		**-**	**18,050,736**
Net cash outflow by operating activities		**(47,362,867)**	**-**
Cash inflows from investing activities		**22,255,049**	**42,746,369**
Proceeds from investing in investment securities		22,251,943	42,745,973
Proceeds from sale of intangible assets, property, plant and equipment		3,106	396
Cash outflows from investing activities		**(18,544,501)**	**(39,686,222)**
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		(681,912)	(1,233,346)
Net cash generated by investing activities		**3,710,548**	**3,060,147**

(Continued)

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

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

	Note	2022	2021
Cash inflows from financing activities		**21,425,049**	**14,292,994**
Borrowings, inflows		21,425,049	14,292,994
Cash outflows from financing activities		**(16,882,626)**	**(13,204,741)**
Cash outflows from loans taken		(16,438,775)	(12,763,503)
Other outflows from financing activities		(443,851)	(441,238)
Net cash generated by financing activities		**4,542,423**	**1,088,253**
Total cash inflows		**116,497,335**	**125,821,258**
Total cash outflows		**(155,607,231)**	**(103,622,122)**
Net cash increase		-	22,199,136
Net cash decrease		(39,109,896)	-
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3.l, 40	**78,211,971**	**55,791,428**
Foreign exchange Gains, net		21,148	221,407
CASH AND CASH EQUIVALENTS, END OF YEAR	3.l, 40	**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

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

1. BANKING GROUP'S ESTABLISHMENT AND ACTIVITY

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

(a) Establishment and Activity of the Bank

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

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

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

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

As of December 31, 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).

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

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

The Leasing Company is principally involved in finance lease activities.

As of December 31, 2022, Leasing has 33 employees (December 31, 2021: 32 employees).

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

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

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

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

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

As of December 31, 2022 Partner has 4 employees (December 31, 2021: 3 employees).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In 2022, the Group has adopted and applied the following new standards and amendments to the existing standards that are effective for annual periods beginning on or after January 1, 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 Group's consolidated financial statements.

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

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

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

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

(d) 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 CONSOLIDATED 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 Group 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 Group has active contracts of fair value hedging related only to the EURIBOR benchmark.

There are no financial instruments which are yet to transition to alternative rate as of 31st December 2022.

(f) Comparative Information

Comparative information in the accompanying consolidated financial statements represents the data from the Group's consolidated 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.

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

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

(g) Use of Estimates

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

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

Further explanations have been reported in Note 5.

(h) Statement of Compliance

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Consolidation

The Group's consolidated financial statements include the consolidated statement of financial position as of December 31, 2022 and the related consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and notes to the consolidated financial statements.

The Group's consolidated financial statements as of and for the year ended December 31, 2021 include the financial statements of the Parent Entity (the Bank) and financial statements of the following subsidiaries:

	Equity Interest %	
	2022	2021
Subsidiary:		
UniCredit Leasing d.o.o., Beograd	100%	100%
UniCredit Partner d.o.o., Beograd	100%	100%

The is sole owner of subsidiaries. All materially significant amounts, transactions and balances derived from intercompany relationships are eliminated in consolidation.

(b) Going Concern

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

(c) Foreign Exchange Translation

Transactions denominated in foreign currencies are translated into dinars at official middle exchange rates effective at the date of each transaction. Monetary assets and liabilities denominated in foreign currencies, as well as those indexed to a currency clause, are translated into dinars by applying the official middle exchange rates prevailing at the reporting date.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Foreign Exchange Translation (Continued)

Gains and losses incurred in realized transactions of purchase and sale of foreign currency and effective foreign currency with individuals and legal entities during the period are stated in the Group's income statement, within the position "Net fee and commission income". Exchange differences resulting from the translation of one currency into another currency at different exchange rates, including exchange rate differences based on the currency clause, are stated in the Group's income statement under "Net foreign exchange gains/losses and currency clause effects".

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

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

	December 31, 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 Group estimates cash flows taking into account all the contractually agreed terms of the financial instrument but does not consider future credit losses. The effective interest rate calculation includes all fees and amounts paid or received between the counterparties and transaction costs that form an integral part of the effective interest rate.

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Interest Income and Expenses (Continued)

(i) The Effective Interest Method (Continued)

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Fee and Commission Income and Expenses (continued)

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

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

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

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

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

(h) Net Gains/(Losses) on Risk Hedging

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

(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 income statement, adjusted in accordance with the tax regulations of the Republic of Serbia.

(ii) Deferred Income Taxes

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

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

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

(k) Financial Assets and Liabilities

(i) Recognition and Initial Measurement

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

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

(ii) Classification and Subsequent Measurement

Financial Assets

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

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

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

Debt Instruments

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

Classification and measurement of financial assets depend on the following two main criteria:

a) business model based on which the Group manages a financial asset; and
b) characteristics of the contractual cash flows of a financial assets (the so-called SPPI criterion).

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)

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

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

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

1) 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities (Continued)

(ii) Classification and Subsequent Measurement (Continued)

Financial Assets (Continued)

Debt Instruments (Continued)

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

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

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

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

Equity Instruments

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

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

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

Effects of the changes in the fair value of equity instruments that are measured at FVtOCI in subsequent measurement are recognized in the other comprehensive income and are never reclassified to the income statement, even when the asset is derecognized. The provisions of IFRS 9 regarding impairment of financial assets relate only to debt instruments. For equity instruments at FVtOCI, the effects of impairment are not recognized through the income statement. Instead, all changes in their fair value are recorded within the other comprehensive income.

Dividends are recognized within the line item of other operating income in the income statement when the Group 's right to receive a dividend is established.

Effects of changes in the fair value of equity instruments at FVtPL are recorded under the item of net gains/(losses) on the change in the fair value of financial instruments in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities (Continued)

(ii) Classification and Subsequent Measurement (Continued)

Financial Liabilities

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

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

(iii) Derecognition

Financial Assets

The Group derecognizes a financial asset when:

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

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

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

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

Financial Liabilities

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities (Continued)

(iv) Modification

Derecognition due to Significant Modification of Contractual Terms

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

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

Modifications of a Financial Asset that do not Lead to Derecognition

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

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

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

(v) Offsetting

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

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

(vi) Amortized Cost Measurement

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities (Continued)

(vii) Fair Value Measurement

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

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

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

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

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

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

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

(viii) Impairment Identification and Measurement

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities (Continued)

(viii) Impairment Identification and Measurement (Continued)

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

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

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

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

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

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

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

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

Financial assets are transferred from Stage 1 to Stage 2 when the credit risk has increased significantly since the instruments’ initial recognition. The transfer logic is based on quantitative and qualitative criteria and must be applied to on exposures that are within the scope of the ECL model. Deterioration of the probability of default (PD) is the key parameter underlying the quantitative criterion of the transfer logic. The PD is calculated at counterparty level and also that the staging process takes place by transaction. The transfer logic model in the Group is based on a quantitative approach named “quantile regression model” where 1) the term significant is translated in term of percentile leading to the determination of a transfer threshold (depending on PD at inception, age and residual maturity), representing a theoretical increase reputed by the quantitative model as “significant” from the statistical standpoint; 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities (Continued)

(viii) Impairment Identification and Measurement (Continued)

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

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 Group applies a special treatment to the purchases of already impaired assets from the so-called NPL portfolios and to the approval of new loans to the borrowers with already impaired loans within its portfolio, i.e. those already in NPL status. In accordance with the Standard, such assets are defined as POCI (purchased and/or originated impaired credit assets) and are separately measured through cumulative changes in lifetime expected credit losses of the instruments after their initial recognition.

Positive changes in the lifetime expected credit losses of the instrument are recognized as gains on the impairment of instruments if the expected credit loss in lower than the amount of expected credit losses included in the estimated cash flows upon initial recognition.

(ix) Write-Off

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

Assets are written off without debt acquittal in instances where the Group has estimated that the assets will not be collected, but does not waive its contractual and legal rights in respect of such assets. In such cases, the Group estimates that it is economically justified to undertake further activities related to the collection of a financial asset. The Group also has the right to calculate legally prescribed penalty interest after write off without debt acquittal, but ceases to record it until collection. The Group performs write-offs without debt acquittal (accounting write-offs) based on the decisions of its competent bodies and/or the relevant NBS decision for financial assets with low collectability rates that are fully impaired (100% provided for). Given that the Group does not waive the right to collect financial assets, write-off without debt acquittal, (accounting write-off) represents derecognition of the financial assets in the statement of financial position and recording those within the off-balance sheet items. When the Group estimates that there is no justification for undertaking further activities related to the collection of a financial asset (completed bankruptcy or liquidation procedure, court ruling and the like), the Group’s competent bodies enact a decision on derecognition of the asset from the off-balance sheet items.

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

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

(l) Cash and Balances Held with the Central Bank

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Receivables and Liabilities under Derivatives

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

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

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

The Group has exercised the option to continue applying the existing IAS39 hedge accounting requirements for all its hedging relationships.

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

(i) Fair Value Hedges

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

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

(ii) Cash Flow Hedges

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Loans and Receivables

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

(p) Securities

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

(q) Property, Plant and Equipment

(i) Recognition and Measurement

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

Subsequent to the initial recognition:

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

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Property, Plant and Equipment (continued)

(ii) Subsequent Expenditure

Subsequent expenditure is capitalized only when it is probable that the future economic benefits thereof will flow to the Group.

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

(iii) Depreciation

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

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

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

The base for depreciation calculation is the cost of assets or, in case of property, the revalued amount of property.

Depreciation methods, useful lives and residual values are reassessed at each financial year-end and adjusted as appropriate. There was no change compared to last year.

(r) Intangible Assets

The Group's intangible assets comprise software, licenses and other intangible assets.

Intangible assets are stated at cost less accumulated amortization and any accumulated impairment losses.

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortization is recognized in the profit or loss on a straight-line basis over the estimated useful life of an intangible asset, from the month following the month when the asset becomes available for its intended use. The estimated useful life of intangible assets is five years and amortization rate used equals 20%, except for the assets whose usage periods are contractually defined, when these assets are amortized over the contractually defined periods.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Investment Property

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

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

(t) Leases

(i) The Group as the Lessee

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

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

When a contract is assessed to be/contain a lease, the right-of-use asset is recognized within assets, while the lease liability is recognized within equity and liabilities on the Group's statement of financial position. The right-of-use asset is initially measured at cost, which comprises:

- the amount of the initial measurement of the lease liability;
- any lease payments made and deposits placed at or before the commencement date;
- any initial direct costs incurred by the lessee;
- decrease for any lease incentives received from the lessor; and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located, or restoring the underlying asset to its original condition.

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Leases (Continued)

(i) The Group as the Lessee (Continued)

After initial recognition, the lease liability is decreased by the amount of the lease payments made and increased by the interest accrued on the lease liability and adjusted for the following:

- a change in future lease payments resulting from a change in an index or a rate initially used to determine those payments,
- a change in the assessment of an option to purchase the underlying asset;
- a change in the amounts expected to be payable under a residual value guarantee; and
- a change in the lease term.

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

(ii) The Group as the Lessor

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

(u) Impairment of Non-Financial Assets

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

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

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

(v) Deposits, Borrowings and Subordinated Liabilities

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Provisions

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

(x) Financial Guarantees

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

(y) Employee Benefits

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

Pursuant to the Labor Law, the Group has an obligation to disburse an employment retirement benefit to a retiree. Long-term provisions for retirement benefits payable upon fulfillment of the prescribed criteria reported at December 31, 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 Group used data and assumptions such as the official statistical mortality rate tables, employee turnover and disability rates, the projected annual salary growth rate of 9.5%, and an annual discount rate of 7.35%. In addition, in 2022, the Group accrued expenses for unused annual leaves (vacations).

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

4. FINANCIAL RISK MANAGEMENT

(a) Introduction and Overview

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

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

Risk Management Framework

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

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

Risk Management[1] is organized in order to cover risk management, through the work of the following structures:

• Strategic, Credit & Integrated Risks (within which there are structures: Collateral management, Credit risk control & Integrated risks, Credit risk modelling and Credit process & policies);
• Credit Risk Operations (within which there are structures: Retail credit operations, Large corporate underwriting, Small corporates underwriting, Corporate monitoring and Corporate Special credit);
• Financial risks;
• Internal Validation.

All organizational units are directly subordinated to the member of Management Board, who is in charge for risk management, which assures prevention of conflict of interests and separation of risk management and other regular operational activities of the Group.

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Introduction and Overview (Continued)

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 Group caused by the Borrower's default on its obligations to the Group.

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

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

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

The Group 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.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

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, the Group 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 Group used new guarantee scheme as option – risk sharing program with State covering 80% exposure and with 24 grace period. For Retail clients Group adopted more conservative criteria exposed to RU-UA risk (restricted red and yellow zone approvals, restricted LTV, increased consumer bucket).

Credit Risk Reporting

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

RMIS has to fulfil the following four main functions:

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

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 Group uses internal credit rating models. Rating models define specific rating for clients with similar credit risk levels. Each rating grade is related to a certain PD parameter value on the master rating scale. The Group also internally calculates other credit risk parameters. Internal credit risk assessment models, credit risk parameters and collaterals are used for loan loss provisions calculation in line with IFRS, as defined by the Group's special bylaws.

In order to fulfil the aforesaid functions, RMIS uses IT systems of UniCredit Group and internally generated databases with information about the portfolio at the individual loan facility level. The Group's systems provide rating and past-due days data as important client's credit risk parameters.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Credit Risk Reporting (Continued)

Limits

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

Reports

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

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

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

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

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

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

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

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Credit Risk Reporting (Continued)

Reports (Continued)

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

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

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

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

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

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Credit Risk Reporting (Continued)

Reports (Continued)

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

• to ensure that business is conducted up to risk tolerance at the level of the Group, which is additionally through the 'bottom up' process agreed with the Holding Company and adopted by the local Supervisory Board;

• to warn of potentially significant negative developments of key indicators and their components, as well as to provide an explanation of the same;

• to support the development of future strategic decisions in accordance with its risk profile.

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

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

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

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Credit Risk Reporting (Continued)

Credit Risk Exposure

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

	Cash and balances held with the central bank (Note 20)		Securities including pledged financial assets (Note 23 and 21)		Loans and receivables due from banks and other fin. institutions (Note 24)		Loans and receivables due from customers (Note 25)		Other financial assets* (Note 30)		Off-balance sheet items	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Individually impaired												
Corporate clients, rating 10	-	-	-	-	-	-	245,796	300,205	3,994	8,879	110,965	-
Corporate clients, rating 9	-	-	-	-	-	-	-	-	-	-	-	-
Corporate clients, restructured loans *	-	-	-	-	-	-	8,192,206	9,878,160	4,565	3,149	471,747	141,810
Retail clients, > 90 days past due	-	-	-	-	-	-	4,350,486	3,760,201	66,245	56,656	4,423	3,461
Gross loans	-	-	-	-	-	-	12,788,488	13,938,566	74,804	68,684	587,135	145,271
Impairment allowance	-	-	-	-	-	-	8,283,019	8,085,675	63,776	62,163	371,023	82,855
Carrying value	-	-	-	-	-	-	4,505,469	5,852,891	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	75,899,871	42,253,381	187,837,320	191,996,886	163,358	225,745	212,423,246	204,916,205
Corporate clients, rating 7	-	-	-	-	-	-	13,876,063	7,652,855	158	160	6,874,784	5,430,044
Corporate clients, rating 8	-	-	-	-	-	-	843,917	1,706,472	21	313	556,903	87,361
Retail clients, Stage 1	-	-	-	-	-	-	98,741,751	103,453,974	1,235	3,422	2,781,837	4,035,663
Retail clients, Stage 2	-	-	-	-	-	-	28,904,331	16,302,746	25,473	17,977	1,927,441	600,726
Gross loans	69,758,834	67,572,925	109,529,196	109,210,970	75,899,871	42,253,381	330,203,382	321,112,933	190,245	247,617	224,564,211	215,069,999
Impairment allowance	3	2	72,397	79,515	6,232	4,124	5,865,137	4,370,983	401	330	771,794	176,305
Carrying value	69,758,831	67,572,923	109,456,799	109,131,455	75,893,639	42,249,257	324,338,245	316,741,950	189,844	247,287	223,792,417	214,893,694
Carrying value of rated assets	69,758,831	67,572,923	109,456,799	109,131,455	75,893,639	42,249,257	328,843,714	322,594,841	200,872	253,808	224,008,529	214,956,110
Carrying value of non-rated assets	-	-	1,535,672	2,791,886	-	-	-	-	1,397,853	832,648	-	-
Total carrying value	**69,758,831**	**67,572,923**	**110,992,471**	**111,923,341**	**75,893,639**	**42,249,257**	**328,843,714**	**322,594,841**	**1,598,725**	**1,086,456**	**224,008,529**	**214,956,110**

* 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 397,848 thousand (2021: RSD 358,820 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 Group's rating system was developed and has been in use since 2004 at the group level for clients in the corporate segment. For retail clients and entrepreneurs, the rating system was internally developed and has been in use since 2010. The Group uses the UniCredit Group's rating models for multinational companies, banks, insurance companies and exposures to states/governments. The master rating scale is used as a unique rating assignment method, which ensures that customers with the same rating have the same credit characteristics and the same probability that they will not settle their liabilities, in part or in full, within the period of 1 year.

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

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

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

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

4. 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 Group, PDs need to be client-specific. Therefore, punctual cumulative PDs (cPDs) on a client level are derived from the cPDs on a rating class level. Clients are assigned to rating classes based on their punctual Basel 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 Group calculates 12-month ECL or a lifetime ECL of a financial instruments depending on the significance of the change in its credit risk occurred since the instrument's initial recognition. For these purposes, the Group uses the following three stages of impairment:

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Methodology for Calculation of Expected Credit Losses (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 Group calculates 12-month expected credit losses. For financial assets in Stage 2, the Group calculates lifetime expected credit losses.

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

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

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 Group forecasts the year-to-year percentage change (Δ) of the yearly recovery rates with respect to the current point in cycle, which is expected to be recovered within a 12-month time horizon, calculated as follows:

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Methodology for Calculation of Expected Credit Losses (Continued)

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:

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 Group specifically treats clients in the default status whose exposure is considered significant and such loans or clients are individually assessed by the Group on a case by case basis, whereas the loans that are not individually significant are assessed on a collective basis.

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)

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

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

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

ECL = unsecEAD x LGDs3 (time in default)

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

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

ECL = EAD x provisioning weight for Stage 1

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

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Methodology for Calculation of Expected Credit Losses (Continued)

Impact of COVID-19 on ECL

Due to the complexity of the impact of COVID-19 pandemic on citizens and the economy, the Group 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.

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

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

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

Overview of loans and receivables subject of the guarantee scheme as of 31.12.2021

		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 30)		Off-balance sheet items	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
December 31, 2022										
Corporate clients, rating 10	-	-	-	-	245,796	34,231	3,994	1,135	110,965	55,550
Corporate clients, rating 9	-	-	-	-	-	-	-	-	-	-
Corporate clients, restructured loans	-	-	-	-	8,192,206	3,128,272	4,565	550	471,747	158,871
Retail clients, > 90 days past due	-	-	-	-	4,350,486	1,342,966	66,245	9,343	4,423	1,691
Total	**-**	**-**	**-**	**-**	**12,788,488**	**4,505,469**	**74,804**	**11,028**	**587,135**	**216,112**
December 31, 2021										
Corporate clients, rating 10	-	-	-	-	300,205	61,924	8,879	912	-	-
Corporate clients, rating 9	-	-	-	-	-	-	-	-	-	-
Corporate clients, restructured loans	-	-	-	-	9,878,160	4,560,551	3,149	537	141,810	61,230
Retail clients, > 90 days past due	-	-	-	-	3,760,201	1,230,416	56,656	5,072	3,461	1,186
Total	**-**	**-**	**-**	**-**	**13,938,566**	**5,852,891**	**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	8,876,802	67,431	58,380	140,786	9,143,399
Impairment allowance	(345,286)	(7,721)	(8,750)	(71,196)	(432,953)
Net carrying value	**8,531,516**	**59,710**	**49,630**	**69,590**	**8,710,446**

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**

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

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

	Changes within the Stage				Transfers among Stages								
Stage	January 1, 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**

(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	42,216,853	391,997	(40,069,923)	(282,572)	(295,665)	13,093	-	-			(216,138)	73,582,173	75,622,390
Stage 2	36,528	-	(1,016)	238,403	250,896	(12,493)			-	-	(912)	4,478	277,481
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Partial repayments				44,169	44,769	(600)	-	-	-	-			
Total	**42,253,381**	**391,997**	**(40,070,939)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(217,050)**	**73,586,651**	**75,899,871**

	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	27,752,880	18,253,625	(3,947,508)	(573)	(573)	-	-	-			(93,333)	251,762	42,216,853
Stage 2	30,168	959	-	425	425	-			-	-	(32)	5,008	36,528
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Partial repayments				148	148		-	-	-	-			
Total	**27,783,048**	**18,254,584**	**(3,947,508)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(93,365)**	**256,770**	**42,253,381**

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

		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	227,085,215	3,304,130	(27,434,668)	(3,137,555)	(14,741,433)	15,106,376	(3,771,268)	268,770	-	-	(56,685,934)	121,653,965	264,785,153
Stage 2	63,236,901	1,299,870	(3,614,182)	(6,995,553)	13,000,923	(17,296,432)	-	-	(2,917,537)	217,493	(19,171,760)	21,573,139	56,328,415
Stage 3	10,624,244	70,046	(980,679)	5,308,232	-	-	3,340,269	(373,933)	2,613,526	(271,630)	(1,797,633)	713,721	13,937,931
Partial repayments				4,824,876	1,740,510	2,190,056	430,999	105,163	304,011	54,137			
Total	**300,946,360**	**4,674,046**	**(32,029,529)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(77,655,327)**	**143,940,825**	**335,051,499**

(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	1,281,791	622,082	(4,671)	67,487	(2,430)	70,063	(146)	-			(27,049)	9,952	1,949,592
Stage 2	158,020	3,550	(1,941)	(124,941)	2,516	(122,787)			(4,996)	326	(17,901)	19,569	36,356
Stage 3	67,958	14,891	(5,393)	8,225			301	-	8,674	(750)	(47,584)	36,708	74,805
Partial repayments				49,229	(86)	52,724	(155)	-	(3,678)	424			
Total	**1,507,769**	**640,523**	**(12,005)**	-	-	-	-	-	-	-	**(92,534)**	**66,229**	**2,060,753**

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)

(vi) Other assets (continued)

		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	1,293,131	84,617	(41,917)	(49,004)	(42,551)	353	(6,806)	-			(42,937)	37,901	1,281,791
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	**1,319,251**	**84,819**	**(45,539)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(53,925)**	**147,761**	**1,507,769**

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**

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)

(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	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

(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**

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

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

	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	35,983	633	(33,917)	(4)	(4)	-	-	-			(89)	1,055	3,661
Stage 2	236	3	-	4	4	-			-	-	-	101	344
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total transfers				-	-	-	-	-	-	-			-
Change*				119	119	-	-	-	-	-			119
Total	**36,219**	**636**	**(33,917)**	**119**	**119**	**-**	**-**	**-**	**-**	**-**	**(89)**	**1,156**	**4,124**

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

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)

(v) Loans and receivables due from customers

		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	1,501,530	318,803	(326,512)	648,518	(158,293)	678,987	(82,597)	210,421			(273,073)	733,783	2,603,049
Stage 2	2,449,632	326,113	(184,949)	(785,148)	158,293	(678,987)			(395,551)	131,097	(493,541)	325,833	1,637,940
Stage 3	6,002,337	721,657	(666,604)	136,630			82,597	(210,421)	395,551	(131,097)	(1,201,270)	507,376	5,500,126
Total transfers				-	-	-	-	-	-	-			-
Change*				2,715,543	905,283	(518,214)	1,854,595	(201,724)	731,315	(55,712)			2,715,543
Total	**9,953,499**	**1,366,573**	**(1,178,065)**	**2,715,543**	**905,283**	**(518,214)**	**1,854,595**	**(201,724)**	**731,315**	**(55,712)**	**(1,967,884)**	**1,566,992**	**12,456,658**

(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	39	(4)	295	(8)	305	(2)	-			(14)	13	365
Stage 2	580	67	(41)	345	8	(305)			(76)	718	(131)	212	1,032
Stage 3	61,877	15,866	(5,089)	(640)			2	-	76	(718)	(44,269)	28,877	56,622
Total transfers				-	-	-	-	-	-	-			-
Change*				6,161	14	(294)	179		6,978	(716)			6,161
Total	**62,493**	**15,972**	**(5,134)**	**6,161**	**14**	**(294)**	**179**	**-**	**6,978**	**(716)**	**(44,414)**	**29,102**	**64,180**

		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)	49,867	55,324
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)**	**50,174**	**62,493**

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

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

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

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

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

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

	Loans and receivables due from banks and other financial institutions		Loans and receivables due from customers		Off-balance sheet assets	
	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 Group's capital due to changes in the value of on-balance sheet and off-balance sheet items that arise from the fluctuations of market prices. The market risks include foreign exchange risk and price risks in respect of debt and equity securities.

