AIK BANKA A.D. BELGRADE

Financial Statements for the Year Ended 31 December 2022

and

Independent Auditors' Report

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This is an English translation of Independent Auditor's Report originally issued in the Serbian language

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS AND THE BOARD OF DIRECTORS OF AIK BANKA AD BELGRADE

Opinion

We have audited the financial statements of AIK BANKA AD BELGRADE (hereinafter: the "Bank"), which comprise the balance sheet as of 31 December 2022 and the income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with the Law on Audit and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Serbia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the Annual Business Report for the year ended 31 December 2022, but does not include the financial statements and our auditor's report thereon. Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

In respect of the Annual Business Report, we conducted procedures in accordance with the Law on Accounting. These procedures include verification whether the Bank's Annual Business Report, which includes a non-financial report, has been prepared in accordance with the applicable provisions of the Law on Accounting.

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Other Information (Continued)

Solely based on the work we have performed during the audit of the financial statements, in our opinion:

- The information provided in the Annual Business Report for the year ended 31 December 2022, is consistent, in all material respects, with the financial statements of the Bank as of and for the year ended 31 December 2022;
- The Annual Business Report has been prepared in accordance with the provisions of the Law on Accounting; and
- The non-financial report of the Bank, which is an integral part of the Annual Business Report, has been prepared in accordance with the applicable legal provisions.

In addition, if based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 Audit and ISAs 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 financial statements.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS AND THE BOARD OF DIRECTORS
OF AIK BANKA AD BELGRADE (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

As part of an audit in accordance with the Law on Audit and ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

Belgrade, 21 April 2023

Ksenija Ristic Kostic
Certified Auditor

Društvo za reviziju BDO d.o.o. Beograd

BALANCE SHEET
As of 31 December 2022
(In RSD thousand)

	Note	31 December 2022	31 December 2021
ASSETS			
Cash and balances with Central Bank	20	75,804,316	33,670,738
Derivatives	21.1.	16,972	19,721
Securities	22	58,743,672	47,663,028
Loans and placements to banks and other financial institutions	23	31,476,485	35,723,908
Loans and placements to customers	24	231,928,931	116,392,087
Investments in joint ventures	25.1.	150,064	-
Investments in subsidiaries	25.2.	-	11,923,810
Intangible assets	27	567,259	475,749
Property, plant and equipment	28, 29	2,824,311	1,248,435
Investment property	30	2,179,371	5,603,528
Current tax assets	31.1.	2,280,879	1,166,336
Deferred tax assets	32	1,035,562	327,475
Non-current assets held for sale		5,537	5,537
Other assets	33	5,343,915	2,741,749
TOTAL ASSETS		**412,357,274**	**256,962,101**
LIABILITIES AND EQUITY			
Derivatives	21.2.	7,900	-
Deposits and other liabilities due to banks, other financial institutions and Central Bank	34	16,789,031	17,801,067
Deposits and other liabilities due to customers	35	309,533,937	181,670,393
Provisions	36	1,310,203	546,319
Current tax liabilities	31.2.	4,168,535	-
Other liabilities	37	3,273,419	1,890,723
TOTAL LIABILITIES		**335,083,025**	**201,908,502**
EQUITY	38		
Share capital		27,195,730	27,195,730
Retained earnings		38,609,706	13,237,614
Reserves		11,468,813	14,620,255
TOTAL EQUITY		**77,274,249**	**55,053,599**
TOTAL LIABILITIES AND EQUITY		**412,357,274**	**256,962,101**

The notes on the following pages
form an integral part of these financial statements.

These financial statements were approved by the management of AIK Bank A.D. Belgrade on 9 March 2023.

Signed on behalf of AIK Banka A.D. Belgrade by:

Ana Medojevic
Head of Accounting and Reporting

AGROINDUSTRIJSKO KOMERCIJALNA BANKA AKCIONARSKO DRUŠTVO "AIK BANKA" BEOGRAD 2

Jelena Galic
Executive Board Chairperson

Milan Mirkov
Executive Board Member

INCOME STATEMENT
For the Year Ended 31 December 2022
(In RSD thousand)

	Note	2022	2021
Interest income	7	9,784,317	7,742,365
Interest expenses	7	(2,423,896)	(1,636,589)
Net interest income	7	**7,360,421**	**6,105,776**
Fee and commission income	8	2,948,126	2,350,705
Fee and commission expenses	8	(1,087,605)	(670,208)
Net fee and commission income	8	**1,860,521**	**1,680,497**
Net gains from changes in fair value of financial instruments	9	37,595	1,705,757
Net gains from derecognition of financial instruments measured at fair value	10	22,085	1,417
Net foreign exchange gains/(losses) and effects of contracted foreign currency clause	11	98,096	(119,901)
Net gains from reversal of impairment losses on financial assets not measured at fair value through profit or loss	12	405,271	643,390
Net gains from derecognition of financial instruments measured at amortized cost	13	12,511	21,539
Other operating income	14	521,856	486,570
Total operating income, net		**10,318,356**	**10,525,045**
Salaries, compensations and other personal expenses	15	(1,805,757)	(1,321,584)
Depreciation and amortization expense	16	(573,108)	(475,356)
Other income	17	25,829,149	460,049
Other expenses	18	(3,331,181)	(2,661,978)
Profit before tax		**30,437,459**	**6,526,176**
Income taxes	19	(4,168,535)	(765,499)
Deferred tax (expenses)/income	19	(135,964)	183,497
Profit for the year		**26,132,960**	**5,944,174**

The notes on the following pages
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These financial statements were approved by the management of AIK Bank A.D. Belgrade on 9 March 2023.

Signed on behalf of AIK Banka A.D. Belgrade by:

Ana Medojevic
Head of Accounting and Reporting

AGROINDUSTRIJSKO KOMERCIJALNA BANKA AKCIONARSKO DRUŠTVO "AIK BANKA" BEOGRAD 2

Jelena Galic
Executive Board Chairperson

Milan Mirkov
Executive Board Member

STATEMENT OF OTHER COMPREHENSIVE INCOME
For the Year Ended 31 December 2022
(In RSD thousand)

	Note	2022	2021
Profit for the year		**26,132,960**	**5,944,174**
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Actuarial (losses)/gains	36, 38(iii)	(354)	262
Positive effects of changes in fair value of equity instruments measured at fair value through other comprehensive income		245,294	270,443
Items that will or may be reclassified to profit or loss:			
Negative effects of changes in value of debt instruments measured at fair value through other comprehensive income		(3,121,193)	(705,944)
Deferred tax income related to items of other comprehensive income	32.2.	556,138	65,285
Other comprehensive (loss)/income for the year, net of tax		**(2,320,115)**	**(369,954)**
Total comprehensive income for the year		**23,812,845**	**5,574,220**

The notes on the following pages
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These financial statements were approved by the management of AIK Bank A.D. Belgrade on 9 March 2023.

Signed on behalf of AIK Banka A.D. Belgrade by:

Ana Medojevic
Head of Accounting and Reporting

AGROINDUSTRIJSKO KOMERCIJALNA BANKA AKCIONARSKO DRUŠTVO "AIK BANKA" BEOGRAD 2

Jelena Galic
Executive Board Chairperson

Milan Mirkov
Executive Board Member

STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31 December 2022
(In RSD thousand)

	Share capital	Share premium	Reserves from profit and other reserves	Revaluation reserves	Retained earnings	Total
Balance as of 1 January 2021	**19,762,595**	**7,433,135**	**13,953,877**	**1,036,332**	**10,920,167**	**53,106,106**
Profit for the year	-	-	-	-	5,944,174	5,944,174
Profit distribution – dividends paid (Note 38(i))	-	-	-	-	(3,626,727)	(3,626,727)
Other comprehensive income, net of tax	-	-	-	(369,954)	-	(369,954)
Balance as of 31 December 2021	**19,762,595**	**7,433,135**	**13,953,877**	**666,378**	**13,237,614**	**55,053,599**
Balance as of 1 January 2022	**19,762,595**	**7,433,135**	**13,953,877**	**666,378**	**13,237,614**	**55,053,599**
Profit for the year	-	-	-	-	26,132,960	26,132,960
Transfer from reserves to retained earnings (Note 33(a))	-	-	-	(831,327)	831,327	-
Profit distribution – dividends paid (Note 38(i))	-	-	-	-	(1,592,195)	(1,592,195)
Other comprehensive income, net of tax	-	-	-	(2,320,115)	-	(2,320,115)
Balance as of 31 December 2022	**19,762,595**	**7,433,135**	**13,953,877**	**(2,485,064)**	**38,609,706**	**77,274,249**

The notes on the following pages
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Signed on behalf of AIK Banka A.D. Belgrade by:

Ana Medojević
Head of Accounting and Reporting

AGROINDUSTRIJSKO KOMERCIJALNA BANKA AKCIONARSKO DRUŠTVO "AIK BANKA" BEOGRAD 2

Jelena Galic
Executive Board Chairperson

Milan Mirkov
Executive Board Member

STATEMENT OF CASH FLOWS
For the Year Ended 31 December 2022
(In RSD thousand)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from operating activities	**13,187,471**	**11,197,692**
Interest receipts	10,237,608	8,393,746
Fee and commission receipts	2,555,026	2,252,484
Receipts from other operating activities	312,158	436,425
Dividends received	82,679	115,037
Cash used in operating activities	**(7,843,738)**	**(6,075,589)**
Interest paid	(1,995,863)	(1,330,736)
Fee and commission paid	(962,747)	(683,933)
Payments to, and on behalf of employees	(1,812,920)	(1,342,772)
Taxes, contributions and other duties paid	(244,950)	(196,761)
Payments for other operating expenses	(2,827,258)	(2,521,387)
Net cash inflows from operating activities before increase or decrease in financial assets and financial liabilities	**5,343,733**	**5,122,103**
Decrease in financial assets and increase in financial liabilities	**6,284,033**	**20,299,705**
Decrease in securities and other financial assets not held for investments	6,284,033	-
Increase in deposits and other liabilities due to banks, other financial institutions, Central Bank and customers	-	20,299,705
Increase in financial assets and decrease in financial liabilities	**(22,232,248)**	**(5,232,896)**
Increase in loans and placements to banks, other financial institutions, Central Bank and customers	(11,124,328)	(3,452,249)
Increase in securities and other financial assets not held for investments	-	(1,780,647)
Decrease in deposits and other liabilities due to banks, other financial institutions, Central Bank and customers	(11,107,920)	-
Net cash (outflows)/inflows from operating activities before income taxes	**(10,604,482)**	**20,188,912**
Income taxes paid	(1,114,478)	(1,511,762)
Dividends paid	(1,592,839)	(3,618,102)
Net cash (used in)/from operating activities	***(13,311,799)***	***15,059,048***
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash from investing activities	**18,466,630**	**23,147,306**
Proceeds from investments in investment securities	12,063,216	19,341,570
Proceeds from sale of intangible assets, property, plant and equipment	921,774	1,045,077
Proceeds from sale of investment property	3,362,404	2,760,659
Other inflows from investing activities	2,119,236	-
Cash used in investing activities	**(16,830,045)**	**(24,096,004)**
Purchases of investment securities	(4,515,984)	(23,429,867)
Investments in subsidiaries, associates and joint ventures	(10,938,483)	(124,600)
Purchases of intangible assets, property, plant and equipment	(1,295,550)	(247,186)
Purchases of investment property	(76,209)	(8,043)
Other outflows from investing activities	(3,819)	(286,308)
Net cash from/(used in) investing activities	***1,636,585***	***(948,698)***
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash from financing activities	**31,907,374**	**-**
Proceeds from borrowings	11,395,308	-
Other inflows from financing activities	20,512,066	-
Cash used in financing activities	**(373,428)**	**(824,363)**
Repayment of borrowings	-	(622,755)
Other outflows from financing activities	(373,428)	(201,608)
Net cash from/(used in) financing activities	***31,533,946***	***(824,363)***
TOTAL CASH INFLOWS	**69,845,508**	**54,644,703**
TOTAL CASH OUTFLOWS	**(49,986,776)**	**(41,358,716)**
Net increase in cash and cash equivalents	**19,858,732**	**13,285,987**
Cash and cash equivalents at beginning of year	43,004,459	29,568,780
Foreign exchange gains	397,622	234,527
Foreign exchange losses	(386,506)	(84,835)
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 20)	**62,874,307**	**43,004,459**

The notes on the following pages
form an integral part of these financial statements.

These financial statements were approved by the management of AIK Bank A.D. Belgrade on 9 March 2023.
Signed on behalf of AIK Banka A.D. Belgrade by:

Ana Medojevic
Head of Accounting and Reporting

AGROINDUSTRIJSKO KOMERCIJALNA BANKA AKCIONARSKO DRUŠTVO "AIK BANKA" BEOGRAD 2

Jelena Galic
Executive Board Chairperson

Milan Mirkov
Executive Board Member

NOTES ON THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2022

1. CORPORATE INFORMATION

Agro-industrial Commercial Bank AIK Banka a.d. Belgrade (hereinafter: the "Bank") was established in accordance with the Articles of Association on 10 August 1993. The Bank harmonized its operations and organizational structure with the Law on Banks and Other Financial Organizations in 1995 and was registered with the Commercial Court of Nis as a shareholding company under Decision no. Fi 1291/95 dated 22 June 1995.