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

One of the basic indicators for monitoring of the Group's exposure to the market risks during 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 Group also uses some additional granular limits - aimed at preventing increased exposure within individual risk factors, as well as in risk factors that are not sufficiently taken 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 Group's exposure to market risks was within defined limits and in accordance with its risk-taking capacities.

Breakdown of VaR position of the trading portfolio:

	At December 31	Average	Maximum	Minimum
2022				
Foreign exchange risk	3,581	2,006	7,460	247
Interest rate risk	7,750	6,077	15,296	598
Credit spread risk	7,462	2,508	8,800	518
Covariance	(4,874)	-	-	-
Total	13,919	7,402	18,902	2,425
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 Group's performance and capital due to fluctuations in the foreign currency exchange rates.

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

The Group is exposed to the effects of exchange rate fluctuations for major foreign currencies on its financial position and cash flows. The Group's management sets limits for the risk exposure per 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 Group aggregate level and for the Trading and ALM & Funding.

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

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

	2022	2021
Foreign exchange risk ratio:		
- as at December 31	2.07	3.02
- maximum for the period – December*	5.12	4.04
- minimum for the period – December*	0.33	0.27

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

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

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

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

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 Group'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	37,763,526	63,529	524,714	19,630	42,249,257
Loans and receivables due from customers	475,554	195,215,481	114,404	-	126,789,402	322,594,841
Receivables under derivatives designated as risk hedging instruments	-	9,493	-	-	-	9,493
Other assets	16,143	184,693	-	8	1,244,432	1,445,276
Total assets	**4,536,745**	**284,108,581**	**340,981**	**668,329**	**256,893,119**	**546,547,755**
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	107,883,942	3,108	827	25,485,721	133,461,922
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	3,745,545	10,724	35,470	11,225,998	15,170,720
Total liabilities	**10,023,994**	**266,905,360**	**3,788,887**	**980,017**	**181,997,891**	**463,696,149**
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**	**(1,963,784)**	**1,032**	**34,481**	**84,834,601**	**82,915,762**

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

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

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(e) Liquidity Risk (Continued)

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

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

RAF defines the level of risk that the Group is willing to take in achieving its strategic goals and business plan, 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 Group's committees or functions that are set at a lower hierarchy level in the Group's organization.

Some of the main liquidity indicators included in RAF for 2022 were:

- the Bank's liquidity ratio and narrow liquidity ratio,
- the liquidity coverage ratio (LCR) - consolidated, 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 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 rigid 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 Group's high quality liquid assets (liquidity buffer) to the net outflows of its liquid assets that would occur during the next 30 days from this indicator calculation date under the assumed stress conditions. This ratio is calculated on a monthly basis for the Group and twice annually for at the Group's consolidation level.

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

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

As at December 31	2022	2021
Liquidity buffer	145,269,360	121,061,671
Net outflows of liquid assets	91,449,099	73,434,512
LCR	159%	165%

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

Three basic scenarios are analyzed:

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

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

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(e) Liquidity Risk (Continued)

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

With escalation of the crisis, in accordance with the Contingency Liquidity Policy, the Group decided on March 10 to activate the attention phase, even though the Group'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 the Group.

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

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(e) Liquidity Risk (Continued)

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

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

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

The structure of asset and liability maturities as at December 31, 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 Group is in possession of liquid instruments, i.e., securities and other liquidity reserves, that can be pledged with the National Bank of Serbia at any time, or sold on a secondary market, and has at its disposal funds from the parent bank (in line with funding plan) and international financial institutions in accordance with the adopted financing plan for the current year, all of which can be used to cover potential outflows of funds at any time, even in the stress scenarios. The stress scenario analyses are performed and analyzed by the relevant Group's units and teams on an ongoing basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022
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 Group'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	67,393	13,309	42,249,257
Loans and receivables due from customers	16,368,012	19,003,623	97,256,469	89,182,087	100,784,650	322,594,841
Receivables under derivatives designated as risk hedging instruments	-	-	9,493	-	-	9,493
Other assets	-	-	1,445,276	-	-	1,445,276
Total assets	**125,698,033**	**19,929,224**	**110,584,265**	**148,222,417**	**142,113,816**	**546,547,755**
Liabilities						
Liabilities under derivative financial instruments	-	-	723,925	-	-	723,925
Deposits and other liabilities due to banks, other financial institutions and the central bank	24,324,146	1,888,643	69,164,293	25,434,581	12,650,259	133,461,922
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	4,167,762	69,586	9,497,784	1,253,028	182,560	15,170,720
Total liabilities	**307,719,092**	**3,792,760**	**100,331,509**	**33,334,495**	**18,518,293**	**463,696,149**
Off-balance sheet items	5,333,457	6,594,065	11,522,720	-	-	23,450,242
Net liquidity gap as at December 31, 2021	**(187,354,516)**	**9,542,399**	**(1,269,964)**	**114,887,922**	**123,595,523**	**59,401,364**

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

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

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(g) The Risk of Money Laundering and Terrorist Financing

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

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

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

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

(h) Strategic Risks

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

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

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

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

4. 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 Group.

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

(j) Reputational Risk

Reputational risk is a current or future risk of falling profits as a result of the negative perception of the Group'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 Group 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 Group's financial performance and equity per items in the Group's banking book due to changes in interest rates.

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

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

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

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

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

4. FINANCIAL RISK MANAGEMENT (Continued)

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

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

- regular business scenarios, and
- stress test scenarios.

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

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

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

Interest rate risk scenarios included in RAF 2022:

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

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

An analysis of the Group's sensitivity 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	(298,215)	(107,390)
Average for the year	(544,244)	(26,829)
Maximum for the year	387,074	1,212,293
Minimum for the year	(1,808,157)	(969,894)
2021		
As at December 31	(137,754)	(363,040)
Average for the year	27,740	(981,988)
Maximum for the year	1,621,700	643,918
Minimum for the year	(1,111,195)	(3,205,844)

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

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

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

4. FINANCIAL RISK MANAGEMENT (Continued)

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

The Group'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	42,249,257	37,251,986	102	523,641	775	-	4,472,753
Loans and receivables due from customers	322,594,841	3,520,268	61,010,003	231,656,623	12,424,938	11,686,365	2,296,644
Receivables under derivatives designated as risk hedging instruments	9,493	-	-	-	-	-	9,493
Other assets	1,445,276	-	-	-	-	-	1,445,276
Total assets	**546,547,755**	**66,414,922**	**61,030,768**	**242,645,917**	**72,627,652**	**52,908,376**	**50,920,120**
Liabilities under derivative financial instruments	723,925	-	-	-	-	-	723,925
Deposits and other liabilities due to banks, other financial institutions and the central bank	133,461,922	20,929,526	11,760,999	77,202,000	16,240,025	-	7,329,372
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	15,170,720	-	-	-	-	-	15,170,720
Total liabilities	**463,696,149**	**59,419,279**	**24,366,180**	**91,657,655**	**19,026,449**	**-**	**269,226,586**
Net interest rate risk exposure at December 31, 2021	**82,851,606**	**6,995,643**	**36,664,588**	**150,988,262**	**53,601,203**	**52,908,376**	**(218,306,466)**

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	December 31, 2021
	The effect of a parallel change in the interest rate by 1 bp	The effect of a parallel change in the interest rate by 1 bp
RSD	(12,248)	(17,305)
EUR	11,087	18,514
USD	126	67
GBP	6	-
CHF	(28)	(42)
Other currencies	-	-
Total effect*	**23,495**	**35,928**

* 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 Group is exposed to (credit risk, market risks and operational risk), such as inadequate modelling methodology, improper model application, lacking parameters and inputs.

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

(l) Climate and environmental risk

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

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

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

In 2022, the NBS maintained capital adequacy ratios higher than prescribed.

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

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(n) Capital Management (continued)

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

The Group does not include in its capital the following:

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

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

Deductible from the Common Equity Tier 1 capital are:

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

4. 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 Group's obligation to form such a reserve.

From the calculation of deductible items from indents 13 and 14 of the previous paragraph, the period in which the moratorium on the basis of approved loans defined by those indents lasted is not included in the number of days of agreed maturity for the purposes of application of these provisions. The moratorium means a delay in the repayment of obligations in accordance with the provisions of the decision which regulates the temporary measures for preserving the stability of the financial system in the Republic of Serbia in the conditions of the pandemic caused by COVID-19.

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

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

As of December 31, 2022, the Group did not reduce its common equity Tier 1 capital for the amount of direct holdings of common equity Tier 1 instruments or for deferred tax assets dependable on the Group's future profitability, arising from the temporary differences since their aggregate amount was below the defined limit.

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

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

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

As of December 31, 2022, the Group had no additional Tier 1 capital.

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

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

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 Group had no supplementary Tier 2 capital.

The following table presents the Group'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
Current year's profit qualifying for inclusion into CET 1 capital	1,221,576	1,090,483
Revaluation reserves and other unrealized gains	97,641	317,947
(-) Unrealized losses	(1,618,408)	(114,880)
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)	(2,469,691)	(2,571,469)
(-) 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 2020	(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	**75,303,033**	**76,466,449**
Additional Tier 1 capital - AT1	-	-
Total core Tier 1 capital - T1 (CET1 + AT1)	**75,303,033**	**76,466,449**
Supplementary capital - T2	-	-
Total regulatory capital (T1 + T2)	**75,303,033**	**76,466,449**

In both 2022 and 2021 the Group achieved capital adequacy ratios within the limits prescribed by NBS Decision on Capital Adequacy of Banks and Decision on Risk Management.

5. USE OF ESTIMATES AND JUDGMENTS

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

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

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

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

(i) Provisions for Expected Credit Losses

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

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

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

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

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

5. USE OF ESTIMATES AND JUDGMENTS (Continued)

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

(i) Provisions for Expected Credit Losses (Continued)

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

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

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

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

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

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

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

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

5. USE OF ESTIMATES AND JUDGMENTS (Continued)

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

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

Level 2 securities are measured based on internally developed valuation model which basically relies on quoted market prices in active markets for similar instruments. Portfolio consists of T-bills issued by Ministry of Finance and denominated in RSD and EUR currency. Output of the model is RSD and EUR valuation curve which is further used for calculation of Fair value of securities. 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), 27 i 28)

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

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

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

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

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

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

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

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

5. USE OF ESTIMATES AND JUDGMENTS (Continued)

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

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

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

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

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

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

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

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

* Securities at FVtPL and at FVtOCI – Level 1 include bonds issued by the Republic of Serbia, denominated in EUR (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

	Note	Level 1	Level 2	Level 3	Total
2021					
Pledged financial assets	22		752,624	-	752,624
Receivables under derivatives	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	31	-	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:

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

	Note	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value
2021.						
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	-	-	42,246,576	42,246,576	42,249,257
Loans and receivables due from customers	25	-	-	325,479,208	325,479,208	322,594,841
Other assets	30	-	-	1,445,276	1,445,276	1,445,276
		30,934,871	**72,777,665**	**369,204,856**	**472,917,392**	**470,035,648**
Deposits and other liabilities due to banks, other financial institutions and the central bank	32	-	-	134,466,514	134,466,514	133,461,922
Deposits and other liabilities due to customers	33	-	-	314,320,425	314,320,425	314,207,092
Other liabilities	37	-	-	15,170,720	15,170,720	15,170,720
		-	**-**	**463,957,659**	**463,957,659**	**462,839,734**

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

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

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

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

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

For financial assets and financial liabilities that 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	494,103	41,564
Loans and receivables due from customers	14,763,556	11,408,026
Total interest income using effective interest rate	**18,849,364**	**14,980,661**
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	**19,653,118**	**15,524,904**
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	(1,992,634)	(1,230,927)
Deposits and other liabilities due to customers	(1,354,767)	(499,687)
Lease liabilities	(40,201)	(43,072)
Total interest expenses	**(4,015,857)**	**(2,200,614)**
Net interest income	**15,637,261**	**13,324,290**

In accordance with the Group's accounting policy 3 (d), interest income from non-performing impaired loans amounted to RSD 318,322 thousand in 2022 (2021: RSD 267,613 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	1,916,257	1,609,263	2,362,855	1,973,092
Fees related to loans	106,874	147,192	362,108	470,090	468,982	617,282
Fees arising from card operations	526,684	395,182	1,702,071	1,319,298	2,228,755	1,714,480
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	3,291,780	1,953,928	3,643,846	2,147,386
Other fees and commissions	142,589	136,755	445,683	336,164	588,272	472,919
Total fee and commission income from contracts with customers	2,160,630	1,700,519	8,254,293	6,287,687	10,414,923	7,988,206
Fees on issued guarantees and other contingent liabilities	2,762	2,432	969,768	814,884	972,530	817,316
Total fee and commission income	2,163,392	1,702,951	9,224,061	7,102,571	11,387,453	8,805,522
Fee and commission expenses						
Payment transfer activities	-	-	(494,491)	(297,326)	(494,491)	(297,326)
Fees arising from card operations	-	-	(1,833,805)	(1,419,013)	(1,833,805)	(1,419,013)
Fees arising on guarantees, sureties and letters of credit	-	-	(13,425)	(13,062)	(13,425)	(13,062)
Fee arising on on foreign exchange purchases/sales and foreign cash transactions	(35,614)	(6,211)	(1,449,582)	(512,413)	(1,485,196)	(518,624)
Other fees and commissions	-	-	(151,149)	(151,132)	(151,149)	(151,132)
Total fee and commission expenses	(35,614)	(6,211)	(3,942,452)	(2,392,946)	(3,978,066)	(2,399,157)
Net fee and commission income	**2,127,778**	**1,696,740**	**5,281,609**	**4,709,625**	**7,409,387**	**6,406,365**

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**

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

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**

11. NET FOREIGN EXCHANGE LOSSES AND NEGATIVE CURRENCY CLAUSE EFFECTS

Net foreign exchange losses and negative clause effects include:

	2022	2021
Foreign exchange gains and positive currency clause effects	27,009,636	9,973,280
Foreign exchange losses and negative currency clause effects	(27,235,565)	(10,202,632)
Net foreign exchange losses	**(225,929)**	**(229,352)**

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)	(1,573,101)
Net increase in collectively assessed impairment	(2,763,371)	(1,796,104)
	(2,925,198)	(3,369,205)
Net decrease in impairment charge per securities measured at FVtOCI	3,641	112,493
Contingent liabilities		
Net (increase)/decrease in individual impairment allowance (Note 35.2)	(284,009)	21,383
Net (increase)/decrease in collectively assessed impairment (Note 35.2)	(599,648)	56,824
	(883,657)	78,207
Gains/(losses) on modification	26,386	61,006
Write-offs	(5,975)	(5,255)
Recovery of the receivables previously written off	335,473	339,936
Total net losses	**(3,449,330)**	**(2,782,818)**

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**

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

14. OTHER OPERATING INCOME

Other operating income includes:

	2022	2021
Rental income, reimbursement and other operating income	6,958	13,342
Total other operating income	**6,958**	**13,342**

15. SALARIES, SALARY COMPENSATIONS AND OTHER PERSONAL EXPENSES

Salaries, salary compensations and other personal expenses include:

	2022	2021
Employee salaries, net	(2,297,322)	(2,162,616)
Payroll taxes and contributions	(899,982)	(825,554)
Net expenses per provisions for employee retirement benefits and unused annual leaves	(19,209)	(33,888)
Other personnel expenses	(419,264)	(444,764)
Total personnel expenses	**(3,635,777)**	**(3,466,822)**

16. DEPRECIATION/AMORTIZATION CHARGE

Depreciation/amortization charge includes:

	2022	2021
Amortization charge for intangible assets (Notes 27.2; 27.3)	(609,702)	(522,490)
Depreciation charge for property, plant and equipment (Notes 28.2; 28.3)	(278,793)	(260,351)
Depreciation charge for right-of-use assets (Note 28.5, 28.6)	(470,838)	(457,109)
Total depreciation/amortization charge	**(1,359,333)**	**(1,239,950)**

17. OTHER INCOME

Other income includes:

	2022	2021
Reversal of provisions for litigations (Note 35.2)	432,496	50,487
Gains on the valuation of investment property	3,761	-
Gains on the valuation of tangible assets	27,121	20,465
Other income	267,685	119,617
Total other income	**731,063**	**190,569**

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	(140,772)	(112,209)
Office and other supplies	(75,053)	(54,820)
Rental costs (Note 18.2)	(384,699)	(371,977)
Information system maintenance	(1,081,573)	(1,026,745)
Property and equipment maintenance	(86,522)	(81,157)
Marketing, advertising, entertainment, culture and donations	(211,452)	(138,692)
Lawyer fees, other consultant and research services and auditing fees	(231,608)	(414,678)
Telecommunications and postage services	(99,469)	(139,945)
Insurance premiums	(848,905)	(777,882)
Security services – for property and money transport and handling	(182,405)	(152,309)
Professional training costs	(28,300)	(25,984)
Servicing costs	(127,273)	(97,365)
Transportation services	(6,975)	(2,837)
Employee commuting allowances	(37,910)	(31,409)
Accommodation and meal allowances – business travel costs	(18,451)	(6,410)
Other taxes and contributions	(575,999)	(541,950)
Provisions for litigations (Note 35.2)	(1,588,323)	(2,351,215)
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	(662,395)	(592,508)
Total other expenses	**(6,388,712)**	**(6,928,423)**

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 384,699 thousand incurred in 2022 relate to the costs which, in line with IFRS 16 and the Group's accounting policy (Note 3.t) are not included in the measurement of the lease liability. The breakdown of the said rental costs is provided in the table below:

	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	(146,392)	(139,836)
Variable lease payments	(1,036)	(742)
Other	(795)	-
Total	**(384,699)**	**(371,977)**

19. INCOME TAXES

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

	2022	2021
Current income tax expense	(993,730)	(714,380)
Increase in deferred tax assets and decrease in deferred tax liabilities	93,298	262,263
Total	**(900,432)**	**(452,117)**

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	9,400,722	6,414,731
Income tax at the legally prescribed tax rate of 15%	(1,410,108)	(962,210)
Tax effects of permanent differences:		
Tax effects of expenses not recognized for tax purposes	(34,996)	(54,650)
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		
Differences in amortization for tax and accounting purposes	13,662	13,662
Tax effects of IAS19	(7,385)	(24,847)
Tax effects of losses which will be recognized in future periods	(1,229)	(2,836)
Tax effects of reductions of current tax according to legal regulations and IFRS application	146,566	41,710
Effects of temporary differences	93,298	262,263
Tax effects presented in the income statement	**(900,432)**	**(452,117)**
Effective tax rate	**9.58%**	**7.05%**

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 39.2)	45,454	(6,818)	38,636	4,774	(716)	4,058
Actuarial(losses)/gains	24,142	(3,621)	20,521	(5,699)	854	(4,845)
Losses on cash flow hedging instruments	(805,337)	120,801	(684,536)	(81,207)	12,181	(69,026)
Balance at December 31	**(4,332,587)**	**649,889**	**(3,682,698)**	**(3,179,719)**	**476,957**	**(2,702,762)**

19.4 The calculated current income tax payable for the year 2022 amounted to RSD 993,730 thousand (for 2021: RSD 714,380 thousand). Given that the calculated amount of the tax payable was above the sum of the monthly income tax advance payments the Group paid during the year, as of December 31, 2022, the Group reported current tax liabilities in the amount of RSD 302,396 thousand (for 2021: current tax assets of RSD 71,242 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)

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

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

	Individual		Collective	
	2022	2021	2022	2021
Balance at January 1	-	-	(2)	(84)
Impairment losses:				
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 Group pledged coupon Treasury bills of the Republic of Serbia issued in dinars with a nominal value of RSD 6,411,120 thousand carried at amortized cost. As of 31 December 2021, the Group 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 Group'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 Group'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 Group'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 Group'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 Group'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 Group implemented fair value micro hedging (note 26).