At its regular session held on 29 June 2015 the Bank's Shareholder Assembly enacted the Decision on Change of the Registered Seat of the Bank. The change was registered with the Serbian Business Registers Agency under Decision no. BD 57565/2015 dated 2 July 2015. Consequently, Agroindustrijsko komercijalna banka AIK Banka a.d., Nis changed its legal name to Agroindustrijsko komercijalna banka AIK Banka a.d. Belgrade.

As of 31 December 2022, the Bank's sole shareholder with 100% shares was the Broker-Dealer Company "M&V Investments" a.d. Belgrade (31 December 2021: M&V Investments a.d. Belgrade with 100% shares). More details on the shareholder's structure of the Bank are provided in Note 38.

The Bank is registered in the Republic of Serbia to provide banking services of payment transfers and lending and depositary operations performed domestically and abroad. As stipulated by the Law on Banks, the Bank is obligated to operate based on principles of liquidity, safety and profitability.

Acquisition of a Subsidiary in the Current Reporting Period

On 1 March 2022, in line with the conditions provided for by the Resolution on Restructuring of the National Bank of Serbia, Law on Banks ("RS Official Gazette", no. 107/2005, 91/2010 and 14/2015), Decision on Detailed Conditions and Manner of Obtaining and Selection of Bids for the Takeover, i.e. Sale of Shares, Assets and Liabilities of a Bank in Restructuring ("RS Official Gazette", no. 30/2015), and pursuant to the Agreement on the Sale of Shares in the Restructuring Procedure, the Bank acquired 100% of shares in Sberbank Srbija a.d. Belgrade and changed its name into Nasa AIK Banka a.d. Belgrade (hereinafter: "Nasa AIK Banka"), on 2 March 2022.

In accordance with the Merger Agreement between the Bank, as the Acquirer and Nasa AIK Banka as the transferor, which ceases to exist by merger without conducting the liquidation procedure, 1 December 2022 was defined as a contracted merger date.

The parties to the Marger Agreement agreed to define the date of registration of the merger in the Serbian Business Registers Agency as the day when the business activities of Nasa AIK Banka cease and from which all transactions of Nasa AIK Banka are considered, for accounting purposes, transactions carried out on behalf of AIK Banka.

At its regular session held on 8 September 2022, a decision on the merger of Nasa AIK Banka a.d. Belgrade to AIK Banka a.d. Belgrade was made. The status change of merger of Nasa AIK Banka a.d. Belgrade was performed as of 1 December 2022 and duly registered on the same date with the Serbian Business Registers Agency pursuant to Decision no. BD 106481/2022.

The Bank's is domiciled in Belgrade, at no. 115dj, Mihajla Pupina Street. The Bank operates through its Head Office in Belgrade, 18 branch offices in Belgrade, 4 branches in Nis, 4 branches in Novi Sad, 2 branches in Zrenjanin and one branch in the following cities: Lazarevac, Obrenovac, Pancevo, Pozarevac, Smederevo, Sabac, Valjevo, Pirot, Prokuplje, Krusevac, Leskovac, Vranje, Jagodina, Paracin, Zajecar, Bor, Negotin, Kragujevac, Cacak, Gornji Milanovac, Uzice, Prijepolje, Novi Pazar, Kraljevo, Ruma, Indjija, Stara Pazova, Sremska Mitrovica, Vrsac, Subotica, Kikinda, Vrbas, Sombor, which makes the total of 1 Head Office and 61 branches throughout Serbia.

As of 31 December 2022, the Bank had 1,084 employees (31 December 2021: 618 employees).

The Bank' tax identification number (fiscal code) is 100618836, and its corporate ID is 06876366.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. Basis of Preparation and Presentation of the Financial Statements

The Bank's financial statements for the year ended 31 December 2022 have been prepared in accordance with the International Financial Reporting Standards ("IFRSs") and the regulations of the National Bank of Serbia governing the financial reporting of banks.

The Bank, as a large legal entity, is obliged to apply IFRSs pursuant to the Law on Accounting ("RS Official Gazette", no. 73/2019 and 44/2021 - hereinafter the "Law"). In addition, the Law on Banks ("RS Official Gazette", no. 107/2005, 91/2010 and 14/2015) stipulates that banks apply IFRSs when preparing annual financial statements from the date set by a competent international body as the date of their application. IFRSs comprise the Conceptual Framework for Financial Reporting, International Accounting Standards - IAS, International Financial Reporting Standards - IFRS and related interpretations, subsequent amendments to these standards and related interpretations, published by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC).

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

These financial statements were prepared under the historical cost convention, except for the measurement of the following items:

- financial assets measured at fair value through other comprehensive income;
- financial assets and liabilities measured at fair value through profit and loss;
- derivative financial instruments stated at fair value, and
- investment property measured at fair value.

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. Upon estimating the fair value of assets or liabilities, the Bank takes into account characteristics of assets or liabilities that other market participants would also consider upon determining the price of assets or liabilities at the measurement date.

Fair value for measurement and/or disclosure purposes in the accompanying financial statements was determined in the aforesaid manner, except for share-based payment transactions, which are in the scope of IFRS 2, leasing transactions, which are in the scope of IFRS 16, 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.

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

The accounting policies and estimates adopted in the preparation of these financial statements are consistent with those followed in the preparation of the Bank's annual financial statements for the year ended 31 December 2021, except for newly adopted and/or amended IASs, IFRSs and interpretations (IFRIC) presented in Note 2.2, which had no effect on the accompanying financial statements.

The Bank's financial statements are stated in thousands of dinars (RSD), unless otherwise stated. Dinar is the official reporting currency in the Republic of Serbia. All transactions in currencies other than the functional currency are treated as foreign currency transactions.

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

2.2. *New Standards, Interpretations and Amendments to Existing Standards Mandatory for the First Time for the Financial Year Beginning on 1 January 2022*

The following amendments to the existing standards, which have been issued by the IASB, are effective for the first time for the financial year beginning on or after 1 January 2022 and as such are applicable for the Bank's accompanying financial statements:

- Amendments to IFRS 3 "Business Combinations" updating a Reference to the Conceptual Framework in IFRS. The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard.
- Amendments to IAS 16 "Property, Plant and Equipment" – Proceeds before Intended Use. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such samples, together with the costs of producing them, in profit or loss.
- Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" – Onerous Contracts – Cost of Fulfilling a Contract. The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (e.g. direct labour and material) or an allocation of other costs that relate directly to fulfilling contracts (e.g. the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).
- Annual Improvements to IFRSs, 2018–2020 Cycle, make amendments to the following standards:
  - IFRS 1 "First-time Adoption of International Financial Reporting Standards" – The amendment permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs.
  - IFRS 9 "Financial Instruments" – The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.
  - IFRS 16 "Leases", Illustrative Example 13 – The amendment removes the illustration of payments from the lessor relating to leasehold improvements in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example. As currently drafted, this example is not clear as to why such payments are not a lease incentive.
  - IAS 41 "Agriculture" – This amendment removes the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in IAS 41 with those in IFRS 13 "Fair Value Measurement".

The application of the above-mentioned amendments to the existing standards did not result in substantial changes to the accounting policies and did not have an impact on the Bank's accompanying financial statements.

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

2.3. *New Standards, Interpretations and Amendments to Existing Standards that are Not Yet Effective and Have Not Been Early Adopted by the Bank*

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods. They have not been early adopted by the Bank and the Bank intends to adopt them when they become effective.

- IFRS 17 “Insurance Contracts” (effective for annual reporting periods beginning on or after 1 January 2023) and subsequent amendments to IFRS 17 which address concerns and implementation challenges that were identified after IFRS 17 was published in 2017 (effective for annual reporting periods beginning on or after 1 January 2023). IFRS 17 supersedes IFRS 4 “Insurance Contracts” as of 1 January 2023.
- Amendments to IFRS 4 – Extension of the Temporary Exemption from Applying IFRS 9 (effective for annual reporting periods beginning on or after 1 January 2023).
- Amendment to IFRS 17 “Insurance Contracts” – Initial Application of IFRS 17 and IFRS 9 - Comparative Information. An entity that elects to apply the amendment applies it when it first applies IFRS 17.
- Amendments to IAS 1 “Presentation of Financial Statements” and IFRS Practice Statement 2 – Disclosure of Accounting Policies (effective for annual reporting periods beginning on or after 1 January 2023).
- Amendments to IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” – Definition of Accounting Estimates (effective for annual reporting periods beginning on or after 1 January 2023). The amendments clarify the difference between the changes in accounting estimates and changes in accounting policies and correction of errors.
- Amendments to IAS 12 “Deferred Taxes” – Deferred Tax related to Assets and Liabilities Arising from a Single Transaction (effective for annual reporting periods beginning on or after 1 January 2023).
- Amendments to IFRS 16 “Leases” – Lease Liability in a Sale and Leaseback (effective for annual reporting periods beginning on or after 1 January 2024).
- Amendments to IAS 1 “Presentation of Financial Statements” – Classification of Liabilities as Current or Non-current (effective for annual reporting periods beginning on or after 1 January 2024).
- Amendments to IAS 1 “Presentation of Financial Statements” – Non-current Liabilities with Covenants (effective for annual reporting periods beginning on or after 1 January 2024).

The Bank is currently assessing the impact of these new accounting standards and amendments. The Bank’s management does not expect that above-mentioned standards and amendments to the existing standards will have a material impact on the Bank’s financial statements in the period of their first application

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

2.4. Going Concern

The Bank's accompanying financial statements have been prepared under the going concern principle, which assumes that the Bank will continue its operations in the foreseeable future.

From the current point of view, COVID-19 did not have significant effects on the Bank's operations. In addition, at the date of these financial statements the Bank continues to meet its obligations as they fall due and, therefore, continues to apply the going concern basis of preparation.

Main triggers corresponding the going concern basis of the Bank's financial statements are:

- **Liquidity** – The Bank monitors liquidity position on the daily basis. COVID 19 pandemic and/or the Russo-Ukrainian conflict did not have negative impact on the Bank's liquidity position. Liquidity ratios were significantly above regulatory limits throughout the whole 2022. Furthermore, the Bank has all liquidity ratios above the regulatory limits, as disclosed within the Note 4.2.
- **Capital** – The Bank has a very strong capital position and, accordingly, high capital adequacy ratio as disclosed in Note 4.9.
- **Reserves and Profit** – The Bank's capital represents 18.74% of total assets of the Bank, whereas the reserves and profit represent 12.14% of total assets.

2.5. Comparative Information

Comparative information comprises the data from the Bank's audited financial statements as of and for the year ended 31 December 2021.

2.6. Use of Estimates

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

These estimates and underlying assumptions are reviewed on an ongoing basis, and changes in estimates are recognised in the periods in which they become known.

Areas that require a higher degree of judgment or complexity, or areas where assumptions and estimates are material to the financial statements are disclosed in Note 5.

2.7. Statement of Compliance

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements represent the regular separate financial statements of the Bank.

The Bank has no control over Gorenjska banka d.d. Kranj as of 31 December 2022, considering that it sold 100% ownership in this subsidiary, as disclosed in Note 25.2.

The Bank did not prepared the consolidated financial statements in the prior years in accordance with Article 32 of Law on Accounting, since the obligor of consolidated financial statements in Serbia is the ultimate parent - M&V Investments a.d. Belgrade.

3.1. Interest Income and Expenses

Interest income and interest expenses are recorded in the income statement on an accrual basis and in accordance with the obligations stipulated by contracts between the Bank and the client. They are recognized in the income statement in the period to which they relate and are calculated using the effective interest method for all interest-bearing financial instruments measured at amortized cost (AC) and fair value through profit or loss.

Interest income on financial assets at fair value through other comprehensive income (FVOCI) under IFRS 9 is also recorded using the effective interest method.

In the case of financial assets that become impaired after initial recognition, interest income is calculated using the effective interest rate to the amortized (net) value of a financial asset. If the asset ceases to be impaired, the basis for calculating interest income again becomes the gross carrying value of the financial asset.

In the case of financial assets purchased or originally impaired at initial recognition (POCI), interest income is calculated using the effective interest rate adjusted for credit risk to the amortized (net) value of a financial asset and never at the gross carrying value of the financial asset.

The effective interest rate is the rate that precisely discounts estimated future payments or receipts over the expected life of the financial instrument or over a shorter period, where appropriate, to the net carrying value of the financial asset or financial liability. In calculation of the effective interest rate, the Bank estimates cash flows taking into account all the contractually agreed terms of the financial instrument but does not consider future credit losses.

Effective interest rate includes all fees and amounts paid or received between the counterparties that form an integral part of the effective interest rate, transaction costs and other premiums or discounts. The effective interest rate calculation includes the following types of the Bank's fees, which by their nature are an integral part of the effective rate: loan application processing fees, fees for processing authorized account overdraft applications, fees for investment project assessment and evaluation, fees for obligatory loan extension, when it is probable that a financial asset will be issued, fees for loan term modification.

Fees that are an integral part of the effective interest rate are deferred and amortized as interest income over the loan term using the effective interest rate.

Interest income and expenses presented within the Bank’s income statement include: interest on financial assets and liabilities measured at AC calculated using the effective interest method, interest on securities measured at FVOCI calculated using the effective interest method, and interest on coupon securities held for trading.