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

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

	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
Short-term deposits in foreign currency	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	617,057	507,623
Total long-term loans	617,057	507,623
REPO with NBS in RSD	35,016,260	-
RSD finance lease receivables	2,382	7,883
Total	75,899,871	42,253,381
Impairment allowance	(6,232)	(4,124)
Balance at December 31	**75,893,639**	**42,249,257**

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

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

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	-	-	(4,124)	(36,219)
Impairment losses:				
(Charge for the year)/reversal	-	-	(2,446)	32,254
Foreign exchange effects	-	-	338	(172)
Write-off without debt acquittal	-	-	-	13
Total for the year	-	-	(2,108)	32,095
Balance at December 31	**-**	**-**	**(6,232)**	**(4,124)**

24.3. The Group'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
RSD finance lease receivables	17,556,171	15,369,852
Other RSD loans and receivables	365	-
Total	342,991,870	335,051,499
Impairment allowance	(14,148,156)	(12,456,658)
Balance at December 31	**328,843,714**	**322,594,841**

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	(5,352,001)	(4,065,935)	(7,104,657)	(5,887,564)
Impairment losses:				
Charge for the year	(267,033)	(1,664,233)	(2,787,806)	(1,778,893)
Foreign exchange effects	8,201	(234)	2,196	(1,516)
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	188,298	(1,286,066)	(1,879,796)	(1,217,093)
Balance at December 31	**(5,163,703)**	**(5,352,001)**	**(8,984,453)**	**(7,104,657)**

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

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

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

	2021		
	Gross Amount	Impairment Allowance	Carrying Amount
Public sector	11,023,342	(56,643)	10,966,699
Corporate customers	220,670,404	(7,256,192)	213,414,212
Retail customers	103,357,753	(5,143,823)	98,213,930
Balance at December 31	**335,051,499**	**(12,456,658)**	**322,594,841**

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 Group's interest rate policy.

In its product mix, the Group 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 Group 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.

Finance lease loans were approved to enterprises for purchases of vehicles and equipment at average fixed interest rate of 3.25% and variable interest rate based on: 3-month Euribor increased by 3.76% on the average and 6-month Euribor increased by 3.28% on the average. The average financing period of enterprises was 3.5 years. Finance lease loans were approved to individuals for purchases of vehicles and equipment at average fixed interest rate of 3.64% and variable interest rate based on 3-month Euribor increased by 4% on the average. The average financing period of individuals was 5 years.

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

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	15,748,392	11,667,129
- Agriculture	5,164,637	7,739,475
- Construction industry	27,620,089	29,876,625
- Mining and industry	49,510,912	54,877,096
- Trade	45,292,711	42,901,665
- Services	37,704,582	32,606,815
- Transportation and logistics	29,245,050	34,082,863
- Other	10,631,645	6,918,736
	220,918,018	220,670,404
Public sector	12,636,827	11,023,342
Retail customers		
- Private individuals	101,384,744	96,315,153
- Entrepreneurs	8,052,281	7,042,600
	109,437,025	103,357,753
Total	**342,991,870**	**335,051,499**
Impairment allowance	(14,148,156)	(12,456,658)
Balance at December 31	**328,843,714**	**322,594,841**

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
- Leasing contacts	753,283	659,548
Total	**101,384,744**	**96,315,153**

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

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

With defining industrial limits, the Group 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 Group implemented fair value hedging, i.e., it designated as hedged items its investments in the municipal bonds and Treasury bills of the Republic of Serbia.

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

	Maturity 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:

		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	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 values.

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

26. HEDGE ACCOUNTING (continued)

26.2 Cash flow hedge

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

	Maturity 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	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. INTANGIBLE ASSETS

27.1 Intangible assets, net:

	2022	2021
Software and licenses	1,952,422	1,532,461
Investments in progress	517,269	1,039,008
Balance at December 31	**2,469,691**	**2,571,469**

27.2 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	5,560,389	1,039,008	6,599,397
Additions	-	539,277	539,277
Transfer from investment in progress	1,056,359	(1,056,359)	-
Impairment losses	-	-	-
Other	(29,042)	(4,657)	(33,699)
Balance at December 31, 2022	6,587,706	517,269	7,104,975
Accumulated amortization and impairment losses			
Balance at January 1, 2022	4,027,928	-	4,027,928
Amortization charge for the year	609,702	-	609,702
Other	(2,346)	-	(2,346)
Balance at December 31, 2022	4,635,284	-	4,635,284
Net book value at December 31, 2022	**1,952,422**	**517,269**	**2,469,691**
Net book value at January 1, 2022	**1,532,461**	**1,039,008**	**2,571,469**

27.3 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	4,943,620	701,194	5,644,814
Additions	-	978,943	978,943
Transfer from investment in progress	633,275	(633,275)	-
Impairment losses	-	(7,384)	(7,384)
Other	(16,506)	(470)	(16,976)
Balance at December 31, 2021	5,560,389	1,039,008	6,599,397
Accumulated amortization and impairment losses			
Balance at January 1, 2021	3,506,275	-	3,506,275
Amortization charge for the year	522,490	-	522,490
Other	(837)	-	(837)
Balance at December 31, 2021	4,027,928	-	4,027,928
Net book value at December 31, 2021	**1,532,461**	**1,039,008**	**2,571,469**
Net book value at January 1, 2021	**1,437,345**	**701,194**	**2,138,539**

28. PROPERTY, PLANT AND EQUIPMENT

28.1 Property, plant and equipment comprise:

	2022	2021
Buildings	614,984	556,145
Equipment and other assets	597,736	566,440
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	**3,103,911**	**3,312,289**

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

28. PROPERTY, PLANT AND EQUIPMENT (Continued)

28.2 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	2,183,302	565,820	217,345	3,132,398	6,839,211
Additions	-	2,814	-	172,621	99,725	275,160
Transfer from investments in progress	-	245,172	28,935	(274,107)	-	-
Disposal and retirement	-	(85,464)	(6,851)	-	-	(92,315)
Effect of the change in fair value	103,865	-	-	-	-	103,865
Other	-	-	-	(780)	-	(780)
Modifications	-	-	-	-	192,384	192,384
Balance at December 31, 2022	844,211	2,345,824	587,904	115,079	3,424,507	7,317,525
Accumulated depreciation and impairment Losses						
Balance at January 1, 2022	184,201	1,616,862	429,903	-	1,295,956	3,526,922
Depreciation charge for the year	15,666	216,674	46,453	-	470,838	749,631
Disposal and retirement	-	(85,448)	(6,851)	-	-	(92,299)
Effect of the change in fair value	29,360	-	-	-	-	29,360
Balance at December 31, 2022	229,227	1,748,088	469,505	-	1,766,794	4,213,614
Net book value at December 31, 2022	**614,984**	**597,736**	**118,399**	**115,079**	**1,657,713**	**3,103,911**
Net book value at January 1, 2022	**556,145**	**566,440**	**135,917**	**217,345**	**1,836,442**	**3,312,289**

Following the change in accounting policy as of December 31, 2019, property used for performance of the Group's own business activity is valued using the revaluation method. As of December 31, 2022, Group 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 Group'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 Group, the appraiser used Level 2 and Level 3 inputs in the fair value assessment. Level 2 inputs are observable from the market data such as publicly available information on the transactions reflecting the assumptions that the other market participants would use. Level 3 inputs are assumed (unobserved) inputs developed by the appraiser using the best information available in the current circumstances.

If the Group had continued to apply the cost model, the net present value as of December 31, 2022 would have been RSD 494,382 thousand for property used for performance of the Group's business activity.

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

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

28. PROPERTY, PLANT AND EQUIPMENT (Continued)

28.3 Movements in property and equipment in 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	2,153,029	565,930	30,316	2,974,101	6,427,845
Additions	-	189,043	-	251,383	70,666	511,092
Transfer from investments in progress	-	63,023	1,331	(64,354)	-	-
Disposal and retirement	-	(221,793)	(1,441)	-	(32,540)	(255,774)
Effect of the change in fair value	35,877	-	-	-	-	35,877
Modifications	-	-	-	-	120,171	120,171
Balance at December 31, 2021	740,346	2,183,302	565,820	217,345	3,132,398	6,839,211
Accumulated depreciation and impairment Losses						
Balance at January 1, 2021	161,131	1,446,048	388,180	-	854,038	2,849,397
Depreciation charge for the year	14,242	202,945	43,164	-	457,109	717,460
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	1,616,862	429,903	-	1,295,956	3,526,922
Net book value at December 31, 2021	**556,145**	**566,440**	**135,917**	**217,345**	**1,836,442**	**3,312,289**
Net book value at January 1, 2021	**543,338**	**706,981**	**177,750**	**30,316**	**2,120,063**	**3,578,448**

28.4 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.

28. PROPERTY, PLANT AND EQUIPMENT (Continued)

28.5 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**

28.6 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.

29. INVESTMENT PROPERTY

Movements in 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 Group 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.

30. OTHER ASSETS

30.1. Other assets relate to:

	2022	2021
Other assets in RSD:		
Fee and commission receivables calculated per other assets	131,732	113,161
Advances paid, deposits and retainers	123,324	106,869
Receivables per actual costs incurred	152,851	221,526
Receivables from the RS Health Insurance Fund	74,095	58,583
Other receivables from operations	1,226,209	712,627
Assets acquired in lieu of debt collection	5,517	5,517
Receivables for prepaid taxes and contributions	44,395	29
Accrued other income receivables	23,643	30,242
Deferred other expenses	157,056	142,253
	1,938,822	1,390,807
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	2,060,753	1,507,769
Impairment allowance	(64,180)	(62,493)
Balance at December 31	**1,996,573**	**1,445,276**

30.2. 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	(24,417)	(2,132)	(38,076)	(29,904)
Impairment losses:				
(Charge for the year)/reversals	20,307	(22,285)	(155,336)	(145,480)
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	(22,285)	(21,994)	(8,172)
Balance at December 31	**(4,110)**	**(24,417)**	**(60,070)**	**(38,076)**

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

31. 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**

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

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

	2022	2021
Demand deposits:		
- in RSD	8,172,547	6,032,517
- in foreign currencies	1,209,548	1,112,209
Total demand deposits	9,382,095	7,144,726
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	9,007,582	10,404,223
- in foreign currencies	14,060,358	8,304,260
Total short-term deposits	23,067,940	18,708,483
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	51,841,895	47,337,415
Total long-term borrowings	61,131,544	56,035,451
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	**139,195,655**	**133,461,922**

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 Group 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.

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

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

	2022	2021
European Bank for Reconstruction and Development (EBRD)	23,629,503	26,422,925
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
UniCredit S.P.A. Milano	11,020,088	10,585,437
Balance at December 31	**61,131,544**	**56,035,451**

The above listed long-term borrowings were approved to the Group for periods from 2 to 15 years at nominal interest rates up to 5.228% per annum.

33. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

33.1. 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**

33.2. 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 33.3)	223,977	311,656
Balance at December 31	**358,140,581**	**314,207,092**

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

33. 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.

33.3. 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 Group for periods from 6 to 13 years at nominal interest rates to 0.012% per annum.

34. FINANCIAL LIABILITIES MOVEMENT (FROM FINANCING ACTIVITIES)

Table below presents changes in liabilities from financing activities, including cash based as well as not cash based changes. Liabilities from financing activities are those which cash flows are classified as cash flows from financing activities in cash flow statement.

	Long-term borrowings from banks		Long-term borrowing from customers	
	2022	2021	2022.	2021.
Balance at January 1	56,035,451	53,915,039	311,656	874,197
Cash inflow (new borrowing)	21,425,049	14,292,994	-	-
Cash outflow (repayment)	(16,351,380)	(12,200,992)	(87,395)	(562,511)
Total change in cash flows from financing activities	**5,073,669**	**2,092,002**	**(87,395)**	**(562,511)**
Foreign exchange effects	(99,316)	111	(571)	(45)
Accrued and deferred interest	121,740	28,299	287	15
Balance at December 31	**61,131,544**	**56,035,451**	**223,977**	**311,656**

35. PROVISIONS

35.1 Provisions relate to:

	2022	2021
Individual provisions for off-balance sheet items	360,380	76,371
Collective provisions for off-balance sheet items	782,437	182,789
Provisions for other long-term employee benefits	146,547	162,425
Provisions for potential litigation losses	4,358,179	3,666,163
Balance at December 31	**5,647,543**	**4,087,748**

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

35. PROVISIONS (Continued)

35.2 Movements on the accounts of provisions during the year are provided below:

	Individual Provisions for Off - Balance Sheet Items (Notes 4(b) and 5(i)	Collective Provisions for Off - Balance Sheet Items (Notes 4(b) and 5(i)	Provisions for Long-Term Employee Benefits (Notes 3(y) and 5(viii)	Provisions for Potential Litigation Losses (Notes 3(w), 5(vii) and 41.1)	Total
Balance at January 1	76,371	182,789	162,425	3,666,163	4,087,748
Charge for the year:					
- in the income statement	335,680	705,298	-	1,588,323	2,629,301
- in the statement of other comprehensive income	-	-	(24,142)	-	(24,142)
	335,680	705,298	(24,142)	1,588,323	2,605,159
Release of provisions	-	-	(504)	(463,811)	(464,315)
Reversal of provisions (Notes 12 and 17)	(51,671)	(105,650)	8,768	(432,496)	(581,049)
Balance at December 31	**360,380**	**782,437**	**146,547**	**4,358,179**	**5,647,543**

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

36. DEFERRED TAX ASSETS AND LIABILITIES

36.1 Deferred tax assets and liabilities relate to:

	2022			2021		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Difference in net carrying amount of tangible assets for tax and financial reporting purposes	59,213	-	59,213	56,437	-	56,437
Deferred tax assets in respect of unrecognized current year expenses	710,760	-	710,760	606,576	-	606,576
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	4,470		4,470	8,091	-	8,091
Total	**1,401,256**	**(17,230)**	**1,384,026**	**696,947**	**(56,108)**	**640,839**

36.2 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	56,437	2,776	-	59,213
Deferred tax assets in respect of unrecognized current year expenses	606,576	104,184	-	710,760
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	8,091	-	(3,621)	4,470
Total	**640,839**	**93,298**	**649,889**	**1,384,026**

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

37. OTHER LIABILITIES

37.1 Other liabilities include:

	2022	2021
Advances received. deposits and retainers:		
- in RSD	214,020	178,707
- in foreign currencies	1,896	3,575
Trade payables:		
- in RSD	332,672	276,225
- in foreign currencies	156,588	152,747
Lease liabilities (Note 37.2):		
- in RSD	393,015	423,018
- in foreign currencies	1,333,304	1,458,629
Other liabilities:		
- in RSD	1,344,839	9,825,202
- 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	332,041	311,211
- in foreign currencies	34,076	60,769
Accrued other expenses:		
- in RSD	610,002	620,759
- in foreign currencies	37,134	95,742
Liabilities per managed funds	21,606	19,586
Taxes and contributions payable	45,989	82,267
Balance at December 31	**7,149,535**	**15,170,720**

Decrease of Other liabilities in RSD is due to payment of dividend during 2022 (note 39).

37.2 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**

37.3 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 Group's statement of cash flows.

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

37. OTHER LIABILITIES (Continued)

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

	2022	2021
Depreciation charge of the right-of-use assets (Note 28.5, 28.6)	(470,838)	(457,109)
Interest expenses per lease liabilities (Note 7)	(40,201)	(43,072)
Rental costs (Note 18.2)	(384,699)	(371,977)
Sublease income	-	1,357
Balance at December 31	**(895,738)**	**(870,801)**

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

In accordance with the Law on Accounting, the Group reconciled its balances of payables and receivables with its debtors and creditors.

Unreconciled receivables totaled to RSD 9,684,445 thousand (2,674 open items) which represents 2.64% of total amount of receivables for balance reconciliation (RSD 366,409,457 thousand), i.e. 9.47% of total number of receivable items (28,240 open items).

Unreconciled liabilities totaled to RSD 24,710,985 thousand (807 open items) which represents 6.54% of total amount of liabilities for balance reconciliation (RSD 377,767,754 thousand), i.e. 1.59% of total number of items of liabilities (50,616 open items).

39. EQUITY

39.1. Equity is comprised of:

	2022	2021
Issued capital – share capital	23,607,620	23,607,620
Share premium	562,156	562,156
Retained earnings	9,732,221	7,107,136
Reserves	50,261,130	53,943,828
Balance at December 31	**84,163,127**	**85,220,740**

As of December 31, 2022, the Group's share capital totaled RSD 23,607,620 thousand and comprised 2,360,762 common stock (ordinary) shares with the individual par value of RSD 10,000. All shares issued by the Group are ordinary shares.

Ordinary shareholders are entitled to dividend payment pursuant to the relevant decision on profit distribution enacted by the Bank's Supervisory Board and to one vote per share in the Bank's Shareholder General Meeting.

During 2022 the Group 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.

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

39. EQUITY (Continued)

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

	2022	2021
Actuarial losses per defined employee benefits	20,521	(4,845)
Net fair value adjustments of debt financial instruments measured at FVtOCI	(3,047,923)	(2,473,653)
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	**(3,682,698)**	**(2,702,762)**

40. 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**

41. CONTINGENT LIABILITIES AND COMMITMENTS

41.1. Litigation

As of December 31, 2022, there were 41,983 legal suits filed against the Group (including 12 labor lawsuits) with claims totaling RSD 5,516,211 thousand. In 450 of these proceedings plaintiffs are legal entities and in 41,533 proceedings private individuals appear as plaintiffs/claimants.

The Group made provisions of RSD 4,358,179 thousand in respect of the legal suits filed against it (Note 36). The aforesaid amount of provisions includes those for the labor lawsuits filed, lawyers' fees and administrative taxes from appeals and revisions.

In the majority of lawsuits filed against the Group, both individuals and legal entities in the capacity of plaintiffs, they mostly refer to lawsuits for loan processing fees (cash and housing), loan monitoring fees and fees to NKOSK, and to a lesser extent to lawsuits for exchange rate differences, interest rates, currency clauses and changed circumstances, as the basis of the dispute. The subject of the lawsuits is also the determination of the nullity of the mentioned provisions of the loan agreement and the acquisition without grounds.

The Group uses following parameters for defining provisions: value of the case, evidence of the plaintiffs, type of legal case, trend of cases, existing court practices, real jurisdiction of the court, status of case and all other relevant facts that could have direct or indirect influence on the outcome of the court proceeding. Based on the defined parameters, the Group defines level of risk for each case:

- Group A: risk of outflow is less than 50%
- Group B: risk of outflow is between 50% and 90%
- Group C: risk of outflow is 90% and above.

Provisions are made for cases from group B and C and in the amount of the law suit increased by the estimated amount of interest and expenses.

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

41. CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

41.1. Litigation (continued)

For certain lawsuits, provisions were not made in the exact amount of the claim, primarily based on the estimate of the outcome of such suits as favorable for the Group, i.e., the estimate that the Group will incur no outflows in respect of those legal suits or that there are minor contingent liabilities at issue, which require no provisioning.

The Group estimates adequacy of provisions every 6 months.

41.2. Off-balance sheet exposed to credit risk are presented in table below:

	2022	
	Off-Balance Sheet Items exposed to credit risk	**Provisions for Off - Balance Sheet Items**
Guarantees and other irrevocable commitments	117,693,527	(610,704)
Other Off-Balance Sheet Items	107,457,819	(532,113)
Balance at December 31	**225,151,346**	**(1,142,817)**

	2021	
	Off-Balance Sheet Items exposed to credit risk	**Provisions for Off - Balance Sheet Items**
Guarantees and other irrevocable commitments	119,983,409	(155,228)
Other Off-Balance Sheet Items	95,231,861	(103,932)
Balance at December 31	**215,215,270**	**(259,160)**

41.3. The Group'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 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	**163,587,464**	**148,291,732**

In the ordinary course of business, the Group enters into agreements for contingent liabilities held in off-balance sheet record, which include guarantees, letters of credit, unused credit lines and credit card limits. These financial liabilities are recognized in the balance sheet if and when they become payable.

41.4. Breakdown of the Group's irrevocable commitments is provided below:

	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**

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

41. CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

41.5 The Group's undrawn foreign line of credit funds amounted to RSD 13,639,524 thousand as of December 31, 2022 (2021: RSD 13,639,524 thousand).

42. RELATED PARTY DISCLOSURES

The Group is under control of UniCredit S.p.A., Milan, domiciled and registered in Italy, which is the sole owner of the Group's common stock shares (100%). Related parties of the Group are: parent bank, subsidiaries of the Group, entities that are members of the same group or are under joint control, members of the Board of Directors and the Audit Committee, the Management Board and managers who as members of the Group's board (ALCO and credit committees) have the authority and responsibility to plan, direct and control the activities of the Group ("key management"), close family members of key management as well as legal entities that are under the control or influence of key management and close members of their families, in accordance with IAS 24.

In the normal course of business, a number of banking transactions are performed with related parties. These include loans, deposits, investments in equity securities and derivative instruments.

42.1 Related party transactions

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

	2022		
	Parent Bank	Key management	Other related parties*
Financial assets			
- Loans, receivables and other assets	36,923,618	121,189	2,612,943
Financial liabilities			
- Deposits and other liabilities	55,028,514	88,165	788,210
Off balance sheet items			
- Contingent liabilities for given guarantees and sureties	3,181,450	-	10,941,343
- Commitments for undrawn loans	-	260	1,187,652
- Received guarantees and sureties	4,441,732	-	11,190,726
- Liabilities for guarantees issued in favor of creditors of the bank	11,536,703	-	-
- Nominal value of the derivatives	-	-	67,261,757

Exposures and liabilities as of December 31, 2021 arising from related party transactions are presented below:

	2021		
	Parent Bank	Key management	Other related parties*
Financial assets			
- Loans, receivables and other assets	31,732,779	92,315	2,990,545
Financial liabilities			
- Deposits and other liabilities	57,720,040	108,393	1,308,927
Off balance sheet items			
- Contingent liabilities for given guarantees and sureties	3,749,030	-	8,847,629
- Commitments for undrawn loans	-	390	632,58
- 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	Key management	Other related parties*	Parent Bank	Key management	Other related parties*
Impairment allowance for balance and off balance exposures	2,308	229	22,998	2,074	101	10,086

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

42. RELATED PARTY DISCLOSURES (Continued)

42.2 Related party transactions (Continued)

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

	2022		
	Parent Bank	Key management	Other related parties *
Interest incomes	278,786	2,964	275,125
Interest expenses	(466,390)	(65)	(433,238)
Fee and commission incomes	190,799	339	301,486
Fee and commission expenses	(16,938)	-	(411,434)
Other incomes	5,023	-	63,580
Other expenses	(47,967)	-	(760,266)
Total	**(56,687)**	**3,238**	**(964,747)**

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

	2021		
	Parent Bank	Key management	Other related parties *
Interest incomes	-	2,399	152,599
Interest expenses	(423,333)	(157)	(483,311)
Fee and commission incomes	90,399	242	364,641
Fee and commission expenses	(11,051)	-	(313,267)
Other incomes	10,813	-	23,212
Other expenses	(51,662)	-	(748,015)
Total	**(384,834)**	**2,484**	**(1,004,141)**

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

	2022			2021		
	Parent Bank	Key management	Other related parties*	Parent Bank	Key management	Other related parties*
Net increase/(decrease) in impairment allowance	234	128	12,912	33,705	(85)	(3,965)

*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.