3.2. Fee and Commission Income and Expenses

Fees and commission primarily comprise considerations for banking services of payment transfers in the country and abroad, services per payment cards, issuance of guarantees and letters of credit and other banking services.

Fee and commission income and expenses are recognized on an accrual basis, when such services are rendered.

Fees for issuance of guarantees and letters of credit are deferred and recognized as income proportionately to the outstanding loan maturities, or guarantee and letter of credit validity terms.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Foreign Exchange Translation

Transactions denominated in foreign currencies are translated into dinars at the official middle exchange rates determined at the Interbank Foreign Exchange Market effective at each transaction date.

Assets and liabilities denominated in foreign currencies, including those in RSD but with a currency clause index, are translated into dinars by applying the official middle exchange rates, as determined at the Interbank Foreign Exchange Market, prevailing at the reporting date (Note 44).

Foreign exchange gains or losses arising upon the translation of balance sheet items denominated in foreign currencies and transactions in foreign currencies are credited or charged as appropriate, to the income statement, as foreign exchange gains or losses and effects of the contracted currency clause (Note 12).

3.4. Dividend Income

Dividend income is recognized when the Bank's entitlement to dividend receipt is established. Dividend income is presented within other operating income.

3.5. Net Gains/(Losses) from Changes in Fair Value of Financial Instrument

Net gains/(losses) from changes in fair values of the financial instruments comprise the net effects of changes in the fair values of derivatives (other than derivatives designated as risk hedging instruments), as well as of valuation gains/(losses) in fair value of financial instruments measured at fair value through profit or loss (FVTPL).

3.6. Net Gains/(Losses) from Derecognition of Financial Instruments

Net gains/(losses) from derecognition of financial instruments and investments comprise the net effect of derecognition of financial instruments in accordance with IFRS 9.

3.7. Net Gains from Risk Hedges

Net gains from risk hedges include net gains in the value adjustment of financial derivatives designated as risk hedging instruments, as well as in the fair value adjustment of loans, receivables and securities as hedged items, which arise from the risk against which the item is hedged.

3.8. Income Taxes

Income tax expense comprise current taxes and deferred taxes. Current taxes and deferred taxes are recognized in the income statement, except to the extent that they relate to items recognized directly in equity or in other comprehensive income.

Current Income Taxes

Current income tax is an amount calculated by applying the legally prescribed tax rate of 15% (2021: 15%) to profit before taxes, as adjusted for permanent differences that brings down the statutory tax rate to the effective tax rate. The total amount of the income tax payable is determined by applying the legally prescribed tax rate to the taxable base determined in the annual corporate income tax return. The Corporate Income Tax Law of the Republic of Serbia does not envisage that any tax losses of the current period be used to recover taxes paid within a specific carry back period. However, losses recognised in the tax return in the current accounting period may be used to reduce the tax base of future accounting periods, but not longer than five ensuing years.

In line with the Amendments and Supplements to the Corporate Income Tax Law issued in December 2018, the Bank has elected to recognize in its annual tax return one fifth of the effects resulting from the first-time adoption of IFRS 9 as an expense over the period of the ensuing five years, starting from 2018 (up to and inclusive of 2022).

The Corporate Income Tax Law was amended at the end of 2019, with most of the provisions applicable to the determination of taxes starting from 2020. Exceptionally, the provisions relating to the recognition of expenses arising from the write-off of housing loans indexed in the CHF applied to the determination of 2019 tax liability. Namely, in accordance with Article 22a paragraph 6 of the Law, a bank can recognize expenses determined in the income statement based on the reduction in loans borne by the bank, as determined in line with the law governing the conversion of housing loans indexed in CHF.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Tax Expenses (Continued)

Deferred Income Tax

Deferred tax liabilities are recognized as at the reporting date for all taxable temporary differences between the carrying values of assets used for financial reporting purposes and their tax bases. The currently enacted tax rates or the substantively enacted rates at the balance sheet date are used to determine the deferred income tax amount.

Deferred tax liabilities are recognised on all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forwards of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Current and deferred tax assets and liabilities are offset when levied by the same tax authority on the same taxable entity, when related to the same tax authority and if there is a legally enforceable right to offset tax liabilities against tax assets.

Current and deferred taxes are recognised as income or expense and are included in net profit for the period other than those amounts that are recorded directly in equity in the current or other accounting period.

Indirect Taxes and Contributions

Indirect taxes and contributions include property taxes, municipal fees and charges and other taxes and contributions payable pursuant to effective republic and local tax regulations. These taxes and contributions are reported within other expenses.

3.9. Financial Assets and Liabilities

Recognition

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

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

Classification

In accordance with IFRS 9 classification and measurement of financial assets depend on the following two main criteria:

(a) the business model within which the asset is held; and
(b) characteristics of the contractual cash flows of financial assets (the so-called SPPI criterion).

The business model reflects the manner in which the Bank manages its financial assets in order to collect the cash flows therefrom, i.e., the business model determines whether the cash flows will result from collection of cash flows, sales of assets or both. The Bank performed detailed analysis and defined the following business models:

(a) hold to collect;
(b) hold to collect and sell; and
(c) other business models (e.g. hold to sell).

In instances of business models “hold to collect” or “hold to collect and sell”, it is assessed whether the cash flows represent solely payments of principal and interest (the Solely Payments of Principal and Interest - SPPI test).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Financial Assets and Liabilities (Continued)

Classification (Continued)

In accordance with the basic loan arrangement, interest includes the time value of money, the accepted level of counterparty credit risk and other basic lending risks and adequate profit margin. If the contractual terms include risk exposures that are not in line with the basic loan arrangement, such a financial asset is classified and measured at fair value through profit or loss irrespective of the business model to which it belongs.

Based on the performed analysis of the business models and characteristics of the contractual cash flows, in line with IFRS 9 the Bank classifies its financial assets in one of the following three categories:

1) financial assets at amortized cost (AC);
2) financial assets at fair value through other comprehensive income (FVOCI); and
3) financial assets at fair value through profit or loss (FVTPL).

The Bank measures its financial liabilities at amortized cost.

Reclassification

If a change occurs to the model underlying a financial asset management, the financial assets is reclassified. Reclassification is made prospectively, i.e., as of the first day of the following reporting period.

Upon reclassification of a financial asset from the category of measurement at amortized cost to the category of measurement at FVTPL, the asset's fair value is measured at the reclassification date, while any gain or loss on the difference between the previously amortized cost the fair value is recognized in the profit or loss.

In case of a contrary reclassification, from an asset measured at FVTPL to the category of assets measured at amortized cost, the asset's fair value as of the reclassification date will become its gross carrying value.

Upon reclassification of a financial asset from the category of measurement at amortized cost into the category of measurement at FVOCI, the asset's fair value is measured at the reclassification date, while any gain or loss on the difference between the previously amortized cost the fair value is recognized in the other comprehensive income.

In case of a contrary reclassification, from an asset measured at FVOCI to the category of assets measured at amortized cost, the financial asset will be reclassified at its fair value. However, the accumulated gains or losses previously recognized within the other comprehensive income will cease to be recognized within equity and the value of the financial asset will be adjusted by the amount thereof as of the reclassification date. As a result, the financial asset is measured as of the reclassification date as if it had always been measured at amortized cost.

Upon reclassification of a financial asset from the category of measurement at FVTPL to the category of assets measured at FVOCI, the financial asset continues to be measured at fair value.

In case of a contrary reclassification, from an asset measured at FVOCI to the category of assets measured at FVTPL, the financial asset will continue to be measured at fair value. The accumulated gains or losses previously recognized in other comprehensive income are reclassified from equity to the profit or loss.

Modification and Derecognition of Financial Assets

In some circumstances, renegotiation or modification of the contractual cash flows of a financial asset may lead to derecognition of the existing financial asset in line with IFRS 9. When modification of a financial asset results in derecognition of the existing asset and subsequent recognition of a modified asset, the modified asset will be deemed a “new” financial asset for the purposes of this standard.

In such situations, the Bank makes quantitative and qualitative analyses and assesses whether there is a significant difference between the contractual cash flows of the original financial asset and the contractual cash flows of the modified or replacement asset. If there is a significant difference, the contractual rights pertaining to the original financial asset will be considered as expired and the new asset, issued under new terms, is to be recognized.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Financial Assets and Liabilities (Continued)

Modification and Derecognition of Financial Assets (Continued)

Accordingly, the reclassification date will be treated as the date of the initial recognition date of such a financial asset upon implementation of the impairment requirements to the modified asset.

In the event of a significant modification of a financial instrument, IFRS 9 stipulates derecognition of the original financial asset and recognition of the new one at fair value at the recognition date.

Derecognition results in a permanent gain or loss, which must be recognized within the profit or loss statement, in the amount of the difference between the amortized cost of the original financial asset and the fair value of the new financial asset net of expected credit losses recognized as impairment allowance of the new financial asset.

Purchased or Originated Credit Impaired Assets (POCI)

A financial asset is credit impaired when one or more events have occurred with adverse effects on the estimated contractual cash flows of the financial asset.

At the moment of initial recognition such financial assets will have no impairment but the lifetime expected credit losses need to be included in the calculation of their effective interest rate. Therefore, the Bank includes the initial expected credit losses into the estimate of the future cash flows upon calculation of the credit-adjusted effective interest rate of the financial assets impaired at initial recognition.

Upon initial recognition, expected credit losses (ECL) for POCI assets are always measured as lifetime ECL. However, at the reporting date, the Bank recognizes only cumulative changes in lifetime ECL since the initial recognition as the provision for losses on POCI assets. In other words, at each reporting date, in the income statement the Bank recognizes changes in lifetime ECL as gains or losses on impairment.

Derecognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risk and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualifies for derecognition that is created or retained by the Bank is recognized as a separate asset or liability in the balance sheet. 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 the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that was previously recognized in other comprehensive income is recognized in profit or loss.

The Bank enters in transactions whereby it transfers assets recognized on its balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. 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, repurchase transactions.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Bank has a legal right to offset the recognized amounts and it intends either to settle a 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 IFRSs, or for gains and losses arising from a group of similar transactions such as those in the Bank's trading activity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Financial Assets and Liabilities (Continued)

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.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

In case of inactive financial market, the Bank determines fair value using the valuation methodology. Valuation methodologies include transactions on market conditions between the willing, willing parties (if available), reference to the existing fair value of other instruments that are substantially the same, discounted cash flow analysis, and other alternative methods.

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

Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument of based on other available observable market data.

Assets and long positions are measured at bid prices and liabilities and short positions are measured at ask prices. When the Bank has a risk offsetting position, median market prices are used for measuring offsetting or risk-weighted assets, while adjustment to bid or ask prices is applied only to the net open positions. Here the fair value reflects the credit risk of the instrument and includes adjustments reflecting the credit risk of the Bank and the counterparty, where relevant. Fair value assessments based on the valuation models are adjusted for all other factors, such as liquidity risk or uncertainty models, to the extent that the Bank believes that third party market participants may take them into consideration upon determining transaction cost.

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, unless 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. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is recognized in profit or loss. 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.

Impairment of the Financial Assets

In accordance with IFRS 9, upon impairment of the 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, i.e. the Bank calculates provisions for credit losses for credit exposures except for those already measured at fair value through profit or loss (FVTPL) (including both performing and non-performing financial assets).

Expected credit losses are recalculated at each reporting date in order to reflect changes occurred in the credit risk since the initial recognition of the financial instrument. Such an approach results in sooner identification of credit losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Financial Assets and Liabilities (Continued)

Impairment of the Financial Assets (Continued)

Upon calculating expected credit losses, the Bank uses forward-looking information and macroeconomic inputs, i.e., the Bank considers not only historical information adjusted so as to reflect the effects of the present conditions and information providing objective evidence of the financial assets being impaired for actual losses incurred, but reasonable and supportable information as well, which includes projections of the future economic conditions upon calculation of expected credit losses, both at individual and at collective levels. The amount of provisions for credit losses will increase with deterioration of the projected economic conditions and decrease with their improvement.

The Bank's basic principles and rules upon calculation of provisions under IFRS 9 are as follows:

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

- Stage 1 includes all new financial assets at initial recognition and instruments without significant credit quality deterioration since their initial recognition;
- 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.

In accordance with the foregoing, the Bank calculates an impairment allowance (provision) for a particular instrument in the amount of lifetime expected credit losses if the credit risk of the instrument has increased significantly since its initial recognition or if there is objective evidence of impairment identified (a financial asset classified into Stage 2 or Stage 3, respectively). Impairment allowance is calculated up to the amount of 12-month expected credit losses for all financial instruments with no significant credit risk increase since the initial recognition (financial assets classified into Stage 1).

For impairment allowance calculation purposes, the 12-month expected credit losses are part of the life-time expected credit losses identified and represent cash shortages over the life of an instrument that will occur in the event of default within 12 months from the reporting date or a shorter period, if the expected lifetime of an instrument is shorter than 12 months).

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. The deterioration of the instrument's initial classification and the resulting change in life time PD is the key parameter underlying the quantitative criterion of the transfer logic. Two additional qualitative criteria that come after applying the quantitative criteria are:

- Forbearance status classification results in automatic classification to Stage 2.
- 30 days past due – if a transaction reaches 30 days past due, it should be classified as Stage 2.