42.2 Key management payments

Key management payments during 2022 and 2021 are presented below:

	2022	2021
Short-term employee benefits	212,340	212,578
Other long-term benefits	1,285	1,724
Share-based payments	9,124	6,265
Balance at December 31	**222,749**	**220,567**

Other long-term benefits include payments based on long-term reward schemes. Employees - members of key management involved in these remuneration schemes, were selected based on the criteria of contributing to the long-term and growing profitability of the Group. Share-based payments include payments during the year based on shares granted under appropriate reward schemes.

Compensations for members of the Management Board and the Audit Committee paid in 2022 amounts to RSD 6,674 thousand (in 2021: RSD 5,984 thousand) and they are included in the amount of short-term remuneration of key management.

43. EVENTS AFTER THE REPORTING PERIOD

As of these financial statements' issuance date, the impact of the Russian-Ukrainian conflict continues. The duration of the conflict and the extent of the impact on the economy are uncertain. With a strong capital and liquidity position, the 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

Mirjana Kovačević
Head of Accounting and Regulatory Reporting

UNICREDIT BANK SERBIA

2022 CONSOLIDATED ANNUAL REPORT

Belgrade, February 2023

CONTENTS

MESSAGE BY CEO

Dear all,

The previous year was marked by changing global geopolitical events. The exit from the pandemic caused by the COVID-19 virus brought with it a slightly higher than expected increase in prices, mostly caused by disrupted supply chains. The predictions of both global central banks and the economy were that inflation would be somewhat higher, however what was not expected was the newly created situation in Europe, which further accelerated and intensified inflationary pressures. The prices of energy, certain raw materials, as well as food, have reached maximum values in the last few decades (some of the raw materials and historically the highest values). Geopolitical events have called into question the energy stability of Europe, due to restrictions on gas supply, but also food supply for certain countries from Africa. The aforementioned facts influenced inflation to reach double-digit values (the highest values in the last 30 years in developed countries), and therefore caused the fastest, largest and almost synchronized tightening of the monetary policy of most central banks. When it comes to Serbia, inflation reached a level of 15,1% in December 2022.

However, despite all the aforementioned events, the year 2022 showed that the domestic economy, the banking sector and our Bank remained stable. Our Bank managed to achieve stable business continuity, turn the challenges we faced into opportunities and close the year with several important achievements and introduce numerous innovations in its business. According to the results in front of us, I can freely say that we succeeded in that. We focused on the weak points that we detected together, managed to rise and meet the goals we set.

The whole year for us was also marked by the celebration of our significant jubilee - 20 years of business in Serbia, which we celebrated with our clients, partners and employees. During the past two decades, we have successfully followed all the changes in the market, as well as the challenges we encountered both on a global and local level. Today, UniCredit Bank is one of the largest, and according to the latest available data, it is positioned as the third bank in terms of assets and is a reliable partner for the economy and the population. With a network of 72 branches throughout Serbia, as well as a constant focus on the needs of citizens and businesses, we achieve stable results with growth in all areas of business.

UniCredit Bank continued the trend of good results and achieved a historically high gross operating profit in 2022, which at the consolidated level (Bank, Leasing and Partner) exceeds 122 million euros. In addition, the total growth of the portfolio of loans to natural persons of 5,58% continued and a historically high market share in deposits of natural persons, which amounts to 5,2% at the end of 2022, was reached. In the segment of corporate-investment banking, we remained a reliable partner and the first choice for as many as 75 of the 100 best companies in Serbia, placing special emphasis on the quality of the loan portfolio and green financing while continuing to grow the client base. The level of non-performing loans has dropped to 4% and we have become the market leader when it comes to financing wind farms, because we finance 5 wind farms in Serbia out of a total of 7, and we are the only bank that independently finances 3 wind farms, thereby contributing to the supply of around 70.000 households with electricity from renewable sources. The market share of our bank in financing green investments exceeds our total market share.

Also, we are starting to pay more and more attention to the energy of the sun. We already have active and current projects, primarily through our Leasing service, where the needs of the market and clients in this segment of the green transition have already been recognized. Our plan is to dedicate ourselves even more intensively and invest in solar energy projects, all while following domestic and European regulations and changes that are happening in that field. At the same time, our goal is to strengthen advisory support to clients in achieving ESG standards with the support of the top international expert team of our UniCredit Group.

We recognized the need, but also the real potential for transformation through technological development, and we worked on it intensively throughout 2022. However, we did not look at the transformation only from the point of view of digitalization, but we start from unlocking the entire potential of our bank - first of all, the potential of our people, and then simplifying all processes, both internal work and procedures for clients. We essentially put the client at the centre of everything we do. We are digitizing our services, which implies a different way of looking at things. In addition to visible applications and programs, there are also many "invisible" improvements, and now we have the opportunity to offer clients, on the one hand, more opportunities that make everyday cooperation with us much easier, while on the other hand, they make everyday operational work easier for our employees.

At the beginning of last year, we launched a new IT platform for factoring (working capital), which brings numerous benefits to all our corporate clients. Namely, we have enabled immediate access to the platform through which companies can submit a request, submit documentation, as well as have insight into the status of factoring transactions in real time. This made it possible to speed up and simplify the process of selling receivables many times over. Finally, the platform enables new forms of factoring, such as reverse factoring, which places UniCredit Bank Serbia at the very top of the factoring market. Also, another application that we recently put into operation relates to the opening and maintenance of corporate clients' accounts, which enables a remote onboarding process, in order to provide clients with better and more efficient services.

What we at UniCredit Bank continuously do is to follow the needs and expectations of clients, and we keep pace with the further digitization of products and services. In cooperation with the National Bank of Serbia, we enabled the "Cash to Go" service at Mercator sales points. During the last quarter, we enriched our offer for clients with Apple and Google Pay services, and launched FlexiPos - a POS terminal on a mobile phone for our business clients.

During all the years since UniCredit Bank has been present in Serbia, we have tried to be more than a bank, to make a difference with our operations, approach and contribution and leave a mark on the local market. We saw the importance of investing in the cultural heritage and beauty of Serbia, because they are our natural assets, a special value that transcends national borders. It is precisely for this reason that we dedicated our largest corporate social responsibility project to activities aimed at concrete financial assistance, but also raising awareness of the importance of protecting and investing in the natural beauty of our country. The project includes support for the improvement of the preservation of flora and fauna, natural habitats of animal species, but also the improvement of tourist capacities and the popularization of protected areas. Among the areas that will be supported are: national parks Kopaonik, Đerdap and Fruška Gora, special nature reserves Peštersko polje, Tsarska bara and Karađorđevo, as well as natural monuments Sopotnica Waterfalls, Lisine, Resavska Pećina, Zvezdarska Forest and Bayford Forest.

However, this activity was not the only one through which we demonstrated our commitment to socially responsible business and the aspiration to make a positive contribution to the community, so only during the second and third quarter of 2022, through the UniCredit Foundation program, we awarded grants in the amount of 40,000 euros to six organizations and their development of projects dedicated to children and adolescents. Also, we launched two extremely important projects, the implementation of which we will continue during 2023 - "Junior Achievement" and "Teach for Serbia".

As in previous years, the stability of our bank in Serbia was confirmed by numerous awards. Since the beginning of 2022, our Bank has been declared the best bank for trade financing in Serbia according to the Euromoney survey for the fifth year in a row, and the best bank for providing custody services to international investors in Serbia for the ninth time. We were recognized for outstanding results in the Euromoney Cash Management Survey 2022 and retained the status of "Market Leader" in Corporate Banking and Digital Solutions in the same survey. Also, FIC Serbia awarded our bank as one of the founders and a member for 20 years. In addition, the Serbian Chamber of Commerce awarded me the award for Business Leader in the Financial Sector for 2022.

A successful year is behind us for UniCredit Bank in Serbia, and our tendency, as one of the systemically most important banks on the local market, will be to continue the same success. I would like to thank all internal and external stakeholders who contributed to being recognized as a stable support and reliable partner. Finally, special thanks to all our employees and clients, because UniCredit Bank would not be successful without them.

Nikola Vuletić, CEO of UniCredit Bank Serbia

ABOUT UNICREDIT GROUP

UniCredit is a pan-European commercial bank with a unique service offering in Italy, Germany, Central and Eastern Europe. Our purpose is to empower communities to progress, delivering the best-in-class for all stakeholders, unlocking the potential of our clients and our people across Europe.

We serve over 15 million customers worldwide. They are at the heart of what we do in all our markets. UniCredit is organized in four core regions and two product factories, Corporates and Individual Solutions. This allows us to be close to our clients and use the scale of the entire Group for developing and offering the best products across all our markets. Digitalisation and our commitment to ESG principles are key enablers for our service. They help us deliver excellence to our stakeholders and creating a sustainable future for our clients, our communities and our people.

MACROECONOMIC OVERVIEW

Despite the strong impact of the crisis caused by war in Ukraine, the total economic activity of the Republic of Serbia in 2022, measured by the real movement of gross domestic product (GDP), is estimated at RSD 6,271 billion, which is an estimated growth of 2.3% y-o-y. According to latest information, gross investments in fixed assets in 2022 are on the same level as last year. Trade in EUR has an upwards trend with a 23.5% estimated annual growth rate, while imports grew 33%. According to Q3 data, the biggest contribution to GDP growth was made by private consumption with a recorded growth of 3.1%, while government spending contributed negatively and recorded a 4.5% decline. When it comes to industries, contribution was highest in the retail sector (5.1% growth) as well as communication and information sector (8.1% growth). Significant negative growth rates were recorded in construction (-12.4%) and agriculture, forestry and fishing sector (-7.7%).

According to November 2022 results, exports of goods in EUR have increased by 26.4% y-o-y, while imports increased by 34.1%. The coverage of imports by exports is 71.9% (4.5% lower than last year). Such results in exports in the first eleven months were mainly driven by the processing industry with a 23.5% increase and mining sector with 152%. When it comes to product structure, top five exports are: electrical machines and devices, vegetables and fruits, iron and steel, grain and grain products, engines and propulsion systems, rubber products. Imports in first eleven months were mostly influenced by the mining sector, with a 112% increase. Product wise, top five imports were: natural gas, electrical machines and devices, petroleum, petroleum products and medical and pharmaceutical products. Serbia's most important trade partner in 2022 was Germany, followed by China and Italy. The current account deficit amounted to EUR 3 billion in first ten months which is EUR 1,4 billion more than last year. The y-o-y decline is caused by increased trade deficit. Trade deficit amounted to EUR 5.5 billion, which is 60% higher y-o-y. In the first 10 months of 2022, primary income deficit was 39% higher (EUR 612 million increase), while the secondary income surplus was 37% higher (amounted to EUR 4.7 billion) mostly due to the remittances. Net FDI inflow was EUR 3.2 billion, which is an increase of 7.1% year-on-year.

Throughout 2022, unemployment rate continued to decline, reaching 8.9% in Q3 2022 according to Labour Force Survey, unchanged from previous quarter. In the same time, the employment rate in Q3 was 50.8%. Average monthly salary amounted to RSD 75,353, which represents a 13.9% (nominal) and 2.2% (real) y-o-y growth rate. The largest growth of wages since the beginning of 2022 was recorded in the ICT sector.

According to the Statistical Office, y-o-y inflation was 15.1% at the end of 2022, while m-o-m inflation in December was 1%. High inflation in Serbia compared to the beginning of the year is mainly a consequence of factors on the supply side. Core inflation rose slower than overall inflation (9.7%) mostly due to stability of the exchange rate. Energy and food prices were the main drivers of inflation. Prices of unprocessed food went up 22.5%, predominantly raw meat, fruit and vegetables. NBS stated that inflation will be stable in 2023, but will remain high, and is expected to return to target range (3 ± 1,5%) in 2024. RSD remained stable throughout the year, whereas NBS intervened on the market by continuing to buy/sell foreign currency at times of elevated appreciation/depreciation pressures. At the end of November, gross FX reserves amounted to EUR 17.3 billion, ensuring a coverage for M1 money mass of 151% and 5-months-worth of imports of goods and services.

Since the start of the Ukraine crisis, NBS hiked its key policy rate by 400 bps in total, bringing the KPR from 1.0% to 5.0% at the end of 2022. Despite the stricter conditions and tighter monetary policy, the liquidity in the banking sector remains high at more than RSD 200 billion surplus. The surplus is mostly the result of NBS interventions on the FX market.

According to budget revision, consolidated fiscal deficit is estimated at 3.9% of GDP (previously 3%). The increase was mainly driven by support for the energy sector due to higher energy prices. According to November 2022 data, fiscal revenues rose by 4% y-o-y, while expenditures declined by 9%. At the end of November, the consolidated deficit amounted to RSD 30 billion, while the national budget was RSD 81 billion.

At the end of November 2022, public debt rose to EUR 32.3 billion (53.5% of the GDP), which is an 8% y-o-y growth. Republic of Serbia did not issue any bonds in 2022, but secured financing by issuing bonds on the local capital market, as well as with a new bilateral loan by UAE, in the amount of USD 1 billion.

In December 2022, Standard & Poor's confirmed Serbia's credit rating at BB+, with stable outlook. The agency stated that its decision is supported by the fact that Serbia's policy is credible and that the impact of conflict in Ukraine appears to be contained for now. Fitch Ratings also confirmed Serbia's credit rating at BB+, supported by a credible macroeconomic policy framework, relatively low inflation, somewhat higher FX reserves and stronger governance, human development and GDP per capita compared with 'BB' medians.

IMF approved new EUR 2.4 billion standby arrangement to Serbia. Republic of Serbia plans to withdraw EUR 1.6 billion in 2023, while the remaining EUR 800 million will not be withdrawn, and treated as a precaution. Funds will primarily be used to maintain energy stability caused by crisis due to the Ukraine war.

SERBIAN FINANCIAL SECTOR

Banking sector

The conflict between Russia and Ukraine has had a vast negative effect on the world economy in 2022, 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.

To counter the inflationary pressures coming from abroad, starting from April 2022, NBS has gradually increased its key policy rate, hiking it by 400 bps as of December (to the level of 5%). NBS has also continued mopping up liquidity from the banking sector through reverse repo auctions – the total amount of repo sold securities stood at RSD 2,466 billion at the end of November, while the average weighted interest rate for repo sold securities was 3.45%, which is an increase of 306 bps compared to December 2021.

The monetary policy tightening by both NBS and other central banks has led to an increase of interest rates on new loans in 2022, especially starting from the third quarter. The interest rates on new dinar loans for businesses and citizens were at a significantly higher level compared to the end of last year and at the end of November reached 11.9% for citizens and 6% for businesses (compared to 8.3% and 2.4% at the end of 2021, respectively). The interest rates for new EUR loans also saw a considerable increase in both segments – at the end of November they reached 4.9% for businesses and 5.5% for citizens (compared to 2.4% and 3.4% respectively for year-end 2021). The NBS has extended the measures aimed at easier loan repayment and easier access to new credit throughout 2022 as well. In order to provide support for farmers who found themselves in a difficult financial situation as a consequence of this year's drought, the NBS introduced the possibility of reprogramming their loans and debts to leasing providers, by delaying the maturity of their principal payments from 6 to 12 months. With the same goal, at the end of 2022, banks were given the possibility to restructure their cash, consumer or similar loans to individuals experiencing financial difficulties by extending the maturity for up to three years longer than the currently allowed maximum term, without having to adjust their levels of capital.

The banking sector ended Q3 2022 with RSD 5,307 billion in total net assets, posting a nominal growth rate of 7.5% y-o-y. The consolidation trend which intensified in 2021 continued at the same pace in 2022 with the completion of additional two mergers. The first merger completed in 2022 was the merger of Komercijalna and NLB bank at the end of April, followed by the merger of Naša AIK (former Sberbank) and AIK Bank in early December, and the Serbian banking sector ended 2022 with 21 banks. The merger of Raiffeisen and Credit Agricole (which changed its name to RBA bank) is expected to be completed by the end of the second quarter of 2023. Unlike 2021, the consolidation process throughout 2022 has not led to significant changes in market positioning (Komercijalna hasn't seen a large increase in market share as a result of the merger with NLB, and it remains in fourth place in terms of total assets at the end of Q3 2022, same position it was in at the end of 2021).

At the end of Q3 2021, total gross loans increased by 11.7% year-on-year excluding FX effects, which is a slowdown compared to H1 2021, as a consequence of high base from previous year and repayments of loans from the guarantee scheme. As of September, corporate loans have achieved an annual growth rate of 14% while retail loans have grown 8.3% y-o-y. In the first nine months of 2022, the corporate loan growth was mostly driven by increased demand for liquidity and working capital loans as well as other uncategorized loans, while investment loans made a smaller contribution to overall growth owing to a decline in Q1, after which they recovered during Q2 and continued to grow. Interest rates on new RSD corporate loans have been growing throughout 2022, in particular since the second quarter as NBS began to tighten its monetary policy. Average weighted interest rate on new RSD corporate loans rose by 1.3% over the first nine months of 2022; the two types of loans that saw the greatest increase have been working capital and investment loans (2% both). Interest rates on EUR loans have remained lower on average, though they have also increased owing to ECB monetary policy tightening. Average rates on new EUR corporate loans increased by 1% over the first nine months of 2022; most of this increase took place during the third quarter (0.9%). Share of liquidity and working capital loans in total corporate loans stood at 47.4% at the end of September (higher compared to same period last year), while the share of investment loans was 39.2% (lower compared to last year).

In the first nine months of 2022 the demand on the retail side was driven mostly by cash and mortgage loans, which accounted for 43.8% and 39.9% of total retail lending respectively as of September. Mortgage loans were the biggest growth driver for the retail sector, posting year-on-year growth of 12.7% at the end of September. This growth was driven by growing employment and salaries in the private sector, high demand for real estate and accelerating residential construction activity; furthermore, all the measures related to mortgage loans introduced by NBS in 2020 (prolongation of loan repayment period, lowering the down-payment amount for first home purchase etc.) were extended to 2022. Cash loans contribution to total growth is smaller and their year-on-year growth rate was 7.1% at the end of September.

After reaching its all-time-high value at the end of Q3 2021, the 'dinarization' of loans began to fall in the last quarter of 2021 and continued to do so in the first three quarters of 2022, so that the share of RSD loans in total loans stood at 35.8% at the end of September (which is 2.8 pp down on the all-time-high level from the same time last year and 2.5 pp lower than YE 2021). The dinarization of retail loans remained virtually unchanged throughout the first half of 2022, only to drop sharply during Q3 to 53.8% at the end of September (0.8 pp down from YE 2021 level), this change is a result of RSD and foreign currency denominated loans growing in equal measure for the first half of the year. The share of RSD corporate loans fell in the first half of 2022 and stood at 22.5% at the end of June, which is a 1.5 pp decrease from YE 2021 level. This decline comes as a result of greater growth in foreign currency loans (disbursed primarily to companies in trade and energy sectors), as well as the gradual winding down of the guarantee scheme.

The share of RSD deposits of households and corporates in total deposits at the end of Q3 2022 reached 37.4%, which was 2.9 percentage points lower than the end of 2021. The share of RSD deposits compared to the end of 2021 declined both in household and corporate segment over the first half of 2022. Degree of deposit dinarization of corporate sector reached 55.2% at the end of June and it is 4.2 pp lower compared to the end of last year. This decline was the result of the steady decrease in RSD deposits throughout the first half of the year, as well as comparatively slower growth in foreign currency deposits. Indicator of household deposit dinarization stood at 25.0% at the end of June, which is 3.3 pp lower compared to the end of last year. Household savings in RSD dropped sharply in Q1 as a result of uncertainty caused by the outbreak of the Ukraine conflict, and also continued to fall over Q2 though at a considerably slower tempo, reaching the level of RSD 85.9 billion at the end of June 2022. The share of RSD savings in total household savings consequently saw a large reduction in 2022, reaching 5.3% at the end of June (1.2 pp down from YE 2021 level). Foreign currency deposits at the end of Q2 2022 totalled EUR 13.2 billion. Ratio of loans to deposits, which was 87% at the end of September 2022 speaks about the stable structure of banking sector funding.

At the end of the third quarter of 2022, the banking sector employed 22,076 people, which represents a decrease of 427 employees compared to the same period last year. The branch network consisted of 1,402 different organizational units, a reduction of 134 units in a period of twelve months.

At the end of the third quarter of 2022, the average capital adequacy ratio of the banking sector amounted to 19.5%, which is significantly higher than the required minimum of 8% but 1,3 percentage points lower than at the end of 2021.

The NPL ratio continued to decline throughout 2022 and amounted to 3.19% at the end of September in comparison to the 3.55% at the end of September 2021. Banks continued to keep sufficient provisioning levels in order to provide protection against credit losses, covering the NPLs with more than 57.2% of IFRS provisions as of September 2022 (though this is a bit lower than same time last year, when NPL coverage ratio stood at 59.3%).

The preliminary aggregated profit before tax of all twenty-two banks amounted to RSD 58.3 billion in Q3, representing a 40.6% increase year-on-year. Non-interest income made the greatest contribution to profit growth – fees and commissions income increased by RSD 20.5 billion year-on-year (62.2%), but most of this increase was the consequence of FX income reclassification carried out in the last quarter of 2021. Net interest income also made a large contribution to the growth of profit, having increased by RSD 12.9 billion year-on-year (13.4%), while operative expenses growth was much slower compared to last year. The banking sector return on assets (RoA) was 1.5% at the end of the third quarter of 2022 (1.2% in Q3 2021), while the return on equity (RoE) indicator was 10.9% (7.7% in Q3 2021).

Leasing sector

At the end of third quarter 2022, according to the statistics of the National Bank of Serbia, 16 financial leasing companies were operating on the Serbian market with total assets reaching RSD 140.5 billion. Total receivables, in absolute terms, amounted to RSD 127.1 billion and were 12.2% higher compared to the end of 2021 (RSD 113.3 billion).

The major part of receivables were receivables indexed in foreign currency (99%), the same as last year. Looking at economic sectors distribution, the biggest portion of financing was related to legal entities including privately owned companies, small businesses and entrepreneurs – 87.2% (or RSD 113.9 billion in total), public sector 0.1% (or RSD 143 million in total) and private individuals 12.6% (or RSD 16.5 billion in total).