In the impairment process, the Bank applies a special treatment to the purchases of already impaired assets from the so-called NPL portfolios and to the approval of new loans to the borrowers with already impaired loans within its portfolio. In accordance with the Standard, such assets are defined as POCI (purchased and 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Financial Assets and Liabilities (Continued)

Write-Off and Transfer of Receivables from the On-Balance Sheet to the Off-Balance Sheet Items

The Bank (In accordance with the Procedure on the Write-Off and Transfer of Receivables from the On-Balance Sheet to the Off-Balance Sheet Items) writes off certain loans and receivables and securities that have been determined as irrecoverable.

3.10. Cash and Balances with the Central Bank

Cash and balances held with the Central Bank comprise cash on hand, the Bank's gyro account balance, 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 in the Bank's statement of financial position.

Within the statement of cash flows cash and cash equivalents also encompass balances on accounts held with foreign banks, whereas the obligatory foreign currency reserves held with the central bank are not included therein.

3.11. Financial Assets Measured at Amortized Cost

This category includes financial assets meeting the two below listed criteria, if they are not designated upon initial recognition as financial assets measured at FVTPL:

- the objective of the business model in which the assets are held is achieved by collecting the contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

After initial recognitions, such assets are measured at amortized cost using the effective interest rate, net of expected credit losses.

Interest income from these instruments is calculated using the effective interest and presented in the income statement. Impairment losses on financial instruments measured at AC are recognized within the income statement under losses on impairment of financial assets.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. They arise when the Bank provides money or services directly to a customer with no intention of trading the receivable. Loans and receivables comprise loans and receivables to banks and customers.

Loans and receivables are initially measured at fair value. Upon initial recognition, based on the analysis of the business model and characteristics of the contractual cash flows, loans and receivables are measured at amortized cost (AC), fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVTPL).

Following the initial recognition and measurement, loans and receivables due from banks and customers are measured at amortized cost and are stated at the amounts outstanding, taking into account all the discounts and premiums granted upon acquisition, net of the impairment allowances.

Income and receivables per interest calculated on such instruments are recorded within interest income and interest receivables. Fees that are part of the effective interest on these instruments are deferred and recognized within the profit or loss statements under interest income over the life of the instrument.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Financial Assets Measured at Amortized Cost (Continued)

Loans and Receivables (Continued)

Approved RSD loans hedged using a contractual currency clause linked to the RSD/EUR exchange rate, to another foreign currency or consumer price index are converted into dinars at the reporting date in accordance with the terms of the particular loan agreement. The effects of the currency conversion are reported foreign exchange gains and positive currency clause effects, i.e. income and expenses of contracted hedge items.

In accordance with its internally adopted methodology, at each reporting date, the Bank assesses whether there has been a significant increase in credit risk of all of its financial assets and calculated impairment allowance in the amount of lifetime expected credit losses for the financial assets whose credit risk has increased significantly since their initial recognition or if there is objective evidence of their impairment, and, on the other end, in the amount of 12-month expected losses for all those financial assets where the credit risk has not increased significantly since their initial recognition.

For the purposes of the Bank's calculation of impairment allowance, 12-month ECL represent a portion of the lifetime ECL and are in fact losses that will arise if the asset (loan) defaults (if the default status occurs) within 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months), weighted by the probability of default (PD).

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the borrower’s credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement under the item of “Net gains from reversal of impairment/losses on impairment of financial assets not measured at FVTPL”.

3.12. Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI)

Following their initial recognition, these financial assets are measured at fair value. The fair value of the assets is determined in line with the Bank's internally adopted fair value assessment methodology. Gains or losses on the changes in their fair value of these assets, except for impairment losses and foreign exchange gains/losses, until derecognition. Upon derecognition, the accumulated gains or losses previously recognized within the other comprehensive income are reclassified to the profit or loss.

Interest accrued on such assets is recognized under the effective interest method within interest income in the income statement.

The calculated impairment losses (ECL) on these assets are recognized within the other comprehensive income and they do not reduce the carrying value of the financial assets (as is the case with financial assets measured at AC), in other words, the impairment allowance does not affect the carrying value of these assets.

3.13. Financial Assets Measured at Fair Value through Profit or Loss (FVTPL)

Financial assets measured at FVTPL are all those financial assets that are not measured at AC or FVOCI. In line with IFRS 9, such assets are measured at fair value, with the effect of changes in their fair value recorded within profit or loss (income statement).

A financial asset classified into this category is a financial asset held for trading, i.e., an asset acquired primarily for sale or repurchase in the near future, with the aim to earn a profit from short-term price fluctuations and/or dealer’s margin.

Financial instruments (including shares held for trading) in the Bank's trading book are initially recognized at their purchase price. Transaction costs are not included in their value but represent expenses for the period of acquisition. The financial assets held for trading are remeasured- adjusted to the fair value on a daily basis. Gains and/or losses on the sale of such assets are recognized within income or expenses for the period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Financial Assets Measured at Fair Value through Profit or Loss (FVTPL) (Continued)

Derivative Instruments

Financial derivatives comprise forward and swap transactions. Financial derivatives are initially recognized at cost and are subsequently measured at market value. Market values are obtained using different valuation techniques, including discounted cash flows.

Financial derivatives are accounted for under assets if their market value is positive and under liabilities if their market value is negative.

Unless designated as hedging instruments, derivatives are treated as held for trading and measured at FVTPL under IFRS 9. Fluctuations in market value of financial derivatives are reported in the income statement within Net gains or losses on the changes in the fair value of financial instruments.

3.14. Equity Instruments

All investments in equity instruments are measured at FVTPL under IFRS 9, with the changes in their fair values recognized in the profit or loss (income) statement, except for those equity investments for which the Bank has elected to recognize fair value changes within other comprehensive income (OCI).

Dividend income on the equity instruments for which the Bank has elected to recognize fair value changes within OCI, is recognized within the profit or loss (income) statement. Upon derecognition, gains or losses accumulated within OCI are not reclassified to PL. In accordance with IFRS 9, such financial instruments are not tested for impairment.

Moreover, under IFRS 9, if an equity instrument is not held for trading, the Bank may make an irrevocable election, upon initial recognition, to measure such an instrument at FVOCI, with only dividend income recognized within the profit or loss (income) statement. Such instruments are not subject to impairment assessment in accordance with IFRS.

3.15. Property and Equipment

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.

Following the initial recognition, property and equipment are measured at cost less accumulated depreciation and aggregate impairment losses.

Gains or losses arising on disposal of property and equipment are calculated as the difference between the sales proceeds and the carrying values of the assets and are presented within other income/expenses.

Subsequent Expenditures

Costs incurred in replacement of a critical part of equipment are capitalized and recognized as an increase of the carrying value of the fixed asset if it is probable that future economic benefits from the said part will flow to the Bank and if its cost can be measured reliably. The carrying value of the replaced part is derecognized.

The regular equipment maintenance and servicing costs are recognized within expenses as incurred.

Depreciation

Depreciation of property and equipment is calculated on a straight-line basis at the following annual rates in order to write off the cost of assets over their estimated useful lives.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15. Property and Equipment (Continued)

Depreciation (Continued)

The following depreciation rates were used in the current and previous accounting period:

Buildings	1.30%
Computer equipment	20.00%
Furniture and other equipment	8.00% - 40.00%
Motor vehicles	15.50%

Calculation of depreciation of property and equipment commences in the month following the month when an asset is placed into use. Depreciation calculation is discontinued for disposed of assets as from the month following the month of asset disposal.

Depreciation methods, useful lives and residual values are reassessed at each financial year-end and adjusted if appropriate.

3.16. Right-of-use Assets

The accounting policies for the recognition and measurement of leases in accordance with IFRS 16 “Leases” applied to the current and prior reporting periods are set out below:

(i) Bank as a Lessee

In accordance with IFRS 16, a lease is defined as a contract or part of a contract that transfers the right to use the property for a specified period of time in exchange for a fee. A qualifying asset is recognized if the following conditions are cumulatively fulfilled:

- if the leased asset can be identified explicitly or implicitly;
- when all material economic benefits from the use of the asset can be realized during the leasing period and
- if the use of the asset can be managed, that is, deciding how and for what purposes the asset will be used throughout the leasing period.

The Bank does not apply IFRS 16 requirements on low value assets, short-term leases (up to one year) and intangible assets. These leases are recognized as an expense on a proportional basis in the income statement (Note 18).

When an analysis of a contract determines that the contract is a lease, the asset with the right to use is recognized in the assets and the liability for the leasing in the liabilities of the balance sheet. An asset with a right of use is initially measured at cost, consisting of:

- the initial amount of the lease liability adjusted for all lease payments incurred on or before the lease begins,
- increased by any initial direct costs incurred and the estimated cost of dismantling and removing the asset or restoring the asset or location to its original condition, and
- reduced for received lease incentives.

After the initial recognition, the right-of-use asset is measured at cost reduced for impairment loss and adjusted for remeasuring leasing liabilities.

Right-of-use assets are depreciated on a straight-line basis. Depreciation starts from the first day of the next month in relation to the month in which the asset is available for use.

The lease liability is initially measured at the present net worth of all future lease payments (excluding value added tax), discounted at the interest rate implicit in the lease, and in the absence thereof, at the incremental borrowing rate. The incremental borrowing rate is determined based on the cost of financing a liability of similar duration and similar security to that provided for in the leasing contract.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued))

3.16. Right-of-use Assets (Continued)

(i) Bank as a Lessee (Continued)

Future leasing payments that are included in the value of the lease liability after discounting include:

- fixed payments less any lease incentives received,
- variable leasing payments, that is, index- or rate-dependent payments,
- payments under the residual value guarantee clause of the leased item,
- the purchase price of the redemption option, if there is reasonable possibility for redemption,
- penalties for termination of the contract, if there is reasonable possibility for termination.

After initial recognition, the lease liability is reduced by the lease liability payments made, increased by the imputed interest and adjusted based on:

- changes in future lease payments resulting from a change in the rate or index used to determine the initial lease liability,
- changes in the valuation of the use of the option to purchase the property,
- changes in the amount expected to be paid under the residual value guarantee,
- changes in the leasing period.

Adjusting the value of the lease liability also requires adjusting the asset to its right of use. On a lease basis, the Bank recognizes depreciation expense and interest expense in the income statement.

(ii) Bank as a Lessor

When the Bank appears as a leasing provider, it is assessed whether it is a financial lease or an operating lease. If the Bank estimates that the contract transfers all the risks and benefits arising from the ownership, the lease is classified as financial. Otherwise, it is operating leasing. IFRS 16 does not make any material changes to the accounting treatment of leases with a lessor compared to IAS 17.

3.17. Intangible Assets

Intangible assets are comprised of software, licenses and other intangible assets. Intangible assets acquired by the Bank are stated at cost less accumulated amortization and 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 of intangible assets is calculated on a straight-line basis in order to write off the assets over their estimated useful lives of five years, unless the assessment of the useful life and the possibility of using the respective investment, taking into account the technological characteristics and efficiency, do not exceed the stated period of use. For intangible assets, the period of use of which is determined by the contract, the depreciation rate is determined based on the period of use from the contract.

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

3.18. Investment Property

In accordance with IAS 40 “Investment Property”, investment property is property (land or a building, part of building or both) held by the owner (or lessee) either to earn rental income or for capital appreciation or for both.

Upon acquisition, investment property is measured at cost or purchase price. At initial measurement, all acquisition related costs are included in the cost or purchase price of investment property.

For subsequent measurement of investment property, the Bank uses the fair value model. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Gains or losses arising from the fair value adjustment of investment property are recognized as income or expenses in the period when realized/incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19. Impairment of Non-financial Assets

In accordance with the adopted accounting policy, at each balance sheet date, the Bank's management reviews the carrying amounts of the Bank's intangible assets, property, equipment and assets (property) acquired by collecting Bank's receivables. 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 the impairment loss.

If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount, being the higher of an asset's fair value less costs to sell and value in use. Impairment losses, representing a difference between the carrying amount and the recoverable amount of property, plant and equipment and intangible assets, are recognised in the income statement as required by IAS 36 "Impairment of Assets".

Non-financial assets (other than goodwill) that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

3.20. Investments in Subsidiaries

Subsidiaries are subordinate entities under the Bank's control, i.e., those where the Bank is exposed, or has rights, to variable returns from its involvement with the investees and has the ability to affect those returns through its power over the investees.

Investments in the Bank's subsidiaries are recorded in these financial statements at cost in accordance with IAS 27. The historical cost method requires that the investments in subsidiaries be recorded at cost (the amount of investment) and periodically (once a year) tested for impairment in line with IAS 36.

If an equity investment is impaired, i.e., if it is determined upon subsequent measurement that its recoverable amount is lower than its cost (or the carrying value), the cost (the carrying value) of the investment is reduced for the impairment allowance to the recoverable amount. Impairment allowance of equity interests held in subsidiaries are recorded within expenses in the current period's income statement.

Income from equity investments is recognized only if a subsidiary has enacted a relevant decision on profit distribution.

Consolidation of the financial statements is carried out using the full consolidation method, which, inter alia, involves the "line-by-line" summation of the same/corresponding items of assets, liabilities, income and expenses with elimination of all the intragroup balances, transactions, income and expenses.

3.21. Inventories

Inventories include tangible assets acquired in lieu of debt collection.

Tangible assets acquired in lieu of debt collection represent properties initially assigned under mortgage liens in favour of the Bank as collaterals securitizing loan repayment, which the Bank foreclosed in lieu of debt collection.

Such properties are measured at the lower of the carrying values of the respective loans collected from their foreclosure and market prices determined by certified appraisers.

3.22. Managed Funds

The funds that the Bank manages on behalf of and for the account of third parties for a fee are disclosed within off-balance sheet items (Note 39.2). The Bank bears no risk in respect of repayment of these placements.

3.23. Deposits and Borrowings

Deposits are stated in the amount of deposited funds, which may be increased by interest accrued, depending on the contractual terms agreed between depositors and the Bank.

Deposits and borrowings are initially measured at fair value increased for all directly attributable transaction costs, while they are subsequently measured at amortized cost using the effective interest rate method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.24. Provisions, Contingent Liabilities and Contingent Assets

Provisions

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation (Note 36).

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.

Contingent Liabilities and Contingent Assets

Contingent liabilities are not recognised in the financial statements. They are disclosed in the notes to the financial statements (Note 39.1), unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

3.25. Financial Guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognized at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are reported under off-balance sheet items.

3.26. Employee Benefits

In accordance with the regulations effective in the Republic of Serbia, the Bank is obligated to pay contributions to various state social security funds, which guarantee social security insurance benefits to employees. These obligations involve the payment of taxes and contributions on behalf of the employee, by the employer, in the amounts computed by applying the specific, legally prescribed rates, which are withheld from the gross salaries. The Bank also calculates and pays social security contributions charged to the employer.

In accordance with the Labour Law, the Bank is obliged to pay retirement benefits, and in accordance with its acts, it also pays jubilee awards for 10, 20, 30 and 40 years of employment with the Bank.

Long-term liabilities for retirement benefit provisions and jubilee awards in accordance with IAS 19 represent the present value of the expected future payments to employees as determined by actuarial assessment using assumptions disclosed in Note 36(b).

Accumulating compensated absences may be carried forward and used in future periods if the current period's entitlement has not been fully used. The expected cost of accumulated compensated absences is recognised in the amount that is expected to be paid as a result of the unused entitlement that has accumulated as of the balance sheet date. In the instance of non-accumulating compensated absences, no liability or expense is recognised until the time of the absence.

3.27. Equity

The Bank's equity consists of founders' capital, subsequent issue shares, share premium, reserves, fair value reserves, and retained earnings for the current and prior years. The Bank's equity was formed from monetary contributions invested by the Bank's founders. A founder cannot withdraw funds invested in the Bank's equity.

Gains and losses arising from changes in the market value of securities measured at fair value through other comprehensive income, as well as impairment of these securities in accordance with IFRS 9, are recorded within unrealised gains/losses on the indicated securities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.28. Related Party Disclosures

For the purpose of these financial statements related legal entities are those entities when one legal entity has a possibility to control another entity or has the right to govern the financial and business operations of the entity, as defined by IAS 24 “Related Party Disclosures”.

Relations between the Bank and its related parties are regulated at contractual basis. Outstanding balances of receivables and liabilities at the reporting date, as well as transactions occurred during the reporting periods with related parties are disclosed separately in notes to the financial statements (Note 40).

4. RISK MANAGEMENT

A risk is the possibility of negative effects on the Bank’s capital and financial result as a consequence of transactions performed by the Bank and the macroeconomic environment it operates in. The Bank’s long-term goal in risk management is to minimize negative effects on the Bank’s financial result and capital due to its risk exposure.

Risks are an integral part of banking operations and it is impossible to eliminate them completely. It is important however to manage risks in such a manner that they are reduced to the levels acceptable for all stakeholders: capital owner i.e. shareholders, creditors, depositors and regulators.

The risk management process implies continued risk identification, measurement, i.e. assessment, undertaking risk mitigation measures, risk monitoring and control, i.e. establishing the risk exposure limit system, as well as reporting on risks in line with the Bank’s internal acts and the decisions of the regulators. An adequate risk management system is one of the key elements in ensuring the stability of the Bank’s operations.

Risk monitoring and control are primarily based on establishing the procedures and limit system. The established limits reflect the Bank’s business strategy and market environment, as well as the risk level that the Bank is willing to accept. The Bank permanently monitors and measures the capacity of the acceptable risk exposure level, taking into account the total exposure to all types of risks and activities.

The Bank continuously monitors all changes in law and bylaw regulations and international standards, analyses the effect on the risk level and undertakes measures for the timely harmonization of its operations with the current regulations.

Risk Management System

The Bank has established a comprehensive and reliable risk management system defined by:

- Risk management strategy,
- Capital management strategy and plan,
- Risk management policy,
- Individual risks’ management procedures,
- Methodologies by which the Bank defines in detail the methods and approaches used in the individual risk management system and
- Other internal acts of the Bank.

The risk management strategy defines the risk management principles for the purpose of ensuring an adequate assessment of all the risks the Bank is exposed or may be exposed to in its operations, and the adequate capital necessary for supporting the realization of the Bank’s strategic goals, in line with the Bank’s Business Policy and Strategy.

4. RISK MANAGEMENT (Continued)

Risk Management System (Continued)

The risk management strategy defines:

- All the risks that the Bank is or may be exposed to in its operations;
- The long-term goals in risk management, as established by the Bank's Business Policy and Strategy, as well as risk inclination and tolerance determined in line with those goals;
- Basic principles of risk assumption and management;
- Basic principles of the internal capital adequacy assessment process;
- Obligation of regular reporting to the Bank's bodies and the National Bank of Serbia about risk management;
- The criteria for determining the Bank's non-performing loans the basic principles of managing such assets, as well as the highest acceptable level of non-performing loans.

In the Risk Management Policy, the Bank determines the basic principles of risk management, and in particular defines the organization of the risk management process, the basis for the Bank's risk profile assessment, i.e. risk identification and measurement, measures for individual risk mitigation and monitoring, the internal risk management control system, the establishment of the individual risk limit system, as well as actions in the event of exceeding the defined limits, the manner and methodology for implementing the internal capital adequacy assessment process, establishes the framework and frequency of the stress testing of individual types of risks. In addition, Risk Management Policy determines the obligation of regular reporting to the Bank's bodies and the National Bank of Serbia regarding risk management.

In the risk management procedures, the Bank further defines the process or risk identification, measurement, i.e. assessment, as well as the procedure for risk mitigation, monitoring and control, reporting about the risks the Bank is exposed to, as well as the competencies and responsibilities of the Bank's organizational parts in the risk management system.

Moreover, in a separate procedure, the Bank defines activities, rules for the employees' actions, authorities and responsibilities in relation to:

- management of placements in arrears from the corporate, public and financial sectors with days past due under 90 days; and
- non-performing placements of the Bank to corporate customers related to restructuring of their placements, i.e. to all non-performing customers (corporate and retail) related to enforced collection.

Through individual methodologies, the Bank prescribes in detail the methods and approaches applied for measuring exposure to individual risks.

Competencies

The Bank has established a comprehensive and reliable risk management system that is fully integrated into all the Bank's business activities and that ensures that the Bank's risk profile is in line with the Bank's defined risk appetite.

For the purpose of adequate risk management, the Bank has formed an adequate organizational structure that corresponds to the scope, type and complexity of the operations it performs and with the aim of preventing conflicts of interest risk-taking function (front office) is separated from the risk management function (middle office) and supporting activities (back office). This organizational structure enables the achievement of the determined goals and principles of risk management in practice.

The risk management process includes the following participants:

The Bank's Assembly – adopts the Bank's Business Policy and Strategy that define the Bank's business goals for a minimum period of three years, adopts the Bank's financial statement and decides on the use and distribution of the realized profit i.e. covering losses. In addition, the Assembly decides on increasing capital i.e. capital investments in other entities in the financial sector or other corporate customers, as well as about the amount of investments in fixed assets and investment property.

4. RISK MANAGEMENT (Continued)

Competencies (Continued)

The Bank's Board of Directors is competent and responsible for establishing a unique risk management system and control over that system, adopting the Risk Management Strategy and Policy, the Capital Management Strategy and Plan, and the Methodology for Internal Capital Requirements Assessment, establishing the internal control system, adopting the Liquidity Contingency Plan and the Bank Recovery Plan, as well as other activities stipulated by the Law on Banks. Moreover, the Board of Directors controls the work of the Executive Board.

The Executive Board is competent and responsible for implementing the Bank's Business Policy and Strategy according to the three-year strategic plan, the Risk Management Strategy and Policy, the Capital Management Strategy and Plan, the Internal Control System Policy, the adoption and analysis of the efficiency of individual risk management procedures that further define the process of risk identification, measurement (assessment), mitigating, monitoring and control, as well as reporting on the risks that the Bank is exposed to. The Bank's Executive Board regularly reports to the Board of Directors about the efficiency of the adopted Policy and risk management procedures.

The Monitoring Committee is competent and responsible for adopting the proposed Bank's Strategy and Policy in relation to risk management and implementing the internal control system submitted to the Board of Directors for consideration and adoption. Moreover, this Committee is in charge of analysing and controlling the application and adequate implementation of the adopted internal acts: The Risk Management Strategy and Policy and the Internal Control System Policy. At least once a month, the Board of Directors reports on its activities and established irregularities, and proposes ways to eliminate them.

The Asset and Liability Committee monitors the Bank's risk exposure arising from the structure of its balance sheet liabilities, receivables and off-balance sheet items and proposes measures for managing market risks, interest rate risk and liquidity risk.

The Risk Committee is responsible for monitoring the Bank's exposure to credit risk, liquidity risk, interest rate risk, market risks, operational risk, country risk, concentration, investment risk and other risks, and it proposes measures for managing those risks to the Bank's Executive Board. The Risk Committee meets as prescribed by the Rules of Procedure.

The Client Monitoring Committee is responsible for monitoring the placement quality at the level of individual clients and observing the increased credit risk, i.e. for monitoring the receivables from clients in arrears and clients with a probability of increased credit risk. The role of this Committee is to consider potentially non-performing clients and placements, as well as to undertake certain activities in order to improve the status of these placements/clients. The Committee is also in charge of monitoring the status of previously proposed measures and decisions at the Committee's sessions. The Client Monitoring Committee meets at least once a month and more frequently if necessary.

The Bank's credit committees decide on loan requirements/placements within the frameworks determined in the Bank's acts, and analyse the Bank's exposure to credit, interest rate and market risks. The Bank's Board of Directors makes the Decision on forming credit committees and appointing the members of the following credit committees:

- Credit Committee for Corporate and Finance Sector clients;
- Credit Committee for Retail and SME clients.

The credit risk management divisions (the Corporate, Public and Finance Sector Credit Risk Management Division and the Retail and SME Sector Credit Risk Management Division) identify, measure i.e. assess and manage the credit risk of performing clients in the corporate segment, the public and financial sector, i.e. the segment of retail and small and medium enterprises.

The Monitoring Division monitors, analyses, controls and reports on receivables from potentially problematic clients that are managed by the sales departments in the segments or corporate, public sector, financial institutions, retail and small clients, and it also monitors, controls and reports on the contracted collaterals, the importance of appraisal reports and insurance policies for mortgaged real estate, the validity of data related to the contracted collaterals entered in the Collateral Management System, the status of the contracted subsequent conditions with the Bank's credit clients, etc.

4. RISK MANAGEMENT (Continued)

Competencies (Continued)

The Risk Controlling Sector proposes the risk management strategy, policy, procedures and methodologies for adoption. This Sector is responsible for implementing and maintaining risk-related methodologies and procedures from the aspect of ensuring the independent risk control process. This Sector also ensures the complete inclusion of risks in the measurement and reporting system of the risks that the Bank is exposed to in its operations. The Risk Controlling Sector comprises two divisions:

- Credit Risk Controlling
- Market, Liquidity and Operational Risk Controlling.

The Workout Sector – in order to implement the strategy for addressing NPLs, which is an integral part of the Bank's risk management strategy, the Bank set up this Sector within its organization as a separate organizational unit for NPL management so that it is functionally and organizationally separated from the organizational units whose scope of activity includes risk-taking. The main function of the Sector is to manage the collection of non-performing customers – corporate and retail, entrepreneurs and registered agricultural estates, and to manage the early collection of natural persons' placements in arrears.

The Accounting and Reporting Sector is in charge of maintaining books of accounts, the preparation and issue of financial statements and reporting to the National Bank of Serbia and other external users.

The Planning and Controlling Sector provides appropriate support for all participants in the process of planning available internal capital, as well as in preparing the Bank's Financial Plan, which is taken as the basis for planning available internal capital.

The Treasury Sector is responsible for managing assets and liquidity, as well as the Bank's assets and liabilities. Moreover, it participates in the liquidity risk management, interest rate and foreign currency position of the Bank. The operations of this Sector are organized through the work of two units: Trading, Sales and Financial Institutions Relations and Asset/Liability and Liquidity Management.

The Operations Sector, which, through its operations, performs a support function, through the management of the Bank's operations in the areas of business support, payment operations, credit and deposit administration.

The Internal Audit Sector is responsible for the continued monitoring of the implementation of risk management policies and procedures, as well as for the regular assessment of the adequacy, reliability and effectiveness of the internal control system and the compliance function of the Bank.