According to Association of Leasing Companies data, financial leasing institutions in 2022 were still financing mainly vehicles out of which 50.5% were passenger vehicles and 27.7% were trucks, trailers and buses. In terms of business activity, 23.2% of leasing financing was in transport, storage and IT communication sector, 13.7% in trade and automotive repair, 11.8% in processing industry, water supply and waste management, 14.7% in construction and real estate and 2.4% in agriculture, forestry and fisheries.

By the end of third quarter of 2022 in Serbia the number of new vehicles financed through leasing in Serbia was 7,228 (passenger cars and light commercial vehicles) which was 12.3% higher than in the same period previous year. Share of new vehicles purchased via leasing in total number of new vehicles sold increased compared to the previous year (share in 2021 – 28%) and amounted to 32.5%.

CONSOLIDATED FINANCIAL PERFORMANCE OF UNICREDIT BANK SERBIA IN 2022

UniCredit Bank Serbia, consolidated financial statements (UniCredit Bank Serbia JSC Belgrade, UniCredit Leasing Serbia LLC Belgrade, UniCredit Partner LLC Belgrade)			
in thousands RSD	**2022**	**2021**	**Change**
Income statement			
Net interest income	15,637,261	13,324,290	17.4%
Net fee and commission income	7,409,387	6,406,365	15.7%
Other non-interest income	1,187,226	1,102,089	7.7%
Operating expenses	-11,383,822	-11,635,195	-2.2%
Net impairment loss on financial assets	-3,449,330	-2,782,818	24.0%
Profit after tax	8,500,290	5,962,614	42.6%
Balance sheet			
Loans and receivables to banks	75,893,639	42,249,257	79.6%
Loans and receivables to customers	328,843,714	322,594,841	1.9%
Deposits and other liabilities to banks	139,195,655	133,461,922	4.3%
Deposits and other liabilities to customers	358,140,581	314,207,092	14.0%
Equity	84,163,127	85,220,740	-1.2%
Total balance sheet assets	598,342,877	553,075,879	8.2%
Capital adequacy			
Total risk weighted assets	353,504,634	347,643,988	1.7%
Regulatory capital	75,303,033	76,466,449	-1.5%
Capital adequacy ratio	21.30%	22.0%	-70 bp
Key performance indicators			
Cost/Income ratio	47.0%	55.9%	-893 bp
ROA (Return on assets after tax)	1.5%	1.1%	38 bp
ROE (Return on equity after tax)	10.0%	7.0%	304 bp

Loans to Deposits ratio	91.8%	102.7%	-1088 bp
Asset(avg)/Number of employees(avg)	415,075	385,316	7.7%
Cost of risk	1.1%	0.9%	16 bp
Resources			
Number of employees	1,396	1,378	18
Number of branches	72	72	0

In 2022, the Bank confirmed its strong commitment to continuous growth and preservation of high standards in terms of profitability, productivity and efficiency. Also, due to the unstable epidemiological situation during the first half of previous year, the bank has continuously provided the highest health and safety standards for its employees and clients, following recommendations from state regulatory and health bodies. According to Q3 2022 data, the Bank was ranked as third on the market in terms of total assets, with a market share of 10.8%, same position as last year, despite the bank mergers and acquisitions on the domestic market and the non-organic balance sheet growth which were continued in 2022. Total assets at the end of December 2022 stood at RSD 582.6 billion and achieved a growth rate of 8.3% compared to year-end 2021.

Despite slower annual growth of net loans of 1.4%, compared to double digit growth in previous year, the Bank maintained a high market share in net loans to customers (10.4% based on Q3 2022 data), which ranked it as third bank on the domestic market in terms of credit portfolio. The growth was driven by the retail sector lending activity as well as successful results of the corporate sector.

Besides the expansion of the largest asset category – the customer loan portfolio, the bank continued to invest into debt instruments, which mostly consist of sovereign bonds of the Republic of Serbia. This type of investment is characterized with a high degree of security and contrary to previous year when the Bank was focused on achieving a positive financial result from their sales, this year the Bank was committed to investing in financial instruments with longer duration and with intention to hold them to its maturity.

The aforementioned growth of assets was financed with an extraordinary growth of customer deposits of 14% compared to the previous year, where both the corporate and retail sector achieved double-digit growth rates compared to the year before of 15.4% and 10.7%, respectively. A strong growth of the customer deposit base compared to the growth of credit portfolio resulted in the reduction of the customer loan to deposit ratio, which ended the year at a level of 87.1%, which represents a decline compared to year-end 2021 when it amounted to 97.9%. A continuous improvement of the deposit base, on both corporate and retail side can be seen as a confirmation of UniCredit Bank's image as one of the most sound and reliable banks on the local market.

The dynamics of net interest income compared to the year before was mostly influenced by the changes in the reference rates of most central banks from the beginning of Q3 2022. Reference rate hikes caused an increase in money market rates (BELIBOR, EURIBOR) which consequentially led to higher interest rates on local currency as well as on foreign currency indexed volumes of customer loans and debt securities. Dynamics of market rates increase was partially offset by downward price pressure due to increased competition in the retail segment.

Increase of net interest income was followed by the growth of net income from fees and commissions, which increased 15.6% compared to end of previous year. This increase in net income from fees and commissions was a result of the growing client base, volume of transactions and usage of digital channels. Increased economic activity due to easing epidemiological situation in the country also contributed to this growth.

Changes in net expenditures from financial assets impairment were mostly due to increased impairment in the section of the portfolio under strong influence of the Russia-Ukraine crisis, on the basis of norms provided by the Group (geopolitical overlay) and additional adjustments for future macroeconomic changes (forward looking information). Moreover, the Bank continued with the successful management of NPLs, which was confirmed by keeping the ratio on a low and stable level which at the end of December stood at the level of 4%.

At the end of 2022, the Bank achieved a net profit after taxes of RSD 8.4 billion, which represents an increase of 42.6% y-o-y. The return on equity indicator (ROE) also grew at the end of 2022 and stood at 10.3%, which is 330 basis points more compared to previous year. Herewith, the Bank confirmed its earning capability in conditions of economic uncertainty thanks to a stable and sustainable business practice focused on creating value for its clients. Apart from traditional commercial banking, the Bank also continued with successful trading with financial instruments as one of the leaders on both local and international market.

The achieved cost-to-income ratio of 47.2% is below the industry average, with which the Bank confirmed once again its ability to maintain high standards in terms of operational efficiency. The indicator is somewhat lower compared to the year before (56.2% at the end of 2021), despite the fact that this year was also burdened with increased provisions for lawsuits against the banks. On the cost side, the bank continued to invest in its employees and ICT infrastructure, despite the present systemic risk in form of lawsuits for loan processing fees which was present in this year also, and to some extent resulted in expenditure growth due to increased provisions for this purpose. Parallel with the increase in salaries and wages, the growth of operating expenses and depreciation was to a large extent attributable to the growth of ICT expenses and investments since the Bank continued to invest in the digital transformation of its business model in order to create additional value for all its stakeholders. For the clients that means access to more innovative products, which come with simplified procedures, while for its employees it created room for time optimization, increased automation and higher efficiency, which will in turn have a favourable effect on the reduction of operating expenses over time.

In 2022, the Bank continued to increase the number of employees, confirming its commitment to constant growth, and positioning itself as a desirable employer on the market.

Owing to its strategic focus on the quality of service and customer satisfaction the Bank is continuously enlarging its client base. The number of clients compared to December 2021 increased by over 9%. At the same time, excellent results were made in increasing the number of active users of internet and mobile banking, thanks to a successful implementation of digital banking channels.

UniCredit Leasing LLC continues its business expansion, increasing its market share in new deals at the end of Q3 2022 to 13.6%. Thanks to growth of sales, which are at the end of December 2022 higher by 14% compared to same period 2021, UniCredit Leasing achieved annual asset growth of 12.5%, focusing its business on SME, construction, agriculture and IT industry segments.

After a successful 2021, UniCredit Partner LLC posted 8% lower income y-o-y from representation in insurance.

Overall, on a consolidated basis, UniCredit Bank Serbia completed the business year of 2022 with excellent results taking into consideration the economic uncertainty which marked the year, and continued to build long-term partnerships with its customers and to fully support the local economy.

With a total consolidated capital adequacy ratio of 21.30% at the end of 2022, UniCredit Bank Serbia maintains a solid capital base, fully comprised of high-quality common equity tier one instruments and significantly exceeds the regulatory requirements for total combined capital buffers.

The Bank is under the control of UniCredit S.p.A. Milan, domiciled and registered in Italy, which is the sole owner of the Banks's common stock shares (100%). Related parties of the Group are: parent bank, entities that are members of the same group or are under joint control, members of the Board of Directors and the Audit Committee, the Management Board and managers who as members of the Group's board (ALCO and credit committees) have the authority and responsibility to plan, direct and control the activities of the Group ("key executives"), close family members of key executives, as well as legal entities that are under the control or influence of key executives and close members of their families, in accordance with IAS 24. In the normal course of business, a number of banking transactions are performed with related parties. These include loans, deposits, investments in equity securities and derivative instruments. Related party transactions are performed at arm's length principle.

STRATEGY FOR THE UPCOMING PERIOD

Three-year plan 2023-2025 of UniCredit Bank Serbia is a part of new, three-year Group Strategic plan **UniCredit Unlocked**, which optimizes the Group's operations and builds a clear long-term program for tomorrow, while moving into an era of purpose, growth and value creation for all our stakeholders**.** UniCredit Unlocked delivers the following strategic imperatives and financial ambitions:

Grow in our **regions** and develop our **client** base: sustainable growth both from our existing and new clients, together with developing best-in-class product and services, either in house or with external partners;

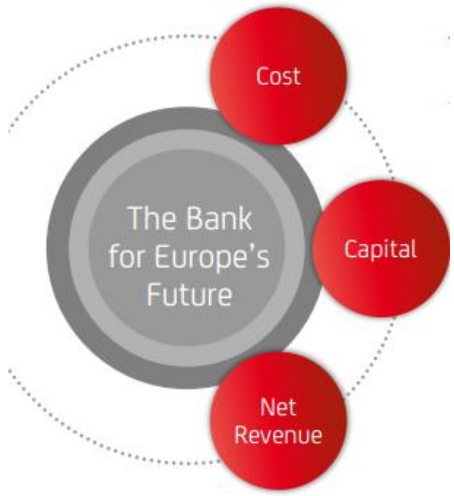
Change our **business model** and how our **people** operate: grow capital-light business, focusing on value-added products and services for clients, together with targeted cost efficiency to fund investment and deliver operating leverage;

Deliver **economies of scale** from our footprint of banks that provides us with diversification, client access, multicultural mindset and cross-border operations;

Transform our **technology** leveraging **Digital and Data** to create more personalized service and a more efficient bank for all of our clients;

Embed **sustainability** in all what we do – strong internal ESG ambitions while supporting clients in their green and social transition.

UniCredit Unlocked will deliver sustainable performance and profitable growth over in the next three years, via a combination of three interacting levers, optimally balancing growth, strength and profitability:



Cost efficiency, deliver a lower absolute cost base while funding Digital & Data transformation and investing in the Business;

Optimal capital allocation, generating organic capital from increased profitability and capital-light model, optimal capital allocation and active portfolio management;

Net revenue growth that delivers profitability above the cost of equity and recovery of market share.

The Bank's Multi-Year plan assumes full enforcement and alignment with all regulatory requests and set limits while achieving balanced growth. The plan also assumes keeping a strong track record of out-performing the market in terms of business growth, operating profitability and efficiency, with a focus on further process and system improvements, along with the aim to improve the portfolio quality and enlarge the active client base, in order to enable sustainable growth.

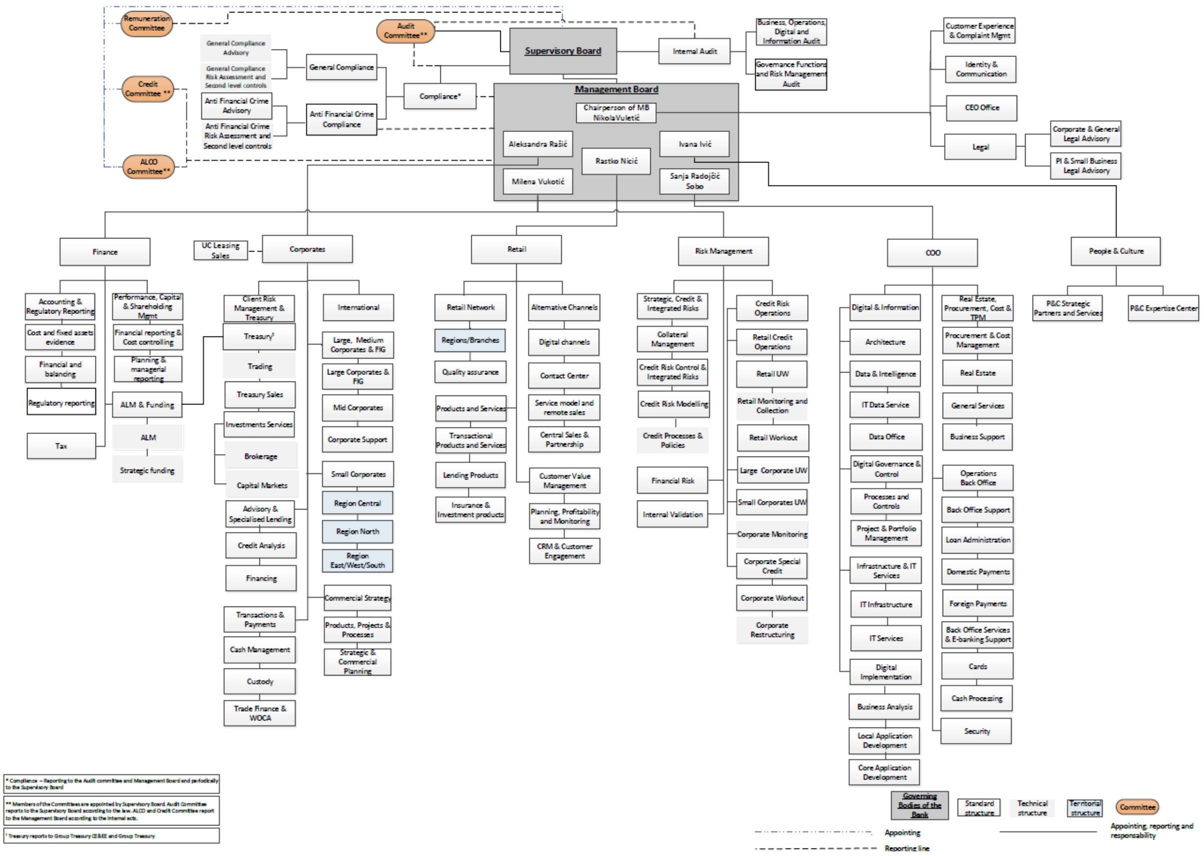
ORGANIZATIONAL STRUCTURE OF UNICREDIT BANK SERBIA

UniCredit Bank Serbia JSC BELGRADE

SUPERVISORY BOARD
Martin Klauzer, Chairman
Luboslava Uram, Member
Daniel Svoboda, Member
Ljubiša Tešić, Member
Lidija Barjaktarović, Member
Jelena Mihić Munjić, Member

MANAGEMENT BOARD
Nikola Vuletić, Chairman
Aleksandra Rašić , Member
Ivana Ivić, Member
Milena Vukotić, Member
Rastko Nicić, Member
Sanja Radojčić Sobo, Member

ORGANIZATIONAL STRUCTURE OF THE BANK



As of 2016, members of UniCredit Group Serbia, besides UniCredit Bank Serbia JSC, are UniCredit Leasing Serbia LLC Belgrade and UniCredit Partner LLC for representation in insurance Belgrade. The following UniCredit Group entities were also operating in Serbia in 2022: ALPHA RENT LLC BELGRADE (formerly UniCredit Rent) and UCTAM LLC Belgrade - bankrupt, which are representing parties related to the Bank.

UniCredit Leasing LLC

BOARD OF DIRECTORS
Milena Vukotić, Chairwoman
Aleksandra Rašić, Member
Branko Radulović, Member

EXECUTIVE BOARD
Ana Milić, Chairwoman
Ratko Petrović, Member
Ivan Damjanović, Member

UniCredit Partner LLC

Zvonko Buden, Director
UniCredit Partner has no Board of Directors, or an Executive Board

CORPORATES

In 2022, Corporates was oriented towards additional strengthening of its position on the market through growth across all business segments while supporting both the public and the private sector and providing the best service for all clients, deploying innovative solutions to improve its business, processes and products. The additional effort has been made to support the economic recovery after the negative effects of the coronavirus pandemic and negative effects of Russia-Ukraine crisis. The Division continuously brings the Group's worldwide expertise to support local innovation, product development and economic growth.

The loan portfolio of Corporates amounted to RSD 215 billion at the end of 2022 with an annual growth rate of 9%, whilst deposits amounted to RSD 235 billion, a 16% increase. The total number of clients was 5,844 at the end of November.

The Markets Department sustained the leading position of the Bank on the local market. According to NBS data for 2022, UniCredit Bank was ranked second in FX trade with residents, with a market share of 16%, and first in FX trade with non-residents, with a market share of 37.1%. UniCredit Bank kept the first position on the market in euro trade on interbank market with a market share of 18.7%.

During 2022, the Bank continued its efforts to promote hedging products, as a way to protect businesses from interest rate, FX fluctuations and commodities prices variations on the market by offering interactive workshops for both large enterprises and medium-sized companies. The Bank was aiming to be ahead of its competitors with its innovative approach and in doing so it affirmed its leadership position in the design and sales of these products. The bank maintained its leading position in the trading of financial instruments on the secondary market, with a share of 29.4%, as well as a significant presence on the primary market with a share of 10%. In 2022, the NBS began reporting on the volume of transactions on the interbank REPO market, where UniCredit Bank participated in 96.8% of the volume offered by the NBS for 2022.

The Bank continued to support enterprises with long-term investment plans and ventures, as well as those that require working capital financing. With the aim to strengthen competitiveness and entrepreneurship, UniCredit secured an easier access to financing through the guarantee scheme programs that enable reduced collateral requirements through the COSME or EDIF guarantee programs. The COSME program covers loans of up to EUR 150,000, while the EDIF program covers loans of up to EUR 500,000. In addition, the Bank supports SMEs that are looking to improve existing processes and products in an innovative way by providing access to finance and reduced collateral requirements through the InnovFin Program. Under the Social Impact Banking and Impact Financing programs, the Bank aims to support projects that generate a clear and measurable positive impact on the social community, with a particular focus on hiring of endangered categories and social inclusion, as well as providing support for projects in devastated and underdeveloped regions in Serbia. Furthermore, Corporates continued to offer favourable financing conditions to its clients in the first half of 2022 via the First Guarantee scheme program adopted by the Government in order to provide support for micro and SMEs dealing with the negative consequences of the crisis caused by COVID-19, and also via the Second Guarantee scheme program intended for the most vulnerable industries such as international transportation, hotel management, tourism and catering.

Corporates continued to focus on providing support for export-oriented industries, with a strong belief in their importance for Serbia's economic growth and the implementation of the economic and industry strategy of the Republic of Serbia. The Division focused on expanding the cooperation with the existing clients and the acquisition of new clients in a range of industries that have been recording positive growth rates or possess a significant recovery potential, as well as on the expansion of the SME client base. It also continued financing the public sector (central and local self-governments), while it continued working on improving public services for citizens. In addition to the above, the division strived to deepen and further increase long-term partnerships with new and existing customers based on reciprocity and trust. Related improvement and optimization of risk-adjusted pricing policy was a part of the year-round agenda in order to better capture the risk profile of a client and provide an adequate reward for the risk assumed. Corporates customer satisfaction represents a crucial indicator of a successful partnership with all our customers.

In 2023, Corporates will aim to maintain its leading position on the local FX, money and capital markets. Business processes efficiency and effectiveness represent a key factor for achieving business goals and the entire Division structure will be proactively involved in the improvement, digitalization and automation of processes in 2023. In pursuit of this vision, the focus will be on: the reduction of concentration along business segments and increasing the share in the clients' portfolio by strengthening relationships, further innovation of the product portfolio by implementing new products, increasing the penetration in the segment of small and medium-sized enterprises, providing support for public projects, diversification of the customer portfolio and revenue base as well as increasing the loan portfolio balance in terms of the currency structure.

UniCredit Leasing (UCL) recorded an annual growth rate of 14% with a portfolio totalling RSD 17.6 billion at the end of 2022.

In 2022, UCL posted new financing in the amount of EUR 89.8 million, which was 6.5% more than last year. According to Association of Leasing Companies data, at the end of the third quarter, UCL market share in new business financing amounted to 13.6%.

At the end of Q3 2022, UCL maintained its top market position in the segment of Equipment financing, with EUR 16.6 million of new financing and a market share of 23%. UCL was 5th on the market in the segment of Vehicles with EUR 34 million of new financing and a market share of 14%.

During 2022, UniCredit Leasing focused on strengthening its cooperation with vendors, supporting the SME segment, construction, agriculture and the IT industry sectors as well as on innovation and developing tools for faster and easier processing of client requests. UniCredit Leasing successfully continued to provide subsidy programs and easier financing access through EBRD funds and state-supported programs. Special attention was dedicated to green economy and sustainable energy programs, where UCL will continue to contribute in coming years.

RETAIL BANKING

In spite of the complex business environment caused by global political tensions and their consequences in terms of galloping inflation and significant increase of reference interest rates, Retail Banking maintained growth during 2022. Total Retail loan portfolio increased by 5.9% y-o-y, while deposits volume achieved annual growth of 6.7%.

Clients continued to show the trust in the Bank's products, as well as the quality and reliability of services. In the segment of Private Individuals (PI), key credit products in 2022 were housing loans and cash loans with the insurance coverage in case of unemployment. Despite the continuous increase of client interest rates, especially during H2 2022, solid growth of PI lending portfolio by almost 4.4% was achieved, with an increase of housing loans volume by 7.3% compared to 2021. Lending to entrepreneurs and micro businesses grew by 11% y-o-y.

UniCredit is recognized as one of the most reliable banks on the local market even during a crisis, considering that PI deposits volume achieved outstanding growth of 11% compared to 2021, and the record-high market share in PI deposits of 5.44% in 2022.

Base of PI active clients increased by almost 9% comparing to 2021, confirming the Bank's ability to recognize and deal with different client needs with constantly strengthening and expanding cooperation with existing, as well with new clients. Also, for years, the Bank has been recognized as a stable partner regarding services to students and their education in terms of banking products.

2022 was a year of further growth of digital banking, which is even more important considering the fact that the Bank put health and safety of its clients and employees as a key priority in business during the pandemic. The number of active m-banking users increased by 15% y-o-y, meaning that more than 63% of all clients were active on mBanking in a period of 30 days.

In accordance with modern trends and greater client expectations, digitalization as a concept of business modernization is still one of main priorities. Some of most important digital improvements executed during 2022 in the PI segment is the implementation of Google and Apple Pay functionalities aiming to enhance client experience. In Q1 2023, the Bank will implement the process of approval and granting of cash loans via the mBanking app, without the need of visiting a branch.

Regarding the micro segment, the Bank organized an educational workshop for entrepreneurs, aiming to raise awareness and explain key business risks, and will introduce the new SME remote hub model in Q4 2022. Also, the Bank will continue with special offers aimed at entrepreneurs and micro legal entities in order to support their growth.

In the upcoming period, focus will remain on automation and simplification of procedures, with the aim of improving the efficiency of business processes. The goal is to continue with the sustainable increase of market share based on good relationships with customers. When it comes to loan products, in addition to cash and housing loans, special focus will be on credit cards, which, along with standard possibilities for payments for goods and services in country and abroad, as well as online, will also have additional special features for benefits in line with client needs.

Additionally, the Bank will focus on automation of key processes within the Bank in the upcoming period, aiming to reduce time needed for loan approval and granting. Regarding this, work will be done to improve the automation of the loan granting process for the corporate segment, as well as housing loans, as products that are crucial for long-term cooperation with PIs, for the purpose of further improving customer experience.

That UniCredit is a bank that maintains a wide range of products is also evidenced by the fact that we are continuously expanding our cooperation with the agricultural sector, actively participating in all subsidy and support programs for this sector, and actively tailoring our current product offer for the needs of agricultural holdings, primarily on the territory of Vojvodina.

The recognition as a socially responsible institution is of great importance for the Bank, considering its commitment to environmental financing in order to protect the environment and raise awareness of all market participants.

RISK MANAGEMENT

Risk Management[1] is organised to cover risk management, through the work of the following structures:

- Strategic, Credit & Integrated Risks (which includes the structures: Collateral Management, Credit Risk Control & Integrated Risks, Credit Risk Modelling and Credit Process & Policies);
- Credit Risk Operations (which includes the structures: Retail Credit Operations, Large Corporates Underwriting, Small Corporates Underwriting, Corporates Monitoring and Corporates Special Credit);
- Financial Risks;
- Internal Validation.

They all report to the Executive Board Member in charge of Risk Management, which ensures there is no conflict of interest and separation of risk management activities from other regular business activities.

In order to define a consistent policy for the lending activity and a general framework for risk management, each year, the Bank makes a Credit Risk Management Strategy for retail and corporate. The Strategy includes general guidelines for the basic parameters of risk management, principles of analysis of the creditworthiness of each customer segment, and the determination of the direction of development of individual products, as well as a detailed review of portfolio development strategies by individual industries. In this way, the Bank provides that adopted business policies are carried out within the framework that will result in an acceptable level of credit risk at the level of individual sales and adequate diversification and general quality of the loan portfolio.

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

The focus in 2022 was on assessing and controlling the potential negative effects of the Russia-Ukraine crisis on portfolio quality. For this purpose, a separate monitoring process was introduced, which aimed at timely identification and closer monitoring of affected industries or individual clients and their adequate classification in accordance with the existing monitoring process (Standard classification, Watch List 1 classification and Watch List 2 classification), as well as the application of stricter approval rules for clients that can potentially be negatively impacted by the Russia-Ukraine crisis within the scope of Retail structure.

Identification, measurement, control and management of credit risk on the portfolio level is based on the reporting system, which provides information about the condition, quality and evolution of the loan portfolio. During 2022, there was a continuity of credit risk measurement process improvement through implementation of methodological changes relating to IFRS 9 and CRWA, as well as the calculation of economic capital for certain risks within pillar 2. A detailed analysis of the credit portfolio was carried out, due to the impact of the geo-political situation caused by the war in Ukraine, continuous monitoring of portfolios from endangered industries under the influence of the energy crisis was ensured and several stress tests of the impact of the aforementioned crisis were carried out, on the performance of the basic indicators of the Bank's operations.

When it comes to Basel Standard implementation, the focus of activities was placed mainly on confirming the predictive capabilities of the internally developed rating models in use and appropriate credit risk parameters for corporate, retail and small business entity segments, as well as calibration and further development of rating models according to methodology of UniCredit Group and in line with Internal Validation and Internal Audit recommendations. In the field of IFRS 9 standards, the PD model was recalibrated for the following segments: legal entities, private individuals, entrepreneurs and small businesses.

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

During 2022, several projects/initiatives were implemented and launched that provided continuous monitoring of key risk indicators from various fields:

- Set of amendments to improve the implementation of the new default definition - new DoD project,
- The project related to new segmentation through changes to all internal reports to management and the Group is successfully finished;
- An agreement on participation in the risk between the Bank and Leasing was defined through the so-called Risk Participation Agreement, through which the Bank accepts to participate in risk sharing through the insurance of a part of the Leasing portfolio,
- Activities to optimize CRWA and Capital continued, primarily through the implementation of ISF (infrastructure supporting factor), CCF (credit conversion factor), Optimization of LLL (legal lending limit) were continued:
- a new monitoring concept was established in the area of industrial limits and leverage transactions,
- the back testing framework for individual assessment (haircuts for collaterals), for the effectiveness of implemented forbearance measures, as well as reporting related to annual and lifetime recovery, was improved.

Regarding corporate portfolio monitoring, bearing in mind the prolonged effects of the COVID-19 crisis, which was joined by the Russia-Ukraine crisis, the increased monitoring of warning signals, clients and portfolios, and the implementation of various measures aimed at reducing risks in cooperation with clients who are on high-risk client watch lists, is continued. In addition to the existing monitoring list of clients with increased risk (“watch list”), a portfolio under the strong influence of the Russia-Ukraine crisis was also identified, based on the criteria prescribed by the Holding and local analysis, which is monitored on a monthly basis and based on information from the market, from clients and various internal analyses, by the competent structures (Large Corporates Underwriting, Small Corporates Underwriting, Credit Operations), which is regularly reported to management structures and the Group.

The bank continued with the comprehensive analysis of the existing monitoring process, both on its own initiative and in accordance with audit measures and process changes dictated by the Group, all with the aim of improving its efficiency and effectiveness, in order to recognize risks earlier and to ensure a timely reaction of the Bank. During 2022, the trend of fluctuations of clients to and from watch lists continued, while the number of clients on watch lists is still relatively high, especially considering the enlarged corporate portfolio after the re-segmentation process. Although part of the credit portfolio showed solid resistance to the crisis, some of the clients are still under the strong influence of the global crisis, which is predicted to continue in 2023.

In 2023, corporate monitoring will coordinate more significant changes to the set of anomaly-warning signals, in accordance with the instructions of the Group, which should enable greater efficiency in the process and more effective identification of risky clients.

Regarding the Corporates Special Credit, given the prolonged effects of the Russia-Ukraine crisis, which practically continued on the negative effects of COVID-19, special attention is focused on the effects of the crisis on the business of clients in the competence of Corporates Restructuring and assessing their position and repayment capacity in new circumstances. During 2022, there was a reduction in problematic loans in restructuring, through regular collection, collection from collateral (voluntary sale), sale of receivables, as well as the return of a number of clients to performing status. The fluctuation of clients in the restructuring portfolio was on a regular basis. In addition to the fact that several major sales have been transferred to the competence of the Corporates Restructuring, some clients have been returned to the standard portfolio in the regular process. At the end of 2022, the number of restructuring clients has not changed significantly compared to the end of the previous year, which is the result of a balanced influx of new clients and the return of existing clients to the standard portfolio or referral to collection. The restructuring, in a number of cases, was supported by state support measures for the economy affected by the Russia-Ukraine crisis. Implementation and promotion of INSOL principles for managing problematic sales and clients in the conditions of a larger number of creditors continued.

In the Retail segment, for private individuals, small businesses, entrepreneurs, registered agricultural holdings, as well as companies, the focus in 2022 was on increasing the efficiency of all processes, through the audit of the process steps and activities on the development of new automated technical tools for loan approval, as well as the improvement of existing ones, then on the improvement of the process of loans monitoring and collection, as well NPL reduction.

During 2022, Collateral Statistical Monitoring was completed as well as further improvement of cooperation with external associates: valuation companies, licensed appraisers, insurance companies, monitoring companies and lender supervisors. Aside from that, general improvements of collateral management process and practice were also implemented through more agile acquisition of valuations, insurance policies, more detailed tracking of mortgage inscriptions, increased involvement of lawyers in the registration of mortgages etc. The Bank was adequately delivering regular monthly reports regarding real estate valuations to NBS, which are used for loan processing purposes.

In the area of financial risks management, the focus of activity was on the improvement of standards in the control and management of market, interest and liquidity risk.

In the area of market risk management, bearing in mind the prolonged effects of the COVID-19 crisis, which was continued by the Russia-Ukraine crisis, a significant part of the activity was devoted to the careful monitoring and analysis of events on the local and world markets, as well as the movement of the main macroeconomic indicators.

In the area of interest rate risk management, the scenarios used in monitoring interest rate risk exposure in the banking book were updated in accordance with the latest EBA standards.

In the domain of liquidity risk, structural liquidity reports were improved, activities were carried out to update scenarios and assumptions used during stress tests, risk identification processes that could lead to increased exposure to liquidity risk were improved, as well as processes for independent assessment of the adequacy of the bank's financing plan in regular and in unforeseen circumstances. One of the very important goals of the Bank in the field of risk management is to achieve and maintain all standards in the control and management of non-financial risks, in accordance with the established system of identification, assessment and control of these risks. The Bank manages operational risk through: collection and validation of data on internal losses, analysis of scenarios in order to estimate maximum losses, monitoring of key risk indicators (KRI), self-assessment of operational risks (RCSA), analysis of key risks for the Bank, analysis of operational and reputational risk of entrusting the relevant activities of the Bank to a third party, analysis of operational and reputational risk when introducing a new product or significant product changes, analysis of operational risk of information systems and cyber risk. Evaluation of the reputational risk of clients/initiatives/transactions/projects/ and other topics for which there is identification of potential high reputational risk is carried out within the Committee for Non-Financial Risks (NFRC) - Subcommittee for Reputational Risk.

Based on the foregoing, it can be concluded that during 2022 the Bank enhanced risk management system, which, along with its capital adequacy and profitability levels, guarantying an adequate management and coverage of the risks to which the Bank is exposed.

Integrated risk management function within which, in accordance with the Law on financial leasing, UniCredit Leasing entrusted the tasks of identifying, measuring, assessing and managing risks to the risk management function of the Bank, was dedicated to improvement of economies of scale in credit business, support in commercial actions and credit process optimization.

Risk Management will continue with the efforts and actions aimed at improving the system of management of all risks to which the Bank is exposed in its operations. Special focus is planned towards further enhancement of the credit process in order to improve efficiency, as well as on creating a comparative advantage in the market through process optimization on one hand, and through improvement of the tools for identifying and mitigation of credit risk, on the other hand. In that way, adequate support to all organizational parts will be secured. In 2023 one of the main goals is to maintain and improve portfolio quality and enable base for sustainable growth with focus on further portfolio diversification, but always using proactive approach toward risk management enabling new client acquisition.

BANKING SUPPORT

During 2022, the trend of improving the level of support for both clients and other structures of the bank continued.

Changes were made to the organizational structure of the bank in order to adapt it to the new organizational model of the Group to further enhance coordination and enrich global homogenous and coherent organizational framework within the whole Unicredit Group. In this context, the transformation of the existing Information Technologies department, Organization department and the Data Governance unit was realized into the new structure of Digitization and Information Technology, which created adequate prerequisites for further digitization of the process.

With the new strategy for Digitization and Information Technology, which is fully aligned with the bank's business strategy, the focus still remains on digital channels and the development of the Bank's digital products, as well as the digitalization of sales and after-sales processes, the presentation of services and products to end users, and the digitalization of internal processes application.

The introduction of micro-services continued and the bank multiplied their number, confirming the previously established strategic direction towards micro-services and DevOps, and the realization was achieved through digital projects.

The initiative to introduce agile methodology on projects is encouraged, where it is expected that this way of working will contribute to efficiency and faster achievement of project goals.

At the same time, in coordination with the Digitization and Information Technology structure, Security initiated and implemented a series of improvements in the field of cyber security, focusing on employee awareness, information protection and the constant fight against numerous cyber threats by implementing new as well as upgrading existing tools and processes and through investing in the professional knowledge of employees. In the aforementioned process, and in accordance with the local and group strategy, the implementation of initiatives as well as their planning is carried out in close cooperation with colleagues from the group, firmly adhering to the principles of standardization and optimization of processes and solutions.

In order to meet the demands and growing needs of clients, in parallel with the development of digital channels, during the year 2022, two (2) branches were moved to a new location. The offices were furnished in accordance with the new modern concept and design.

In addition, in cooperation with colleagues from organizational parts in charge of doing business with private individuals and small businesses, the process of qualitative and quantitative control of archived active documentation of clients was improved. The control measurement of the completeness of the documentation as well as the qualitative verification of the documentation are fully established and monitored on a monthly basis.

In 2022, it was ensured that 75% of the electricity used by the Bank for regular business would come from renewable sources by concluding an annex contract with Elektroprivreda Srbije (EPS) for the delivery of this type in February 2022.

Real Estate, Procurement, Cost and Third Party Management structure took over the activities related to entrustment to third parties and third party risk management, which provided a single place for managing contracts with suppliers, including risk assessment for processes related to entrusting to third parties and processes involving certain risks in the field of business continuity management, "cloud" services, cyber security and GDPR.

Banking operations continued with further optimization and automation of processes through the implementation of robots in banking processes and improvement of existing applications in order to reduce operational risks, increase customer satisfaction and increase productivity. Thanks to efficiency, flexibility and expertise, the structure of the Operation significantly contributed to the bank's business success in 2022.

The focus of COO (Chief Operations Office) in 2023 will be on continuous improvements, process optimization and digitization, in order to increase the satisfaction of clients and employees.

PEOPLE & CULTURE- P&C

The operations of the People & Culture in 2022 were focused on providing strategic support to the realization of the Bank's planned business activities through:

- Strengthening the organization in the direction of maintaining business continuity and adequate adaptation to remote work
- Empowering leaders through leadership development programs
- Empowering women leaders in the organization
- Strong focus on promoting organizational values

Having in mind the strategic development plans of the bank, in 2022, P&C strived to support operations in the most adequate way, primarily with overcoming challenges, achieving goals and results by providing adequate support in adapting to the new model of work, which was carried out via the improvement of organizational culture and competencies in the field of skills and expertise necessary for remote work, a culture of teamwork, communication and presentation skills, digital transformation and innovation.

This year, as well, the Bank also paid special attention to the development of leadership skills on all managerial level and talents of the Bank and motivating and retaining employees who achieve high achievements and have potential for further development. Leveraging on internal capacities and in cooperation with external consulting companies' numerous workshops and trainings were organized during 2022 with having more than 10.000 hours of learning. For the Bank's Management, the development programs were focused on leadership skills with main focus on Change Management, while for the organizational parts of the Bank which cooperate with clients the focus was on improving presentational and sales skills.

In this year workshops were organized for all organizational levels on the topic of effectiveness of the meetings with the aim to improve mutual communication, overcoming the challenges and better understanding of the needs of the team during remote working. In parallel, in order to strengthen the leadership skills and provide adequate support to UniCredit leaders, the P&C in cooperation with a global provider, focused on a young talent of the Bank program, selecting the new generation of future leaders, aiming to strengthen and increase their digital and leadership skills as future leaders in an era of constant market change.

In 2022, the P&C has continued the initiative started in the previous years and launched 3rd edition of the program which aim is to support and empower women leaders in our organization by providing support on the path of personal growth and further career progress. This pragmatic program supports building women's leadership in our organization.

During 2022 P&C developed Retail Management Academy "Effective Management Practices" – new development program for Branch Managers. The program has been customized to address our organization's particular needs, topics such as: giving feedback, delegating, leading teams, personal organization, motivating teams.

P&C supported employees through a changed communicational approach and regular information in providing new career opportunities and promotions, as well as in enabling to change positions within various organizational parts of the Bank.

Striving to adequately empower and support employees in achieving their business goals and improve their performance, the P&C has supported employees in improving their expert and social skills by organizing and providing budget for various trainings, domestic and foreign certificates, and international seminars and conferences that employees attended online during 2022. Special focus on developing digital skills in order to boost attracting new digital profile talents and retaining the current ones. We continued with Digital Learning Pills initiative, purchased 50 Udemy courses licenses and organized SQL training course for 90 employees.

In 2022 strong focus was also on promoting organizational values, Accountability and Speak up culture and Diversity, equity and Inclusion. All population participated on the Accountability and Speak up workshops and also invited to Cultural Day and DE&I week.

As in previous years, in 2022 UniCredit Bank provided private health insurance for all employees, as well as Bank enabled to family members of the employee to obtain, under more favourable conditions, a "Health Package" in a particular medical institution. In 2022 the Bank continued to provide free online psychological counselling for its employees, as well as a support package for each infected team member that have been delivered to the employees' home addresses.

Moreover, UniCredit Bank has continued to implement previously adopted benefits and initiatives such as Birthday Holiday, Free Day for employees whose children are in the first grade of primary school, and Parental Support, and we have also introduced the possibility for the father of a new born child to work part-time during the first month after the child's birth, with a proportional salary (up to that point, this possibility has been provided only to mothers returning from maternity leave).

Also, we introduced a new benefit, support all our employees who are facing with challenges on their path to parenthood (covering the cost of one IVF procedure).

In order to encourage employees to take more care of their health and good life habits, P&C has launched and in 2022 continued with the "Really Important Knowledge" initiative, and in that sense organized a set of workshops held by specialist doctors, through which employees are encouraged to take care of their physical and mental health.

Cooperation with universities was continued through internship programs, study visits and scholarships for the best students.

In 2023, the P&C will continue to work on strengthening the organization and strengthening the organizational culture and employees of the Bank in the field of transformation towards digital business, development of talents and leaders in order to build a stable network of successors to leadership positions. It will also continue to promote a flexible work culture, create a balance between business and private life, support in the form of more comprehensive medical services and the promotion of healthy life habits.

IDENTITY AND COMMUNICATION

For the third year in a row, society at the global level was faced with completely new circumstances of life, caused by the impact of the pandemic, while this year conflicts on the soil of Europe contributed to an additional difficult situation. However, as with all previous challenges and changes, our bank responded in a coordinated and timely manner. Identity and Communications tried to adjust priorities and key messages to all interested parties in a very coordinated way.

As in previous years, it was extremely important during 2022, due to the impact of the pandemic, and now also the conflict in Europe, that our employees, clients, community and regulators are convinced that the priorities of UniCredit Bank are health and safety, as well as that we will proactively and continuously provide support and be their support. One of the priorities in the relationship with clients was to inform them in a timely manner about all developments, new products and services, current campaigns and promotions, bank successes, work changes through all available channels, both in the bank's operations locally and throughout the Group. Here, above all, we mean measures to prevent the spread of the virus, but also the use of electronic services and international transactions. Through daily communication, through all available channels, we have done everything necessary to meet the highest criteria of transparency, as well as to provide them with accurate and up-to-date information at all times.

The Strategic Plan of the UniCredit Group "UniCredit Unlocked" was implemented in a transparent and clear manner throughout the year, so that clients and employees were familiar with all the Bank's decisions and goals. Also, the results of the Group and the Bank were communicated locally on a quarterly basis.

During 2022, Identity and Communications continued to work on the promotion of digital channels with the aim of increasing the number of users, while we tried to regularly inform existing clients and familiarize them with all the advantages provided by our digital platforms and channels, such as mBanking and eBanking services, but also multifunctional ATMs and the new WoCa factoring platform. Our proactive approach to getting users used to digital channels, very quickly and in large numbers became the basic way of communication.

During the whole of 2022, in cooperation with colleagues from the Department of cooperation with the population, as well as the Bank's partners, we worked on the promotion of UniCredit Bank's products and services, such as the Package current account, Flexia credit card, Cash loans and Deposits. For promotion, we used the Bank's internal channels, such as the official website, branch network and other available channels. Also, promotion was done through external paid channels, depending on the campaign.

In March, we started the promotion of the Gold account package, through a campaign under the slogan "My 3.000 reasons to smile", on the occasion of the Women's Day holiday. The focus of the communication was a gift in the amount of 3.000 dinars for all women who open a Gold current account and existing clients who make one payment card transaction.

During the month of July, we focused on the promotion of the Bank's key products such as Cash Credit, credit card and mBanking. Under the slogan "Leave a mark this summer", the focus was on communicating the benefits of the mentioned products in the summer period, when the population has the greatest need for travel, paying abroad or changing currency through the mBanking application.

Last year, a significant focus was on the promotion of Deposits and special interest rates in euros and dinars, in two waves. The first wave of the Deposit campaign was at the beginning of August and lasted until mid-September. The second wave of the campaign started in November for 6 weeks. The key messages of this campaign were to present the bank as a safe and stable place for savings.

The first TV commercial for the Cash Loan product, which communicated the needs and purposes of users in the mentioned period, contributed to the strengthening of the brand and contribution to the Bank's image. Under the slogan "All those things that were waiting for Autumn", we presented to our target group the key uses of this product in the autumn period, such as travel, home renovation, buying small and large things for yourself and your family.

During the month of December, we focused on the promotion of the Flexia credit card as well as a special offer for New Year's Cash loans, where we showed clients that the Bank is there for them in moments when support is necessary and urgent.

In 2022, UniCredit Bank strove to maintain its presence in the media and thereby additionally contribute to the growth of the Bank's recognition, its reputation and positioning as an expert in the field of banking, economy and finance. During the year, a media conference was organized on the unique credit line that we launched with the European Investment Bank, and which was supported by representatives of the Government of the Republic of Serbia. Additionally, we organized two conferences for the bank's clients - the first with the aim of presenting the new WoCa digital platform in cooperation with the Serbian Chamber of Commerce, and the second for large corporate clients on ESG trends and green financing. When we look back at communication with the media, apart from focusing on highlighting products and services, we continued to pay great attention to promoting our socially responsible projects, responsible behaviour and business, as well as the Bank's aspirations towards sustainable green business, and not only our business, but also the business of our clients. Throughout the year, our communication with the media and the general public was aimed at celebrating the Bank's jubilee, through the campaign "20 years together we try to start good things". This was primarily reflected in the implementation of the Investment Project in protected areas and natural monuments throughout Serbia, based on the signed Memorandum on Cooperation with the Ministry of Environmental Protection of the Republic of Serbia. Through various media formats and relevant interlocutors, as well as participating in conferences and organizing them, we tried to highlight the importance of the Bank's digital services, as well as our contribution to investing in the community and the environment in which we operate. Thanks to fostering good relations with the media, with mutual respect, appreciation and trust, we have successfully achieved our goals. In the last quarter of 2022, a festive cocktail was organized for our most important stakeholders and clients of the bank, in order to celebrate together the achievements of the previous 2 decades of business in Serbia.