The Compliance Sector is obligated to identify and monitor compliance risks in the Bank's operations, as well as to manage those risks that particularly relate to the risk of money laundering and terrorist financing, the risk of sanctions by the regulator, the risk of financial losses and reputation risk. The basic function of this Sector is the implementation of an ongoing, adequate and efficient control of the Bank's compliance in a manner that enables indicating the existing and potential compliance risks and management of such risks in order to achieve the highest standards in the Bank's operations.

In its regular course of business, the Bank is particularly exposed to the following risks: credit risk and risks associated with the credit risk, liquidity risk, interest rate risk, market risks, operational risk, exposure risk i.e. concentration risk, investment risk and country risk.

4.1. Credit Risk

Credit risk is the risk of negative effects on the Bank's financial result and capital arising from borrowers' inability to settle matured liabilities to the Bank.

In its internal Credit Policy, loan approval procedures and methodologies, the Bank has defined criteria for loan approval, the alteration of terms of use and the settlement of loans approved, the rescheduling and restructuring of receivables etc. The Credit Policy defines general terms of business with the Bank's clients and basics of crediting the corporate, public sector, retail and SME customer segments and risk management for all the aforementioned segments.

The loan approval process depends on the borrower type, loan type, loan characteristics and purpose and the collateral obtained, etc.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

In order to implement the policy of optimum credit risk exposure, the Bank assesses the creditworthiness, i.e. the financial situation of each borrower upon loan application submission and subsequently, when the same borrower applies for another loan or as part of regular and continuous borrower performance monitoring.

Assessment of the borrower's financial situation and creditworthiness, historical regularity in liability settlement and the assessment of the value of offered collateral on an individual level, i.e. for each individual loan, is performed within the Bank's organizational unit where the application for loan approval has been submitted, while the ultimate credit risk assessment per loan requested is conducted by the Corporate, Public and Finance Sector Credit Risk Management Division or the Retail and SME Sector Credit Risk Management Division, depending on the segment the borrower belongs to.

A loan proposal is made based on the assessment of the information from the borrower's financial statements, information on debt from data obtained from the borrowers themselves and from the Credit Bureau, information on account liquidity, information on the business relations of the borrower with the customers and suppliers provided by the borrower along with other supporting documents, information from the borrower's business plan, etc.

In such an assessment, the Bank complies with the requirements of the regulations of the National Bank of Serbia, as well as with its internal procedures in order to assess potential risks that may arise from the inability of the borrowers to discharge their liabilities due to the Bank.

In order to mitigate credit risk, the Bank demands certain collaterals upon loan approval. The amount and type of the required collateral depend on the assessed credit risk for each borrower individually. Terms for securitizing loan repayment are defined based on analyses of the borrower's creditworthiness, the type and extent of credit risk exposure, loan maturity and amount.

The Bank manages credit risk at an individual loan level, individual borrower level, as well as at the Bank's entire loan portfolio level.

Credit risk monitoring at an individual borrower level is based on obtaining updated information on the borrower's financial situation and creditworthiness and the value of the collateral, while credit risk monitoring at the portfolio level is performed through the analysis of the change within a group of borrowers with a similar risk level and characteristics in order to determine and manage the balances and quality of assets.

Credit risk monitoring at an individual receivable level, i.e., the level of the individual borrower/group of related entities is performed within the Corporate and Public Sector, the Retail and SME Sector, Credit Risk Management Corporate, Public and Finance sector, Credit Risk Management Retail and SME, Workout and the Monitoring Sector.

Credit risk monitoring on the loan portfolio level is performed by the Monitoring Sector, as well as within the Credit Risk Controlling Sector.

At the credit portfolio level, the Risk Controlling Division/the Credit Risk Controlling assesses/calculates the impairment of on-balance sheet assets and probable loss on off-balance sheet items at least quarterly, i.e. recognizes and measures expected credit losses in accordance with the International Accounting Standards and the International Financial Reporting Standards (IFRS 9).

The Bank also classifies its on- and off-balance sheet assets on a quarterly basis in accordance with the National Bank of Serbia Decision on the classification of on-balance sheet assets and off-balance sheet items.

In addition to loans, the Bank issues guarantees and letters of credit to its customers and has potential liabilities in this respect to make payments to third parties. In this way, the Bank is exposed to risks associated with the credit risk, which may be overcome or mitigated by the deployment of the control procedures and processes used for credit risk.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Credit Risk Measurement and Assessment

Credit risk is assessed and measured by applying quantitative and qualitative criteria based on which debtors and their placements are classified into appropriate risk categories, in accordance with:

- the Bank's methodology for the classification of balance sheet assets and off-balance sheet items,
- methodologies for identifying and measuring the credit risk arising from the impact of changes in the dinar exchange rate on the financial position of the borrower; and
- the Bank's methodology for assessing the impairment of on-balance sheet assets and the probable loss on off-balance sheet items in accordance with the IFRS 9.

According to the internally defined methodology for the classification of on balance sheet assets and off-balance sheet items regulated by the Decision of the National Bank of Serbia on the classification of balance sheet assets and off-balance sheet items, the Bank performs a credit risk assessment based on the following basic criteria:

- the timeliness, i.e. delay in the performance of obligations to the bank (current and in the last year);
- estimates of the financial position, i.e. creditworthiness of the debtor; and
- quality of collaterals.

Based on the above criteria, debtors' claims are classified into one of the following categories: A, B, C, D or E.

Loans and Receivables Impairment Assessment

The Bank assesses on-balance and off-balance sheet receivables for impairment in accordance with its accounting policy and the Methodology for Assessing Impairment of Balance Sheet Assets and Probable Losses per Off-Balance Sheet Items under IFRS 9 (hereinafter: “Impairment Methodology“).

In accordance with the requirements of the IFRS 9, the Bank has defined criteria for the staging of its on-balance sheet assets and off-balance sheet items (Stages 1, 2 and 3) depending on the level of credit risk increase since the initial recognition, as well as the criteria for transfers of assets/receivables from one stage to another.

Off-balance exposures are included in the EAD calculation with the application of credit conversion factors (CCF) defined in the Decision on capital adequacy issued by National Bank of Serbia.

At least once in three months, for all its financial instruments, the Bank must:

- assess the asset quality and determine whether there is objective evidence of impairment, and
- assess whether there has been a significant increase in the credit risk since the initial recognition and calculate the amount of impairment per expected credit losses (ECL).

In the course of 2022, in the process of impairment calculation, the Bank applied internal ratings for client classification by credit risk level. The internal rating model defines the level of the individual client’s credit quality and, accordingly, the appropriate level of probable non-performance of obligations.

The Bank uses the rating scale that includes 26 rating categories, 25 representing non-default status of obligor, while one category marks default status.

The expert rating model has been developed for clients with specific characteristics for which the Bank was unable to develop an adequate statistical PD model, primarily due to the lack of a statistically relevant total number of clients and/or an insignificant number of defaults among these clients.

The Bank has applied expert ratings for the following portfolios: local self-government, public enterprises, financial institutions, newly-established enterprises and project financing.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Loans and Receivables Impairment Assessment (Continued)

EAD-Exposure at default includes balance sheet and off-balance sheet exposure

Off-balance exposures are included in the EAD calculation with the application of credit conversion factors (CCF) defined in the Decision on capital adequacy issued by National Bank of Serbia.

PD – Probability of Default

For the purpose of calculating impairment, the probability of default occurrence (PD) is assessed using transition matrices that show debtors' transitions from different performing ratings to default in the period between two dates. The starting point is migration matrices calculated by the Bank in terms of annual client migrations by ratings to the default category (per number) for each month in the past 6 years from the calculation date. In order to calculate PD, the through the cycle (ttc) matrix is multiplied by the number of the remaining years until loan maturity.

Effect of Macroeconomic Trends

For the purposes of determining the forward looking component of PD, the Bank uses the Z-shift approach.

When developing the model for determining independent macroeconomic variables, the Bank used statistical models and linear regression models. By analysing the assumptions, the variables that have a significant impact on the movement of the default rate were determined.

In order to define credit risk losses based on IFRS 9, the Bank calculates various macroeconomic scenarios and their probabilities of occurrence. On this occasion, the Bank uses the error distribution method, defining the error distribution through which the probability of a certain error value is estimated.

Three different macroeconomic scenarios and the probabilities of their occurrence are calculated. The basic scenario participates with 60%, the pessimistic one with 30%, while the optimistic one participates with 10%. The calculations are based on historically realized and predicted values of GDP for the current year and two years ahead, and on the basis of data published by the IMF. GDP growth, as a macroeconomic variable, showed the best predictive ability for all types of portfolios.

The GDP values used and the corresponding probabilities are presented in the table below:

	Scenario		
	Pessimistic scenario	Basic scenario	Optimistic scenario
GDP [%]	2.09	3.28	6.2

LGD – Loss Given Default

The LGD parameter represents a loss estimation on individual financial instrument level, under the assumption of default, i.e. non-performance status. When estimating credit losses, the Bank wants to reflect the possibility of the collection of cash flows from both the regular cash flows and from collaterals and other security instruments that are directly connected to the financial instrument.

The Bank generally applies the separate calculation concept for the LGD: for the secured portion of the receivables ("LGD secured") and for the unsecured portion of the receivables ("LGD unsecured"), depending on the degree of collateralization of an individual loan for impairment calculation for receivables in Stages 1 and 2. The LGD unsecured for project financing and collateral-based financing is equivalent to 100%.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Loans and Receivables Impairment Assessment (Continued)

Objective Evidence of Impairment and Significant Increase in Credit Risk

Upon assessing the expected credit losses for the purpose of impairment allowance calculation, the Bank assesses all its individual financial instruments (at the loan facility level) to determine whether there has been a significant increase in credit risk or default, and performs the following staging accordingly:

- Stage 1 includes all the new financial assets at the moment of initial recognition and assets with no significant deterioration of credit quality since initial recognition at the reporting date;
- Stage 2 includes financial assets with a significant increase in credit risk since initial recognition, but without objective evidence of impairment based on the credit losses; and
- Stage 3 includes financial assets with objective evidence of impairment at the reporting date.

Default, i.e., a default status (failure to settle liabilities), is defined as a material delay in liability settlement of at least 90 days at the individual financial instrument level. Default may also be identified before the 90 days past due if other quantitative and/or qualitative criteria are identified that indicate that there is objective evidence of the impairment of a financial asset. For such purposes, the Bank defined a list of indicators to consider in order to be able to identify the default status.

If the Bank's client is in days past due for less than 90 days, default is assigned to the loan portion if the Bank finds that the debtor's ability to repay the debt has deteriorated and that the debt repayment in its full amount has been questioned. The above-mentioned assessment is performed based on the following criteria:

- if the client's financial position indicates that there is no repayment capacity for the due performance of liabilities, within the days past due up to 90 days, or that the debt repayment in its full amount has been endangered.
- if other creditors have initiated an enforcement procedure over the client's property, significant for the client's business,
- if the client has filed a Reorganization plan prepared in advance to the competent court, and
- if a bankruptcy procedure has been initiated against the client.

A non-performing receivable is one based on which the debtor is in arrears for more than 90 days or based on the payment of interest or principal, according to which interest on the debt in the three-month amount (or higher) is capitalized, refinanced or delayed, and based on which the debtor is in arrears for less than 90 days, but the Bank has assessed that the debtor's ability to repay the debt has deteriorated and that the debt repayment in its full amount has been questioned. Other receivables are categorized as performing.

Identification of a Significant Increase in Credit Risk

Stage 2 includes receivables with a significant increase in credit risk in comparison to initial recognition. Criteria of a significant increase in credit risk are:

- Materially significant default longer than 30 and up to 90 days,
- Relative deterioration of lifetime PD above the threshold of 200% for legal entities and 250% for natural persons, on the reporting date compared to the placement approval date,
- The receivable was restructured due to financial difficulties (label FPE),
- Receivable from a customer who is classified in the red EWS zone in accordance with customer monitoring procedures,
- The client monitoring committee made a decision to move the receivable/client from Level 1 to Level 2.

Customers with a rating of R8 or better are considered low credit risk customers at the reporting date and cannot be classified in Stage 2 based on the PD relative change criteria.

Receivables from banks and the state: Deterioration of the rating of an external rating agency, which leads to a transition from one of the investment ratings (Aaa-Baa3) to one of the non-investment ratings (Ba-C).

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Loans and Receivables Impairment Assessment (Continued)

According to its Methodology for Impairment Assessment, the Bank calculates impairment allowance in the amount of lifetime expected credit losses (ECL) if the credit risk of a particular financial instrument has significantly increased since the instrument's initial recognition or there is objective evidence of impairment identified (financial assets in Stage 2 and Stage 3), or in the amount of the 12-month ECL for all financial instruments whose credit risk has not significantly increased since initial recognition (financial assets in Stage 1).

Impairment Calculation – Stage 1

For impairment allowance calculation purposes, the 12-month expected credit losses are part of the lifetime expected credit losses identified and represent cash shortages over the life of an instrument that will occur in the event of default within 12 months from the reporting date, weighted by the probability of such default.

Impairment Calculation – Stage 2

Expected losses here represent probability-weighted estimates of credit losses that will arise over the expected life of a financial instrument.

Impairment Calculation – Stage 3

For the impairment allowance calculation, all the exposures in Stage 3 entail: all exposures with the identified non-performance status – default status.

For such financial instruments, impairment allowance is calculated as the difference between the gross carrying value and the present value of the estimated future cash flows discounted using the effective interest rate of the financial instrument.