In 2022, internal communication had an extremely significant and recognized role among employees. The hybrid work model is fully accepted, which implies rotation of work from home and work from the office, through established employee shifts. Realizing the importance of maintaining business continuity, but also mental health and work transparency, communication with employees via email and the internal portal of the Bank and UniCredit Group was very frequent and regular. In order for all employees to be informed about achievements and goals in a timely manner, management meetings are regularly organized, as well as visits by bank management representatives to the regions where we operate. We hosted the CEO of our Group, Andrea Orcel, who was on his first two-day visit to our bank, and for whom we organized several institutional and internal meetings and events for employees. We also hosted other representatives of the Group Management on several occasions.

With various internal campaigns, we tried to promote collegiality, team spirit, but also a healthier way of life, as well as new ways of learning and personal development. During 2022, we continued to communicate individual stories and successes of our employees, colleagues who achieved the best results in our branches and who were at the service of clients all the time. This year, for the first time, a Culture Day was organized at the level of the entire Group, which additionally contributed to the spread of the culture in which we nurture the three basic values of Integrity, Responsibility and Care in our bank. We also devised different ways to stay closely connected not only with our colleagues but also with our families, as well as the community in which we operate. Thus, during the organization of the Family UniCredit Day, on this occasion, employees were given materials for making greeting cards intended for neglected children in homes, elderly people with disabilities placed in homes, as well as the oldest fellow citizens in homes for the elderly. This year, the Volunteer Club was formed, as a place that will gather all colleagues interested in contributing to the community through participation in various initiatives of the company and the bank.

Through various channels of internal communication, employees were regularly and transparently informed about all strategic changes and decisions of the local Bank and UniCredit Group. The campaign of presenting and reminding of all the current products that the bank offers to our employees continued.

In 2023, identity and communications will remain focused on providing support to the bank's operations through informing clients through various communication channels. Also, great attention will be paid to further improving the Bank's reputation by continuing to implement various initiatives aimed at supporting the local community. Internal communication will continue to be one of the basic types of communication between different sectors of the company, but also support for all employees to realize their full potential and to feel integrated in the Bank's activities and projects.

CONSOLIDATED NON-FINANCIAL REPORT FOR 2022

Foreword

As sustainability is becoming one of the imperatives of modern society, the role of banks on the path to green transition will grow and become increasingly more important. UniCredit Bank is committed to both empowering all individuals within its system, as well as in the community it operates in. The circumstances of the COVID-19 outbreak and energy crisis have further highlighted the importance of sustainability, but also the role which companies can have in leading communities toward a better future based on the principles of responsible behaviour and operations.

During the twenty years of its operations, UniCredit Bank has strived to make a positive impact in society, and through its activities, be more than just a Bank for the community it operates in – to be a partner for positive change. For UniCredit Bank, 2022 was one of the most important and successful years in the field of green projects and positive impact, and the scope of projects and activities which provided a positive and measurable contribution to the community are only an additional motivation to work on the green transition and the promotion of ESG principles with even more commitment in the coming years.

Environmental protection

ESG TACTICS MANAGEMENT APPROACH ON THE LEVEL OF UNICREDIT BANK SERBIA JSC/LEASING/PARTNER

The Bank carefully manages ESG related topics, ensuring proper origination, monitoring and management of the portfolios, following a holistic approach, with the ultimate aim to enhance and integrate in medium term:

- Portfolio steering through RAF[2] & RAS[3], Credit strategies cascading and relevant policies issuing.
- Portfolio analysis and monitoring.
- Single client risk assessment (starting from Large Corporate).

Within the credit lending activities, the Bank takes into consideration the impact of climate-related and environmental risks, through the climate and environmental assessment of the risk profile of large corporate clients, that are the subject to consideration and approval by the Group Credit Committees, regardless of the industry in which clients operates**.**

Starting with 2021, the Bank continuously carries out activities related to the improvement of processes in the Climate and environmental risks area, where the focus is on initiatives and key projects, which take place in several streams:

- The Bank included in its lending process the specific climate and environmental questionnaire, which encompasses climate change and environmental area from the aspect of client's impact and the analysis of client's climate-related and environmental positioning, focusing on specific dimensions (e.g. level of emissions with relevant targets and strategy, transition risk, other environmental risk metrics, etc.). The questionnaire represents the scoring (through a series of key synthetic indicators), which assessing the borrower's positioning in terms of related risks, level of vulnerability and exposure, as well as in terms of potential economic/financial impacts. As a general rule, the questionnaire has to be completed at least once per year, unless new relevant information on Climate change and Environmental topics will be available. The whole process and all relevant rules are described in the internal act, RU[4] 1180 Environmental and social framework in corporate credit process.

- Given that the risks of climate change, for the financial performance of the clients, can primarily materialize as physical risks (such as risks that arise from the physical effects of climate change, including liability risks for contributing to climate change), the Bank is focused at the enhancement of the methodology to assess vulnerable portfolios and mitigate related risks. Therefore the Bank was, in previous period, engaged in the initiative of mapping data related to collaterals, in order to provide a basis for the future recording of the physical risk data of its collateral instruments. Based on mentioned, the Bank was, during 2022, developed fields for physical risk within the corporate workflow tool in order to have it for future evidence of physical risk. The final implementation of the mentioned fields we may expect in the first half of 2023.

- Respecting the future expectations related to the Net Zero Alliance, of which the UniCredit Group is a signatory, we saw the importance of data related to the emission of harmful gases by our clients. Realizing that still a small number of clients have this type of data, we entered into discussions with one of the consulting companies with the idea of a joint project, which would result in a prediction of CO2 emissions by industries and individual clients in the Bank's portfolio. The goal of such forecasts is to prepare for future goal setting in line with Net Zero goals.

- With the increased focus on climate and environmental related topics, the collection of environment-related information and their integration in Bank processes has become increasingly relevant. Therefore during 2021, the Bank has launched the project in order to address requirements of the initiative related to climate change topic. The main activities were related to framework definition of implementation and monitoring of energy class recovery data or the Bank's collateral instruments (both residential and

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[2] Risk Appetite Framework

[3] Risk Appetite Statement

[4] Work instruction (in serbian Radno uputsvo)

commercial real estate), through the transaction system of the Bank. During 2022, the bank finalized all technical aspects of the mentioned process, while implementation is expected at the beginning of 2023.

KEY POLICIES RELATED TO ESG WITH CLIENTS AND THIRD PARTIES

UniCredit Bank Serbia deals with environmental protection matter indirectly, as well as other ESG principles, in relation to clients and third parties, through defining policies in field of reputational risk. Key policies regulating Bank's behaviour in this subject are as follows:

1. Reputational risk management policy in UniCredit Bank Serbia
2. Policy on Management of Sensitive Industries in UniCredit Bank Serbia
3. Defence/Weapons Industry Reputational Risk working instruction
4. Nuclear energy Environmental, Social and Reputational Risk working instruction
5. Water infrastructure (Dam) Environmental, Social and Reputational Risk working instruction
6. Mining industry Environmental, Social and Reputational Risk working instruction
7. Coal sector Environmental, Social and Reputational Risk working instruction
8. Oil & gas industry Sector Reputational Risk working instruction
9. General Principles for Credit Activity
10. Environmental and social framework in corporate credit process

KEY ENVIRONMENTAL PROTECTION PROJECTS, INITIATIVES AND RESULTS IN 2022

Following Group strategy, as well as relevant internal acts and procedures in this field, local Bank maintains its real environmental impact through various projects and initiatives. On one hand, particular activities contribute to sustainability of banking operations in everyday business, and on the other hand there is a clear intention of integrating sustainability in core offerings of banking products and services, which led to innovation and development of offers that are closely related to client's activity in field of environmental protection.

Sustainability of Banking Operations

Optimization of everyday business is the precondition for achieving goals in environmental protection. Accordingly, decisions made related to business travel, office heating and cooling, use of business cars and paper consumption should contribute to making positive impact in terms of environmental protection, and in general lead to decreasing the consumption of non-renewable energy sources.

During 2022 below described initiatives were undertaken with achieved results:

- The Bank prioritizes procurement of cooling equipment is in favour of buying ozone friendly appliances and with high level of energy efficiency, when possible;
- By implementing the Green Policy, it is mandatory for all working stations to shut down every day at 9 pm;
- Energy saving initiatives has been implemented in order to decrease energy consumption in the coming years (changing old equipment with new, more energy efficient equipment, decreasing working hours of lit advertisements, implementation sensor moving equipment to increase control of lights usage);
- Between 2019 and 2020 fuel consumption was decreased by 51%, while in 2021 that percent increased for 13.94% compared to 2020. In 2022 fuel consumption increase by 20% compared to 2021, due to the increased level of activities from sales force due to slowing down of the pandemic situation;
- Paper consumption was decreased by 31% for the period between 2019 and 2020, while in 2021 it was 6.88% higher compared to 2022. In 2022 paper consumption increased by 6.11% compared to 2021. Copy paper usage control is enabled through specific software bought for this purpose. Fuel consumption and paper consumption during the reporting period, compared to the period between 2019 and 2020, was influenced by the improvement of the epidemiological situation caused by the COVID-19 virus;
- During procurement of products, we took care to select the ones with environmental certifications/labels such as: FSC, PEFC, Green range, Eco label;

Consumption of water and energy, paper saving and waste management

Electricity Consumption

Description	Unit	Quantity
Direct energy consumption (for premises) by primary energy source		
Total direct energy consumption	kWh	*134,178*
01 - Natural gas	kWh (Natural Gas)	*134,178*
02 - Diesel	kWh (Diesel)	*0.00*
03 - Other crude oil and petroleum products (e.g. Fuel Oil, Gasoline, etc). Please exclude all fuels used for travel transportation	kWh (Crude oil and petroleum products)	*0.00*
Total indirect energy consumption		
01 - Electricity energy consumed from purchased sources	kWh	*3,994,166*
02 - District heating, and if applicable cooling, consumed from purchased sources	kWh	*788,114*
Percentage of indirect renewable electricity from special agreements		
01 - Total amount of renewable electricity purchased from special agreements	kWh	2,266,667
02 - Total amount of indirect electricity consumption	kWh	3,994,167
03 - Percentage of indirect renewable electricity from special agreements on total indirect electricity consumption	%	56.75%
Percentage of indirect renewable heating from special agreement		
01 - Total amount of renewable heating purchased from special agreements	kWh	N/A
02 - Total amount of indirect heating consumption (INCLUDING DATA PROCESSING CENTERS)	kWh	788
03 - Percentage of indirect heating from special agreements on total indirect heating consumption	%	N/A
Total energy consumption from all sources (consumed purchased energy sources and self-generated self-consumed electricity from renewable sources)	kWh GJ	**4,916,458** **17,699.24**

Waste Management

Total weight of waste creation by type	**Unit**	**Quantity**
Paper and cardboard - EWC codes: 200101, 150101 and others (please specify adding a note)	Kg	3,000
Other waste (steel)	Kg	9,550
Total waste	Kg	**12,550**

Water Consumption

Description	Unit	Quantity
Total water withdrawal		
01 – Total water consumption	m3	10,157

Total water consumption including tap water and water from water gallons.

Copy Paper Consumption

Type of paper used	Unit	Quantity
Total amount of paper used	Kg	86,806
Quantity of used paper that is labelled as FSC or PEFC (out of total amount of paper used)	Kg	77,855
Quantity of the remaining total paper consumption, that is labelled with other environmental certifications/labels.	Kg	8,781
Details of these other environmental certifications/labels..		ISO 9706, ISO 9001, ISO 14001, OHSAS 18001
How much of the total paper is not included in any of the above categories	Kg	170

Sustainability as a Core Ingredient of Banking Products

For many years now, the green economy has been an important part of the corporate business of UniCredit Bank, who is already market leader in financing wind energy projects, and increasingly strong market competitor when it comes to solar energy.

Based on that, during the reporting year, in partnership with the Green for Growth Fund, two credit facilities were made available to the domestic economy in the amounts of RSD 1,76 billion and EUR 10 million, which should support the recovery of green projects in Serbia. In addition, the Bank helped refinance the Čibuk wind farm, which confirmed its leading position in financing wind energy.

Guided by the values of sustainable development and, above all, social responsibility, Corporate, in addition to individual infrastructure projects, participated in the initiatives of international investment and development banks. These programs are intended mostly for the segment of small and medium enterprises that have a very important role and impact on both economic and social development. Corporates continued to identify needs and support the development of this economic segment by providing them an easier access to funding sources.

Transitional impact is achieved via loan facilities and guarantee instruments based on funding from the EU, governments of EU members, Government of Serbia and various donor funds which have social and environmental goals, as well as the general growth of the economy.

Aforementioned environmental goals serve to support the path to green transition. Thanks to the support from EU, German government and other donors, the impact is achieved through dedicated EBRD, KfW and GGF facilities. The function of the facilities is to finance projects which reduce the energy usage and the emission of CO2, by stimulating green energy sources. Client range stretches from private individuals to large scale renewable energy project financing. Also by adopting EU standards the companies will be more competitive on the EU market which will lead to more export of the final products on the high quality demand markets.

In cooperation with the EBRD, last year the Corporates, through the EBRD Competitiveness Program, provided small and medium-sized enterprises with a combination of loans, incentives and technical assistance to strengthen SME's know-how. The funds were used to upgrade technology, processes or services, particularly those related to product quality, health and safety and EU environmental requirements. This method of financing enables companies to improve competitiveness and trade both in the region and in the EU countries, through targeted, grant-supported investments.

UniCredit Leasing also participated in the EBRD program, financing investments in line with EU standards in the field of ecology, energy efficiency, health and safety hence contributing to a better quality of products relevant for society preservation. Since the beginning of the year, **a total number of 107 companies have been financed for**

the procurement of tools and equipment, in the amount of EUR 19,2 million, mostly in the field of transport industry, agriculture and construction.

In 2022. UniCredit Leasing has signed with EBRD The Sustainable Reboot SME Programme. Aim of this Programme is to encourage SMEs which are weathering the current crisis to 'reboot' their activities, improve their resilience and productivity by investing in sustainable and competitive technologies thus increasing the implementation of EU and other international standards, through the provision of financing, investment incentives and technical assistance at SME level in the field of environmental protection, occupational health and safety and product quality and safety. By the end of 2022 the first tranche (EUR 5 million) will be successfully utilized.

The bank is also a beneficiary of the funds of the German KfW bank, and during 2022 the focus was on credit lines that contribute to the reduction of carbon dioxide emissions, with a purpose of financing in energy efficiency and renewable energy Namely, with the financing of machines and machinery that reduce CO2 emissions by more than 20% compared to the old machine that is being alienated, the client receives a grant in the amount of 10% of the amount of financing, as well as for renewable energy projects.

Social and Labour Matters

ESG STRATEGY

UniCredit Bank Serbia and UniCredit Leasing Serbia continued to support and invest in the recovery and development of local business, primarily small and medium-sized enterprises, which represent a significant segment of the Serbian economy. Through cooperation and partnerships with international financial institutions, they once again proved to be reliable partners, and this enabled companies in Serbia to continue improving energy efficiency and the green economy, which is one of the basic postulates of our business, but also to strengthen themselves in the field of social inclusive employment, as well as entrepreneurship.

UniCredit Bank Serbia and the European Investment Bank (EIB) launched a unique dedicated credit facility, in the amount of 30 million euros, which aims to support employment, professional development and long-term retention of persons from vulnerable social groups. These funds enable UniCredit Bank to provide additional support to Serbian companies that are committed to improving the social impact of their business and creating long-term leadership, as well as employment opportunities for different categories of women, youth and population segments that face greater obstacles to entering the labour market. In addition to funding, Serbian companies receive a performance-based financial reward if they meet specific goals to encourage leadership, employment and professional development opportunities for women, youth and groups that often face additional barriers to access such opportunities (e.g. people with disabilities, refugees, etc.). The financial award is provided as a grant under the EIB's Economic Resilience Initiative (ERI), which aims to encourage job creation and sustainable private sector growth. This line is at the same time a social and economic feat, because the Project has two purposes: to reduce obstacles to employment for people who have a greater need to join the labour market, while also satisfying the economic aspects of companies.

Through the cooperation of the European Bank for Reconstruction and Development (EBRD) and UniCredit Leasing Serbia, small and medium-sized enterprises (SMEs) were provided with a credit line in the amount of EUR 15 million. This credit line allows leasing financing to be extended to private companies in Serbia, encouraging them to invest in high performance standards, technology and services, enabling them to become more competitive and energy efficient. The credit line is part of the EBRD's new Small and Medium Enterprise Restart Program to support the recovery of small businesses from the slowdown caused by the pandemic. It also helps expand the green economy in Serbia by promoting investments in improving energy efficiency. About 70% of the program's funds are earmarked for investments in energy-saving and green technologies, while the rest supports investments in automation, increased productivity, product quality and safety. Small and medium-sized enterprises are also provided with subsidies worth up to 15% of the loan amount.

SOCIAL MATTERS

ESG TACTICS MANAGEMENT APPROACH ON THE LEVEL OF UNICREDIT BANK SERBIA JSC/LEASING/PARTNER

In 2022, UniCredit Banka Serbia continued to implement and improve its socially responsible business strategy. The year behind us at the Bank is characterized by socially responsible projects, first of all bearing in mind that the Bank marked its anniversary - 20 years of business in Serbia - by strengthening the community in which it operates.

KEY POLICIES IN THE FIELD OF SOCIAL ISSUES

1. Working instructions for sponsorships and donations
2. Global policy on banking with a positive impact

UniCredit Bank's global policy aims to explain the concept and way of functioning of the Bank's innovative business concept called Social Impact Banking, which regulates the Bank's activities in the field of supporting the development of local communities, through the following areas: 1. microcrediting, 2. impact financing, 3. financial education and volunteer work.

KEY SOCIAL PROJECTS, INITIATIVES AND RESULTS IN 2022

For twenty years we have been starting good things

The preservation of nature and natural resources is of immeasurable importance to us at UniCredit Bank. On the occasion of the celebration of the great anniversary, 20 years of successful business in Serbia, we launched a CSR project of national importance. The fact that it is being implemented with the support of the Ministry of Environmental Protection shows how important this project is for our country. During November and December 2021, UniCredit Bank set aside 2.000 dinars from each realized cash loan and loan for working capital in that period, with a value greater than 200.000 dinars, whereby more than RSD 13 million were collected. The money, in cooperation with the Ministry of Environmental Protection of the Republic of Serbia, during this year, 2022, is earmarked for projects to preserve the environment and natural resources of our country, through investment in national parks, special nature reserves and natural monuments.

Volunteers Club

The volunteer work of UniCredit Bank Serbia employees has been recognized and visible for years, and in 2022 it was organized through an association called "Volunteer Club". It was formed as a place that will bring together all colleagues interested in contributing to the community through participation in various initiatives of the company and the bank. Interested colleagues were given the opportunity to opt for participation in volunteer actions from various fields such as: Education, Environmental Protection or humanitarian actions. Also, the option of participating in actions from all three mentioned areas was available. Very soon after the establishment of the Club, the volunteers got the opportunity to apply their skills, first of all through mentoring in the "Youth Achievements" project supported by the bank, and then through engagement in delivering prepared gifts to children in homes for neglected children, to elderly people with disabilities placed in homes, as well as the oldest in nursing homes.

Financial dictionary

This year, the initiative called "Financial Dictionary" was continued, which was created by employees of UniCredit Bank. In this way, the desire to contribute to the financial literacy of the high school and student population in an interesting, attractive and understandable way for young people was realized. Thanks to these programs and initiatives, thousands of young people, high school students and students have gone through the basics of financial business and education.

"Youth Achievements"

As in previous years, during 2022, the Bank provided support to the "Youth Achievements" association, through whose project, bank employees help high school students to better understand the world of business and finance through mentoring and volunteering activities.

Belgrade Marathon with BELHospice

With the participation of our patients in the 35th Belgrade Marathon in the team of the BELhospice association, we supported and additionally sponsored the association that helps oncology patients in the advanced stages of the disease, as well as their families. Our colleagues from UniCredit Bank Serbia ran a marathon as part of the BELhospice team and thus achieved both their personal and our bank's goals to strengthen the community in which it operates.

Cooperation with UniCredit Foundation

Together with the UniCredit Foundation based in Milan, a competition called "Every child is equally important" was organized in 2022, in which grants were awarded to non-profit organizations that deal with children's problems and support.

In order to strengthen the communities in which it operates, and to unlock the potential of our youngest, five organizations and institutions in Serbia received non-refundable financial aid in the amount of EUR 40.000:

• Elementary school "Vojvoda Živojin Mišić" from Rajković for the project "Let us be polyglots in the language laboratory"

• Association "Mali div" for the conference "United for small giants"

• Organization "Friends of Children of Serbia" for the project "BUILDING TRUST - peer support for children's mental health"

• Organization "Oblutak" for the project "Adults - a small school for big people"

• Incest center "Trauma" for the project "I am with the child who survived sexual violence!"

In the coming year, support to local communities and partners will continue in order to contribute to the improvement of the living conditions of different categories of the population. In addition, the organization of volunteer activities will be strengthened, but also by striving for them to be communicated through available communication channels, with a clear desire for as many employees as possible to be involved in projects that give a positive impact to the community of which the bank is an inseparable part.

Relevant funding from financial institutions

As a financial institution – UniCredit Bank has an opportunity to provide solutions to social challenges directly through offering inclusive banking products to vulnerable society groups and economy subjects that have restricted access to finance under commercial terms.

Banking products with social goals aim to support youth and women employment with special focus on the micro enterprises and start-ups. The support for latter is channelled through **EIF guarantee instruments – EaSI (Programme for Employment and Social Innovation)**, intended for micro-enterprises which has been present in the bank's offer since 2021 and **Western Balkan Enterprise Development & Innovation Facility (WBEDIF)** intended for small and medium enterprises according to the EU definition, which has been present in the bank's offer since 2019. In relation to regular lending conditions, there is a reduction in interest rates, fees and the requirement for collateral for loan users. These instruments provide first loss guarantee protection facilitating more clients being reached by loans.