For the purposes of calculating the impairment of purchased or approved financial assets, the Bank will identify objective evidence of impairment at initial recognition, i.e. financial assets that are in the status of POCI to perform the calculation in a way that takes into account the objective circumstances of the possible collection thereof at the time of calculation. Objective circumstances must be based on all facts relevant to the collection of these receivables. This includes possible collection scenarios that take into account the potential source of collection and the deadline within which collection can be expected.

1) Individual Impairment Assessment

When calculating impairment, the Bank views part of the clients on an individual basis. Individually significant exposure – exposure exceeding 18,000,000 RSD at the corporate client level, or 12,000,000 RSD at the retail client level.

Since, under the relevant standard, expected credit losses (ECL) represent probability-weighted estimates of credit losses, the Bank considers multiple possible collection scenarios upon estimating expected future cash flows: collateral foreclosure, collection from regular cash flows, loan restructuring and rescheduling, bankruptcy of the borrower, sale of receivables, settlement and everything else that is deemed relevant.

Upon the definition of those scenarios, the Bank's starting point is the collection strategy defined by the Workout Sector, the Credit Risk Management Corporate, Public and Finance sector, and the Credit Risk Management Retail and SME in collaboration with the competent Bank’s sales sectors/departments based on, inter alia, conclusions and measures determined by the Client Monitoring Committee.

In defining the probability (percentage) of certain scenarios, the Bank relies on the historical realization and collection of NPLs, as well as individual exposure specificities and all other available information and data that may be relevant in estimating the probability of a certain collection strategy realization.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Loans and Receivables Impairment Assessment (Continued)

2) Collective Impairment Assessment

All other exposures are subject to the collective impairment assessment, which entails grouping the remaining financial instruments in Stage 3 per the following sub-segments:

1. Corporate customers
2. Retail customers – individuals
3. Financial institutions
4. Exposures to governments and government agencies and institutions

Within each of the above-listed sub-segments, the Bank further classifies borrowers into rating groups from R1 to R26, according to the Bank's internal rating model. Clients with the rating R26 are clients with a default status.

The Approach to the Exposures to the States and Financial Institutions

Since the Bank does not possess an adequate history of migrations and defaults for exposures to governments and government agencies and institutions, upon the assessment of the impairment allowance and default risk of the financial instruments of governments and those of governmental agencies and financial institutions, it relies on the data of an external credit rating agency (Moody's).

For banks without a rating assigned by Moody's, the Bank uses as input the ratings of the countries of their domicile.

Impairment Allowance Calculation and Provisioning per Country

The Bank calculates an additional impairment allowance per country risk for customers with significant exposures coming from countries with such credit ratings that automatically classify the customers into credit quality rating 4 or worse (the exposure level defined by the Impairment Assessment Methodology). For such customers, the Bank increases the calculated PD for the PD of their country of origin.

Impairment Calculation for Placements Secured by High Value Collateral

The Bank will apply an impairment rate of 0.5% for placements from the corporate segment and retail segment in the area of housing loans, for placements secured by high value collateral in cases when the receivables in question do not receive impairment.

This principle applies to all parties from the above-mentioned segments except those that are considered individually. The amount of exposure to which the said percentage applies consists of the sum of the balance sheet exposure and the off-balance sheet exposure multiplied by the conversion factor.

Provisions for Off-balance Sheet Items

The calculation of provisions for off balance sheet items is performed in the same manner as for balance sheet items, expect for the application of credit conversion factors (CCF). The Bank is using CCF as defined by the Decision on capital adequacy.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Maximum Credit Risk Exposure

The table below represents the maximum credit risk exposure without collaterals or other credit enhancements. The exposure is based on the carrying amounts from the balance sheet statement as of 31 December 2022 and 2021.

In case of financial instruments measured at fair value (market value), the amounts presented relate to the current credit risk exposure, but not the maximum credit risk exposure that may arise in the future as a result of fair value adjustments.

Breakdown of the Bank's Assets

			In RSD thousand 31 December 2022
	Gross exposure	Impairment Allowance	Net exposure
I Balance sheet items	**407,946,166**	**(5,566,083)**	**402,380,083**
Cash and balances with Central Bank	75,833,126	(28,810)	75,804,316
Derivatives	16,972	-	16,972
Securities	58,865,297	(121,625)	58,743,672
Loans and placements to banks and other financial institutions	31,692,662	(216,177)	31,476,485
Loans and placements to customers	237,011,621	(5,082,690)	231,928,931
Other assets	4,526,488	(116,781)	4,409,707
II Off-balance sheet items	**61,025,812**	**(284,074)**	**60,741,738**
Guarantees issued, unsecured letters of credit and acceptances	51,800,468	(214,715)	51,585,753
Irrevocable commitments - per framework loans	9,225,344	(69,359)	9,155,985
Total	**468,971,978**	**(5,850,157)**	**463,121,821**

			In RSD thousand 31 December 2021
	Gross exposure	Impairment Allowance	Net exposure
I Balance sheet items	**237,522,191**	**(3,830,866)**	**233,691,325**
Cash and balances with Central Bank	33,675,473	(4,735)	33,670,738
Derivatives	19,721	-	19,721
Securities	47,788,347	(125,319)	47,663,028
Loans and placements to banks and other financial institutions	35,745,861	(21,953)	35,723,908
Loans and placements to customers	119,973,199	(3,581,112)	116,392,087
Other assets	319,590	(97,747)	221,843
II Off-balance sheet items	**26,614,410**	**(147,366)**	**26,467,044**
Guarantees issued, unsecured letters of credit and acceptances	25,684,626	(147,366)	25,537,260
Irrevocable commitments - per framework loans and placements	929,784	-	929,784
Total	**264,136,601**	**(3,978,232)**	**260,158,369**

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Portfolio Quality

The table below summarizes the gross portfolio quality based on the Bank's internal rating as of 31 December 2022 and 2021:

In RSD thousand
31 December 2022

Rating	Placements to customers			Placements to banks			Balance sheet assets exposed to credit risk	Off-balance sheet items exposed to credit risk			Total
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
R1	1,549,986	17,887	-	39,124	-	-	1,606,997	81,015	-	-	1,688,012
R2	970,882	15,489	-	-	-	-	986,371	57,732	-	-	1,044,103
R3	1,408,983	22,676	-	885,341	-	-	2,317,000	159,050	3	-	2,476,053
R4	3,412,489	26,188	-	-	-	-	3,438,677	140,641	89	-	3,579,407
R5	3,621,894	73,241	-	383,456	-	-	4,078,591	179,471	31	-	4,258,093
R6	4,572,989	103,902	-	-	-	-	4,676,891	1,068,804	5	-	5,745,700
R7	17,677,236	174,044	-	1,579,952	-	-	19,431,232	7,468,903	481	-	26,900,616
R8	7,920,869	253,617	-	3,775	467	-	8,178,728	12,110,161	4,601	-	20,293,490
R9	9,640,291	299,723	-	147	-	-	9,940,161	5,979,082	38,692	2,000	15,959,935
R10	32,697,569	742,115	1,559	-	-	-	33,441,243	8,514,897	1,300,109	-	43,256,249
R11	15,855,102	8,139,732	-	-	-	-	23,994,834	1,715,822	1,244,909	-	26,955,565
R12	12,415,789	401,309	705	559,304	-	-	13,377,107	9,303,426	19,464	100	22,700,097
R13	15,674,640	424,071	-	6,862	-	-	16,105,573	2,008,816	45,330	-	18,159,719
R14	13,233,803	471,222	-	44,782	4	-	13,749,811	3,060,979	69,409	-	16,880,199
R15	16,848,552	536,789	-	2,242	-	-	17,387,583	1,581,188	17,052	-	18,985,823
R16	6,652,246	662,306	-	20,181	25	-	7,334,758	2,297,841	47,954	-	9,680,553
R17	14,563,330	761,365	-	286,744	-	-	15,611,439	756,936	91,859	-	16,460,234
R18	2,121,999	1,787,025	-	-	-	-	3,909,024	27,894	5,344	-	3,942,262
R19	8,398,452	3,332,471	-	-	-	-	11,730,923	337,499	1,748	-	12,070,170
R20	10,373,019	3,205,233	3,196	-	-	-	13,581,448	141,965	999	100	13,724,512
R21	801,843	675,687	4,408	-	-	-	1,481,938	116,770	14,729	-	1,613,437
R22	1,848,761	1,053,630	24,136	-	-	-	2,926,527	40,948	6,890	7,514	2,981,879
R23	3,563,551	541,966	2,653	-	203	-	4,108,373	208,601	442,432	-	4,759,406
R24	161,033	225,230	411	-	-	-	386,674	8,237	448	-	395,359
R25	743,097	1,486,957	2,651	-	-	-	2,232,705	5,218	530	-	2,238,453
R26	-	-	4,788,336	-	-	653,014	5,441,350	-	-	283,411	5,724,761
Aaa - Aa3	-	-	-	834,212	-	-	834,212	-	-	-	834,212
A1-A3	-	-	-	10,629,533	-	-	10,629,533	57	-	-	10,629,590
Baa1-Baa3	-	-	732	3,052,091	-	-	3,052,823	-	-	-	3,052,823
Ba1-Ba3	20,554	-	-	12,443,309	1,296	37,739	12,502,898	-	-	-	12,502,898
B1-B3	-	-	-	228,859	-	-	228,859	7,626	-	-	236,485
Total	**206,748,959**	**25,433,875**	**4,828,787**	**30,999,914**	**1,995**	**690,753**	**268,704,283**	**57,379,579**	**3,353,108**	**293,125**	**329,730,095**

In RSD thousand
31 December 2021

Rating	Placements to customers			Placements to banks			Balance sheet assets exposed to credit risk	Off-balance sheet items exposed to credit risk			Total
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
R1	28,261,904	52,068	2,044	1,558,013	-	-	29,874,029	17,429,131	100	-	17,429,231
R2	8,236,698	2,933,574	-	-	-	-	11,170,272	1,288,919	-	100	1,289,019
R3	13,779,635	97,221	1	146	-	-	13,877,003	5,920,889	-	1,543	5,922,432
R4	8,668,087	1,610,588	2	-	-	-	10,278,677	419,008	66,408	-	485,416
R5	8,627,511	1,786,601	2,278	38	-	-	10,416,428	445,443	31,073	100	476,616
R6	23,473,688	992,638	4,994	-	-	-	24,471,320	238,601	40,129	500	279,230
R7	12,429,803	1,497,573	-	-	-	-	13,927,376	560,809	57,836	-	618,645
R8	933,092	503,463	-	463,784	-	-	1,900,339	2,206	6,553	600	9,359
R9	36,631	879,784	43	-	-	-	916,458	31,604	14,614	-	46,218
R10	-	-	5,083,329	-	-	-	5,083,329	-	-	3,284	3,284
Other not covered by models	23,684	-	1,086	-	-	-	24,770	-	-	-	-
Aaa-Aa3	55,179	-	-	2,563,188	-	-	2,618,367	-	-	-	-
A1-A3	-	-	-	17,744,160	-	-	17,744,160	284	-	-	284
Baa1-Baa3	-	-	-	6,742,567	-	-	6,742,567	-	-	-	-
Ba1-Ba3	-	-	-	6,390,515	-	23,667	6,414,182	-	-	-	-
B1-B3	-	-	-	259,783	-	-	259,783	54,676	-	-	54,676
Caa1 and lower	-	-	-	-	-	-	-	-	-	-	-
Total	**104,525,912**	**10,353,510**	**5,093,777**	**35,722,194**	**-**	**23,667**	**155,719,060**	**26,391,570**	**216,713**	**6,127**	**26,614,410**

Changes in exposure levels are to the greatest extent a consequence of the merger of the portfolio of Nasa AIK Banka.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Allowance for Impairment

The tables below present movements in the impairment allowance during the year by the classes of assets:

In RSD thousand

Loans and placements to customers	Stage 1	Stage 2	Stage 3	POCI	2021 Total
Allowance for impairment as of 31 December 2020	**(2,468,126)**	**(454,225)**	**(1,103,113)**	**(5,900)**	**(4,031,364)**
Movements in the impairment allowance					
–Transfer to Stage 1	(2,421,223)	(225,094)	(619,428)	(3)	(3,265,748)
–Transfer to Stage 2	(40,693)	(166,730)	(7,945)	-	(215,368)
–Transfer to Stage 3	(6,202)	(62,401)	(408,678)	(40)	(477,321)
–POCI	(8)	-	(67,062)	(5,857)	(72,927)
Increase due to changes in the credit risk	(66,785)	(119,010)	(152,159)	-	(337,954)
Decrease due to changes in the credit risk	42,207	126,328	113,062	-	281,597
Newly acquired/originated assets	(4,352,123)	(796,994)	(1,009,439)	(284)	(6,158,840)
Decrease due to derecognition	4,670,278	781,580	434,615	4,814	5,891,287
Write-offs and transfer to off-balance sheet items	44,474	31,983	697,470	-	773,927
FX differences	407	(486)	314	-	235
Allowance for impairment as of 31 December 2021	**(2,129,668)**	**(430,824)**	**(1,019,250)**	**(1,370)**	**(3,581,112)**