The product development under European Investment Bank (EIB) leadership "The Social Impact Banking", using funds from Economic Resilience initiative (ERI Fund) was launched on the market in second half of 2022. The loan from the EU bank is being complemented by a grant provided the ERI and the grant will reward companies that meet specific targets to foster **women's employment** and **entrepreneurship, youth employment** and professional development as well as the social **inclusion of underserved or vulnerable demographic groups** (e.g. minorities, people with disabilities, refugees, etc.) who often face additional barriers to entry in the job market. Companies that apply for funds from this facility at UniCredit Bank will define a list of goals for increasing their positive impact on the community, and only those who accomplish them will receive additional financial incentive from EIB. The goal of this innovative financial instrument is to stimulate the employment of persons from vulnerable groups, ensure their training and long-term retention.

In order to achieve the goals of the green transition, the support of the EU, the German government and other donors is used through the dedicated facilities of the EBRD, KFW and GGF. The function of the facilities is to finance projects which reduce the energy usage and the emission of CO2, by stimulating green energy sources. UniCredit Bank will develop a transition plan as defined in the EBRD's Paris Alignment Methodology for indirect finance. Paris Alignment will allow UniCredit Bank to capitalise on opportunities, meet stakeholder's expectations, and ensure climate risk resilience.

Client range stretches from private individuals to large scale renewable energy project financing. Also by adopting EU standards the companies will be more competitive on the EU market which will lead to more export of the final products on the high quality demand markets.

"The Social Impact Banking" program is another way to build a fair-minded and more inclusive society. The goal of the program is to recognize, finance and promote people and companies that have a positive impact on society. The model is based on three main pillars: Microfinancing, Impact Financing and Financial Education, supported by the volunteer work of UniCredit Bank employees.

The corporate investment sector focuses on raising positive impact in society (Impact financing pillar) through the financing of projects and activities that, in addition to economic benefits, intend to generate positive and measurable social impact.

For that reason, UniCredit Bank has established cooperation with the European Investment Bank (EIB) alongside the support of Frankfurt School of Finance and Management with aim to implement above mentioned project, in which the main focus will be on supporting the Bank and clients in raising social impact including:

- Gender equality;
- Inclusion of as many young people as possible, (Youth inclusion) and
- Inclusion of people with disabilities as well as those who are traditionally excluded from society (Social inclusion).

Through micro crediting, the Bank aims to support development of small businesses not only through offering its financial services, but as well through consulting and nurturing good client relationship, that is believed to be in the core of further business development. By doing this, the company wants to be involved in making positive surroundings for creating positive impact and supporting its clients through special products tailor made to their needs and opportunities.

Responsibility in registration and qualification of suppliers

The sustainability segment is also integrated into the selection of suppliers with which the Bank cooperates. A qualification questionnaire is used for this purpose, and each supplier is obliged to fill in the mentioned document in order to qualify to become a supplier of UniCredit Bank. One part of this questionnaire is the section "Sustainability Requirements", which consists of the minimum requirements in the field of sustainability that a potential supplier must meet. The questionnaire requires the submission of the following information: the existence of an environmental policy; compliance with the basic principles of the United Nations Global Compact; compliance with ILO requirements; compliance with local regulations in the field of environmental protection; disclosure of aspects relevant to the environmental protection of products and services sold or offered by the supplier; whether the company is subject to audit in accordance with ISO 19011; confirmation that no proceedings have been instituted against the company in connection with the violation of labour rights and environmental laws. **During 2022, a total of 107 suppliers successfully met the criteria from the questionnaire.**

LABOUR MATTERS

ESG TACTICS MANAGEMENT APPROACH ON THE LEVEL OF UNICREDIT BANK SERBIA JSC/LEASING/PARTNER

The four important directions of people management, through the implementation of our strategy, essentially target the four key domains of human resources and are structured as follows:

A. Managing and planning of workforce, support the basic principles of mutual respect and fair dealing, transparent working methods and open communication; determining compensation in accordance with the criteria of the labour market, all in terms of new environmental requirements, digitalization and especially by changing the approach and understanding the way of doing business.
B. Improving labour skills, by encouraging the requirements for personal development of employees, both through training, qualification and training, as well as the implementation of retaining and the acquisition of new skills. Also, refreshing youth teams, by joining the youth programs, approved by Government of Republic of Serbia in cooperation with relevant Ministry of Labour, Employment, Veterans and Social Affairs and National Employment Agency, by implementing multi-annual employment planning strategies;
C. Better functioning of the operational model, with a special focus on reducing staff turnover and better organization of the work model and the organization as a whole, and further improving mobility within the Group and
D. Fairness, gender equality and promotion of internally equal opportunities for all employees.

KEY LABOUR POLICIES

Compliance with regulatory requirements is an important aspect of our corporate philosophy, and management is directly responsible for this aspect.

In order to implement the strategy described above, the People & Culture has carried out appropriate activities in accordance with the Bank's strategic documents relating to various areas of responsibility towards employees:

1. Framework for P&C policies
2. UCB Employment Rulebook
3. Compensation policy

4. Global mobility
5. Employee training
6. Law on Safety and Health at Work and Occupational Health and Safety Rulebook adopted by Employee.

KEY PROJECTS, INITIATIVES AND RESULTS IN 2022

Behaviour based on UniCredit values and personal responsibility of management and employees are among our core principles and are embedded deep in the values of our company. By promoting the basic postulates of our company: cooperation and energy, focus on what is important, discipline and focus on achieving results, builds a fair and functional relationship of employees with each other and towards work.

The success of UniCredit is mainly due to the highly qualified and motivated employees of the company, because the innovation comes from the employees themselves who are dedicated to work and the company. This is the reason why training and professional development, as well as the promotion and development of talents, managers and experts, are carried out continuously.

Encouraging the young generation by promoting talent, advancement, training and working in the UniCredit Group, in other member countries, gives employees great opportunities for their professional advancement and career, as well as personal achievement.

Employee development is implemented, except through opportunities for advancement and career development, through the provision of personal development plans, giving benefits, and training, rewarding in accordance with the work and cultivating a culture of equality and respect for others as well.

Flexible working environment

Following trends, the Bank has organized its work as remote working model respecting all proposed safety in regards to all jobs and positions that are applicable for that model without negative impact on productivity and having in mind nature and features of work activity itself. New working model requires two days working from home per week and three days of working from employee premises with previously assuring that all suggested measures for healthy and safety work are met.

Regular review and assessment

At UCB, all employees have the opportunity to participate in the creation of personal development plans, while the formal evaluation of work performance and individual development is conducted, also for all employees, once a year. At the end of each year, goals for the next year are defined for each employee. The final assessment of the realization of goals, successes and challenges achieved in the previous year is assessed at the meeting of the employee and the superior in the first quarter of the next year. Performance assessment also includes assessment of competencies, and from the overall performance assessment, opportunities for career development and total contracted earnings are assessed. During 2022 we established new application for performance appraisal.

Salaries of employees in the Bank are calculated in accordance with the Labour Law and the Labour Rulebook. Net salary is the same for full-time employees that performed same tasks and job description regardless of the gender structure of employees. The level of earnings in accordance with market conditions and the employee's contribution to the company's results is an imperative for UniCredit in managing compensations and rewarding in accordance to performance.

Health and safety

People & Culture and FM Department are in charge for occupational health and safety of Employees in UniCredit.

The bank has hired an external company that is specialized in occupational health and safety and from which the Person for health and safety at work has been appointed in compliance with the law.

In accordance with the law and according to the necessary dynamics, the organization of training on safe and healthy at work, basic training of employees in the field of fire protection, training for first aid (for which all managers and a certain number of other employees are trained), measurement of microclimate, testing of electrical installations, simulation of fire protection procedure, are conducted.

Safety and health at work is carried out in accordance with the Rulebook on safety and health at work, adopted by the Employee.

Health protection

In accordance with the needs imposed by the environment, employees are provided with a package of health services that includes physical exams and selection of other expert examinations by doctor's specialist, according to the needs of employees, at the expense of the Bank. Investing in safety and health and disease prevention leads to employee satisfaction, greater commitment to work and overall well-being of employees. Health care does not include only one physical exam per year, as is usually the case on the market, but also includes the possibility for employees to use the specialist services of various doctors throughout the year as needed and up to a limit of RSD 117.000 per employee. Dentist and ophthalmologist are included in the package. In addition, the Bank has enabled the family members of the employee to acquire the same types of medical services in a certain medical institution under more favourable conditions. In 2022, the bank continued to provide free online psychological counselling for its employees, as well as a support package for each infected team member from COVID-19 that was delivered at the employees' home address.

Regarding occupational diseases that employees could be exposed to due to prolonged sitting and working in front of a computer, as well as due to the most common diseases of modern society, online lectures were organized by advisory experts in the field of medicine referring various topics (cancer prevention, workplace ergonomics, challenges in parenting, etc.)

Other benefits

Also, the bank continued to implement previously adopted benefits and initiatives such as paid day off for birthday, days off for employees whose children are enrolling the first grade of elementary school, and parental support, such as the possibility for father of new-borne child to use up to 20 days of paid leave right after child birth. In 2022 the bank launched whole new way of parental support for employees by allowing refinancing costs for the first attempt of in-vitro fertilization up to EUR 5.000 net.

Employee training and education

At UniCredit Bank, we believe that knowledge is a rare thing that is multiplied by sharing. We nurture a culture of learning and development and we are committed to the implementation of trainings that are in the development plans of all employees, we further nurture talents through specially created programs and try to always keep up with trends through our optional initiatives.

In 2022, the Bank paid special attention to the development of leadership skills and talents of the bank and motivation and retention of employees who perform high achievements and have the potential for further development.

Numerous workshops and trainings were organized in 2022 in cooperation with external consulting companies. When it comes to the Bank's Management Team, the development programs were focused on improving leadership skills and effectively conducting meetings, while for the organizational parts of the bank which cooperate with clients the focus was on improving presentation and sales skills. In this year workshops were organized for all organizational levels of on the topic of effectiveness and meetings with the aim to improve mutual communication, overcome challenges and better understand the needs of team members when working remotely. At the same time, in order to strengthen leadership skills and provide adequate support to UniCredit leaders, P&C in cooperation with a global provider, focused on the bank's young talent program, future leaders, striving to strengthen and increase their digital and leadership skills as future leaders.

In 2022, the P&C has continued the initiative started in the previous year and finished the program which aim is to support and empower women leaders in our organization by providing support on the path of personal growth and further career progress. This pragmatic program supports building women’s leadership in our organization.

Striving to adequately empower and support employees in achieving their business goals and improve their work performance, P&C has supported employees in improving their expert and social skills by organizing and providing budget for various trainings, domestic and foreign certificates and international seminars and conferences that employees attended online during 2022.

In this sense, 3000 MNDs are dedicated to online internal and external trainings related to development and over 1500 MND of mandatory trainings related to compliance culture and security.

The topics we dealt with were, among other things:

- Leadership and management in times of innovations
- Effectively management practise (feedback, delegation, personal organization and prioritization, motivation and development of employees)
- External training for the population of employees within CIB Division (focusing on Social Impact Banking…)
- Effective meetings and team culture
- Training for all employees in the Head Office and for regional managers in order to develop skills referring conducting meetings in effective manner
- Training dedicated to new employees,
- Onboarding for new employees,
- Buddies training

- Regulatory required training such as: Mandatory training for cash management (recognizing false money in RSD and EUR currency), mandatory trainings for insurance representatives in branches, for licensing maintaining, as well as education of employees who obtain insurance licence
- Local talent program
- Sales training for Retail for newcomers
- SOL training in line with developing plans
- Digital awareness and development
- Accountability & Speak-up training

This resulted in 36.726 employee training hours in 2022.

Supporting youth

Starting a professional career by gaining the first practical knowledge and experience in professional internships is extremely important for young people, primarily because it helps them to better position themselves in the competitive labour market.

UniCredit Bank strives to help young people to take their first professional steps and to get used to working in a business environment by cooperating with educational institutions.

In 2022, UniCredit Bank continued cooperation with the Faculty of Computer Science, University of Belgrade, for the second year in a row, aiming to provide scholarships to the best students, where, after completing the scholarship study program, the selected student will be offered a job in the Bank on the basis of this scholarship.

Global mobility

At UniCredit, we believe that every voice, culture and experience enriches the diversity of our ideas that inspire us to grow and change.

Our international presence enables us global cooperation and teamwork both through different sectors and between different countries.

What makes our Group unique is that we are united in diversity.

Our differences encourage us to be more opened, flexible and tolerant, for new knowledge, new perspectives and new tastes. How successful the team of different profiles is best confirmed by our successful results and satisfied clients, and so on from year to year.

Increasing the functionality of the operating model and lowering fluctuations

The fact is that we are transforming as a Bank, but also as a Group, and our business models and patterns are changing as well. In order to make this really happen, UniCredit is following these transformations in the organizational terms as well.

The goal of the changes we are implementing, which include simplification of the structure, is to strengthen our Bank, achieve greater flexibility, build a culture of personal responsibility of each employee individually, simplify processes and provide greater connectivity and interaction between colleagues, so that we get speed, quality, and thus the satisfaction of our clients and employees.

UCB's business is structured and dynamically managed, capable of quick reaction and faster response to opportunities and challenges.

To achieve this, the Bank seeks to establish fewer hierarchies in relationships and responsibilities, and more concrete and effective communication, engagement and visibility of everyone's work, less bureaucracy and unnecessary work procedures, and more space for a qualitative approach that gives real value, faster decision making, and less workload and greater job satisfaction, and a shift towards a culture of work based on the qualifications of our staff, strengthening of their expertise and space for further professional development.

Fairness, gender equality and promotion of internally equal opportunities for all employees

Taking into account legal norms, expertise and qualifications in employment, the Bank actively worked on preserving and improving the established gender equality and balance in 2022. The Bank has paid special attention to equality in the workplace and provides equal opportunities for women and men in terms of career and personal development, as evidenced by the fact that **women occupy 4 out of 7 positions in the Management Board of the Bank.**

The awareness of the need for gender equality of employees is at a satisfactory level and numerous activities are dedicated to this topic.

There is no need to make gender differences for the purpose of employment in the Bank, as well as in terms of promotion or changing job position. All employees have the right to maternity leave, and we especially support the return of the colleagues to work after the end of maternity leave. The Bank appointed local Diversity Manager for the purpose of implementing all of the above. This policy is a way to continue to have a fair approach and to ensure a fair and respectful work environment, in which women and men have equal opportunities and rights, and whose work is valued on the basis of personal merit and potential, regardless of gender and other personal characteristics. Respect of diversity is an important part of our Strategic Plan to foster growth, a sense of belonging to the UniCredit Group and create a competitive advantage.

Our personal commitment and strong responsibility are extremely important for creating a positive work environment and for changing the way of thinking to real cultural change.

Accordingly, we have created a special training for all employees in management positions called "Unconscious Bias". Greater awareness and understanding of this phenomenon makes our work environment more inclusive, because during this training we learn how not to succumb our own and others' prejudices. When we are aware that we may be unconsciously biased, it can actually become our strength.

Thanks to our strategic approach, in our bank **women make up almost 68% of the total number of employees, and more importantly, the percentage of women in management positions is above 50%**. We strive to become one of the best employers in Serbia, and in order to achieve that goal, it is clear to us that it is necessary to constantly invest in diversity and gender equality through numerous initiatives.

The full gender structure of employees in UniCredit Bank on 31st December 2022 is as follows

Description	Total number	Woman	Man
Number of employees	1396	944	452
Managerial positions	209	96	113
Executive positions	1187	847	340
Women on maternity leave	50	50	0
Women returning from maternity leave	22	22	0

During 2022, a total of 50 colleagues used the right to go on a maternity leave. In the same year, 22 colleagues returned to their jobs after the end of maternity leave, which began in 2021.

In 2019, we launched a program called “Women empowered” which aims to empower women in their career development. The third generation completed its program in 2022. Every moment in career can be a step towards something new, and the changes we are already experiencing today can become part of a comprehensive plan towards fulfilling personal potentials. It is important that we always move forward towards development. Talent, strength, empathy, self-confidence, are just some of the motives that adorn our community of Brave Women.

We are proud that after maternity leave, mothers can work 4 hours a day to make the period of separation from the child as painless as possible, and this benefit, with a similar goal of supporting the private and family lives of employees was also made available to fathers in 2022, who can use up to 20 working days of paid leave after child birth. Work-life balance is important, so for that reason, parents will get a day off for the day their children start school, as well as work from home and flexible hours.

Human Rights Protection

ESG TACTICS MANAGEMENT APPROACH ON THE LEVEL OF UNICREDIT BANK SERBIA JSC/LEASING/PARTNER

Integrity, Accountability, Caring

These values unite and define the culture of UniCredit Group: the way in which decisions are made and how those decisions are implemented. Together, they represented an evolution of the Integrity Charter. One simple guiding principle is to live in accordance with these values every day, in all parts of our operations: Win. The right way. Together. Basic principles and values become Integrity, accountability, caring.

Applying these values and guiding principles in everything the company is doing, at every moment, supports our path to becoming the Bank we have always wanted to be:

- guide the interactions of all colleagues across the Group
- highlight the promotion of diversity and a work-life balance as crucial for our Group
- strengthen our culture of free expression (speak up culture) and protect against reprisal
- are applied to all business policies of the Group about sustainability and client interactions
- represent fairness to all stakeholders, at any moment, in order to achieve sustainable results.

UniCredit Bank's P&C policy framework is a fundamental document, which principles, implemented through procedures, are strictly adhered to in our day-to-day business. The mentioned document is based on the international principles of human rights, which are included in the Universal Declaration of Human Rights and the Declaration on Fundamental Principles and Rights at Work of the International Labour Organization.

UniCredit Bank provides a work environment free of discrimination, harassment and sexual harassment, which protects the dignity of employees and promotes a safe and professional working environment that develops teamwork, diversity and trust.

Prohibition of discrimination refers to direct and indirect discrimination based on sex, birth, language, race, colour, age, pregnancy, health, disability, nationality, religion, marital status, family obligations, sexual orientation, political or other beliefs, social origin, property status, membership in political or trade union organizations or some other personal characteristics.

In that sense, already on the induction day, during the onboarding of new employees, we dedicate some time to acquainting colleagues with the basic postulates on which our company operates and the principles of respect of human rights that all employees are obliged to adhere to.

KEY HUMAN RIGHTS PROTECTION POLICIES

- Prohibition of abuse of sexual harassment and abuse
- Anti-retaliation Policy

KEY PROJECTS, INITIATIVES AND RESULTS IN 2022

During the period covered by this report, no significant projects and initiatives related to the protection of human rights were implemented.

Anti-corruption and Anti-bribery

ANTI-CORRUPTION AND ANTI-BRIBERY APPROACH ON THE LEVEL OF UNICREDIT BANK SERBIA JSC/LEASING/PARTNER

UniCredit Bank Serbia and its subsidiaries UniCredit Leasing and UniCredit Partner as members of UniCredit Group have declared zero tolerance for acts of bribery and corruption. The Local banking Group has rules and mechanisms in place to prohibit facilitation payments and does not permit any transfer of value to public officials without approval.

The approach to anti-corruption and anti-bribery is set out in the Business Rule on Anti-Corruption and associated working instruction. The Business Rule sets out the minimum anti-corruption standards throughout the local group, by implementation of UniCredit Group wide standards and local regulation. Based on these rules, the entities have implemented an effective Anti-Corruption Programme.

In line with internal rules, an act of corruption is defined as the giving, offering, promising, receiving, accepting, demanding or soliciting directly or indirectly of monetary or non-monetary and tangible or intangible benefits in order to obtain or retain an undue advantage in the course of business activities, irrespective of:

- whether the recipient of the act of corruption is a domestic or a foreign individual, a public official or a private individual;
- where the act is committed;

- whether the result of such an act entails an actual undue advantage or the improper performance of a function or activity.

All employees are responsible for complying with the internal rules and all applicable anti-corruption laws in the performance of their duties. There are also in place mechanisms to assess bribery and corruption risk deriving from cooperation with various third parties. All contracts with third parties have in place adequate clauses to ensure adherence to zero tolerance standards for acts of corruption.

All employees shall report to the Anti-Corruption Officer or the Head of Compliance any instances of actual or attempted acts of bribery or corruption they become aware of, whether they be offered, given or received. Although any reports must be made according to the established internal procedure, they must first be made to the Anti-Corruption Officer and, where actual or suspected money laundering is involved, also to the local AML Officer. Failure to make such a report may give rise, in certain jurisdictions, to individual criminal liability of the employee concerned, as well as exposing the bank or the Group to potential legal or regulatory action. Potential acts of bribery and corruption may be reported also under the Business Rule on Whistleblowing.

The following mechanisms have been put in place to monitor the effectiveness of methods to preventing corruption and bribery:

- escalation procedures for significant and strategic issues;
- regular training cascaded to all employees;
- quarterly report to the management on risk level and results of second level controls;
- compliance risk assessment performed;
- internal audit reviews.

The last two mechanisms result in risk mitigation actions that must be completed on time to ensure the management of identified risks.

As of end of 2022, the areas of anti-bribery and anti-corruption area in the bank showed medium-low level of risk as a result of the risk assessment and second level controls. Mitigation actions were identified as a result of performed activities and prescribed to relevant organizational units, which are regularly monitored.

KEY ANTI-CORRUPTION AND ANTI-BRIBERY POLICIES

1. Anti-Corruption business rule
2. Business rule on whistleblowing
3. Anti-Corruption working instructions
4. Working instruction on whistleblowing

KEY PROJECTS, INITIATIVES AND RESULTS IN 2022

For the reporting period, the Bank and its subsidiaries have engaged in improvement of the processes related to records of cooperation with third Parties and records of gifts and business representations. Implementation is expected during 2023. Additionally, regular online training for new employees was implemented, and attendance was mandatory.

Conclusion

We can only become a bank of the future if we are committed to sustainability and if we have the desire to support the communities in which we operate. Sustainability is at the very core of UniCredit's culture, but it is also at the very core of our business. Both at the Group level and at the local bank level, UniCredit strengthens its three basic ESG levers on a daily basis, and in addition to lending to clients in the field of sustainable business, we also develop ESG through a consulting approach. ESG is our way of supporting clients to be and become self-sustaining. As we were pioneers and then leaders in financing wind energy, we hope that all our efforts and sincere commitment on the path to green transition will be recognized by the positive contribution we want to make and leave in the community in which we operate.

Belgrade, February 14th, 2023

Signed on behalf of the management of UniCredit Bank Serbia JSC Belgrade by:

Nikola Vuletić
Management Board Chairperson

Milena Vukotić
Member of the Management Board
Head of Risk Management

Nenad Mijuca
Head of Performance, Capital and Shareholding management