Loans and placements to customers	Stage 1	Stage 2	Stage 3	POCI	2022 Total
Allowance for impairment as of 31 December 2021	**(2,129,668)**	**(430,824)**	**(1,019,250)**	**(1,370)**	**(3,581,112)**
Movements in the impairment allowance					
–Transfer to Stage 1	(1,909,981)	(106,533)	(42,117)	-	(2,058,631)
–Transfer to Stage 2	(212,234)	(282,038)	(12,267)	-	(506,539)
–Transfer to Stage 3	(7,453)	(42,253)	(964,866)	-	(1,014,572)
–POCI	-	-	-	(1,370)	(1,370)
Increase due to changes in the credit risk	(174,183)	(80,112)	(150,395)	-	(404,690)
Decrease due to changes in the credit risk	285,806	11,877	107,117	-	404,800
Newly acquired/originated assets	(3,655,067)	(2,781,301)	(938,718)	(143)	(7,375,229)
Decrease due to derecognition	4,395,052	1,829,659	553,550	870	6,779,131
Changes in model	20,581	(95,394)	17,910	(11,975)	(68,878)
Write-offs, transfer to off-balance sheet items and sales	(277,767)	243,537	587,901	(9,257)	544,414
FX differences	6,098	818	22,906	3	29,825
Effects of Nasa AIK Banka merger	(684,018)	(538,490)	(188,443)	-	(1,410,951)
Allowance for impairment as of 31 December 2022	**(2,213,166)**	**(1,840,230)**	**(1,007,422)**	**(21,872)**	**(5,082,690)**

The changes in the impairment allowance by levels in 2022 are predominantly the result of the merger of Nasa AIK Banka. In addition to the above, the following changes occurred:

- the amount of the impairment allowance in Stage 2 has increased due to the transfer of a certain number of customers from Stage 1 to Stage 2; and
- in Stage 3, the impairment allowance amount has been slightly increased.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Allowance for Impairment (Continued)

In RSD thousand

Loans and placements to banks and other financial institutions	Stage 1	Stage 2	Stage 3	POCI	2021 Total
Allowance for impairment 31 December 2020	**(112,711)**	**-**	**(54,387)**	**-**	**(167,098)**
Movements in the impairment allowance					
–Transfer to Stage 1	(112,644)	-	(54,387)	-	(167,031)
–Transfer to Stage 2	-	-	-	-	-
–Transfer to Stage 3	(67)	-	-	-	(67)
Newly acquired/originated assets	(67,155)	-	(1,425)	-	(68,580)
Decrease due to derecognition	58,459	-	2,891	-	61,350
Write-offs, transfer to off-balance sheet items and sales	101,598	-	53,498	-	155,096
FX differences	(798)	-	(1,923)	-	(2,721)
Allowance for impairment 31 December 2021	**(20,607)**	**-**	**(1,346)**	**-**	**(21,953)**

Loans and placements to banks and other financial institutions	Stage 1	Stage 2	Stage 3	POCI	2022 Total
Allowance for impairment as of 31 December 2021	**(20,607)**	**-**	**(1,346)**	**-**	**(21,953)**
Movements in the impairment allowance					
–Transfer to Stage 1	(20,603)	-	-	-	(20,603)
–Transfer to Stage 2	(1)	-	-	-	(1)
–Transfer to Stage 3	(3)	-	(1,346)	-	(1,349)
Newly acquired/originated assets	(119,505)	(1,232)	(9,009)	-	(129,746)
Decreases due to derecognition	119,865	129	11,870	-	131,864
Write-offs, transfer to off-balance sheet items and sales	-	-	-	-	-
Effects of Nasa AIK Banka merger	(312)	(2)	(195,581)		(195,895)
FX differences	(238)	(209)	-	-	(447)
Allowance for impairment as of 31 December 2022	**(20,797)**	**(1,314)**	**(194,066)**	**-**	**(216,177)**

In RSD thousand

Securities	Stage 1	Stage 2	Stage 3	POCI	2021 Total
Allowance for impairment as of 31 December 2020	**(13,130)**	**-**	**(171,766)**	**-**	**(184,896)**
Movements in the impairment allowance					
– Transfer to Stage 1	(13,130)	-	(61,256)	-	(74,386)
– Transfer to Stage 3	-	-	(110,510)	-	(110,510)
Newly acquired/originated assets	(20,115)	-	-	-	(20,115)
Decrease due to derecognition	18,422	-	26	-	18,448
Write-offs, transfer to off-balance sheet items and sales	-	-	61,244	-	61,244
Allowance for impairment as of 31 December 2021	**(14,823)**	**-**	**(110,496)**	**-**	**(125,319)**

Securities	Stage 1	Stage 2	Stage 3	POCI	2022 Total
Allowance for impairment as of 31 December 2021	**(14,823)**	**-**	**(110,496)**	**-**	**(125,319)**
Movements of the impairment allowance					
– Transfer to Stage 1	(14,823)	-	-	-	(14,823)
– Transfer to Stage 3	-	-	(110,496)	-	(110,496)
Newly acquired/originated assets	(17,031)	(145)	-	-	(17,176)
Decrease due to derecognition	20,871	-	1	-	20,872
Other changes	(2)	-	-	-	(2)
Allowance for impairment as of 31 December 2022	**(10,985)**	**(145)**	**(110,495)**	**-**	**(121,625)**

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Allowance for Impairment (Continued)

In RSD thousand

Other assets	Stage 1	Stage 2	Stage 3	POCI	2021 Total
Allowance for impairment as of 31 December 2020	**(12,102)**	**(464)**	**(81,395)**	**-**	**(93,961)**
Movements in the impairment allowance					
–Transfer to Stage 1	(12,073)	(372)	(13,749)	-	(26,194)
–Transfer to Stage 2	(2)	(22)	(88)	-	(112)
–Transfer to Stage 3	(27)	(70)	(67,558)	-	(67,655)
Newly acquired/originated assets	(40,663)	(4,645)	(12,878)	-	(58,186)
Decrease due to derecognition	48,404	3,528	6,572	-	58,504
Write-offs	242	7	12,274	-	12,523
FX differences	2	-	(8,323)	-	(8,321)
Other changes	(7,721)	-	(585)	-	(8,306)
Allowance for impairment as of 31 December 2021	**(11,838)**	**(1,574)**	**(84,335)**	**-**	**(97,747)**

Other assets	Stage 1	Stage 2	Stage 3	POCI	2022 Total
Allowance for impairment of 31 December 2021	**(11,838)**	**(1,574)**	**(84,335)**	**-**	**(97,747)**
Movements in the impairment allowance					
–Transfer to Stage 1	(11,722)	(1,529)	(511)	-	(13,762)
–Transfer to Stage 2	(79)	(33)	(66)	-	(178)
–Transfer to Stage 3	(37)	(12)	(83,758)	-	(83,807)
Effects of changes in credit risk	8	(1)	(41)	-	(34)
Newly acquired/originated assets	(36,403)	(679)	(43,603)	-	(80,685)
Decreases due to derecognition	35,106	2,089	42,642	-	79,837
Effects of Nasa AIK Banka merger	(302)	(135)	(63,620)	-	(64,057)
Write-offs, transfer to off-balance sheet items, other	548	23	45,334	-	45,905
Impairment allowance as of 31 December 2022	**(12,881)**	**(277)**	**(103,623)**	**-**	**(116,781)**

In RSD thousand

Cash and balances with Central Bank	Stage 1	Stage 2	Stage 3	POCI	2021 Total
Allowance for impairment as of 31 December 2020	**(4,824)**	**-**	**-**	**-**	**(4,824)**
Movements in the impairment allowance					
– Transfer to Stage 1	(4,824)	-	-	-	(4,824)
Newly acquired/originated assets	(4,566)	-	-	-	(4,566)
Decrease due to derecognition	4,656	-	-	-	4,656
FX differences	(1)	-	-	-	(1)
Allowance for impairment as of 31 December 2021	**(4,735)**	**-**	**-**	**-**	**(4,735)**

Cash and balances with Central Bank	Stage 1	Stage 2	Stage 3	POCI	2022 Total
Allowance for impairment as of 31 December 2021	**(4,735)**	**-**	**-**	**-**	**(4,735)**
Movements in the impairment allowance					
– Transfer to Stage 1	(4,735)	-	-	-	(4,735)
Newly acquired/originated assets	(10,215)	-	-	-	(10,215)
Decrease due to derecognition	7,668	-	-	-	7,668
Changes in model	(20,718)				(20,718)
Effects of Nasa AIK Banka merger	(620)	-	-	-	(620)
FX differences	(190)	-	-	-	(190)
Allowance for impairment as of 31 December 2022	**(28,810)**	**-**	**-**	**-**	**(28,810)**

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Allowance for Impairment (Continued)

In RSD thousand

Off-balance sheet assets	Stage 1	Stage 2	Stage 3	POCI	2021 Total
Provision as of 31 December 2020	**(39,509)**	**(2,395)**	**(1,517)**	**-**	**(43,421)**
Movements in provisions					
–Transfer to Stage 1	(39,404)	(1,738)	(114)	-	(41,256)
–Transfer to Stage 2	(97)	(642)	(62)	-	(801)
–Transfer to Stage 3	(8)	(15)	(1,341)	-	(1,364)
Newly acquired/originated assets	(386,637)	(2,218)	(1,344)	-	(390,199)
Decrease due to derecognition	279,865	2,836	299	-	283,000
FX differences	3,254	-	-	-	3,254
Provision as of 31 December 2021	**(143,027)**	**(1,777)**	**(2,562)**	**-**	**(147,366)**

Off-balance sheet assets	Stage 1	Stage 2	Stage 3	POCI	2022 Total
Provision as of 31 December 2021	**(143,027)**	**(1,777)**	**(2,562)**	**-**	**(147,366)**
Movements provisions:					
–Transfer to Stage 1	(137,101)	(1,139)	(388)	-	(138,628)
–Transfer to Stage 2	(5,420)	(620)	-	-	(6,040)
–Transfer to Stage 3	(506)	(18)	(2,174)	-	(2,698)
Newly acquired/originated assets	(243,586)	(78,783)	(5,544)	-	(327,913)
Decrease due to derecognition	335,434	3,152	1,448	-	340,034
Changes in model	(14,740)	(4,053)	1,167		(17,626)
Effects of Nasa AIK Banka merger	(72,611)	(6,832)	(52,470)	-	(131,913)
FX differences and other changes	733	(1)	(22)	-	710
Provision as of 31 December 2022	**(137,797)**	**(88,294)**	**(57,983)**	**-**	**(284,074)**

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Loans and placements to customers, banks and other financial institutions by risk level

In RSD thousand
31 December 2022

	Exposure				Allowance for impairment			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Corporate	151,669,752	20,742,375	2,915,241	175,327,368	(1,723,808)	(1,407,568)	(399,630)	(3,531,006)
Entrepreneurs	3,779,162	308,793	94,407	4,182,362	(46,640)	(14,372)	(15,465)	(76,477)
Total corporate	**155,448,914**	**21,051,168**	**3,009,648**	**179,509,730**	**(1,770,448)**	**(1,421,940)**	**(415,095)**	**(3,607,483)**
Cash loans	29,091,356	3,019,002	1,176,429	33,286,787	(320,396)	(297,387)	(464,083)	(1,081,866)
Credit cards	2,112,519	192,072	63,155	2,367,746	(15,321)	(8,355)	(17,194)	(40,870)
Current accounts-overdraft	666,634	25,313	17,453	709,400	(5,561)	(1,464)	(5,732)	(12,757)
Housing loans	18,931,708	864,925	511,905	20,308,538	(89,841)	(117,264)	(81,507)	(288,612)
Agricultural loans	454,489	255,328	49,465	759,282	(11,386)	(13,611)	(23,723)	(48,720)
Other	22,784	26,067	-	48,851	(172)	(1,441)	-	(1,613)
Total retail	**51,279,490**	**4,382,707**	**1,818,407**	**57,480,604**	**(442,677)**	**(439,522)**	**(592,239)**	**(1,474,438)**
Total placements to customers	**206,728,404**	**25,433,875**	**4,828,055**	**236,990,334**	**(2,213,125)**	**(1,861,462)**	**(1,007,334)**	**(5,081,921)**
Placements to banks	**30,999,914**	**1,995**	**690,753**	**31,692,662**	**(20,797)**	**(1,314)**	**(194,066)**	**(216,177)**
Other – not covered by models	**20,555**	**-**	**732**	**21,287**	**(41)**	**-**	**(728)**	**(769)**

In RSD thousand
31 December 2021

	Exposure				Allowance for impairment			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Corporate	90,669,722	8,155,108	4,011,922	102,836,752	(2,028,884)	(277,182)	(463,445)	(2,769,511)
Entrepreneurs	547,263	132,754	79,156	759,173	(6,998)	(10,198)	(29,454)	(46,650)
Total corporate	**91,216,985**	**8,287,862**	**4,091,078**	**103,595,925**	**(2,035,882)**	**(287,380)**	**(492,899)**	**(2,816,161)**
Cash loans	7,089,807	1,153,277	446,474	8,689,558	(65,964)	(121,071)	(350,631)	(537,666)
Credit cards	339,708	64,915	16,504	421,127	(5,769)	(4,389)	(14,394)	(24,552)
Current accounts-overdraft	301,135	23,241	3,361	327,737	(2,155)	(1,106)	(3,087)	(6,348)
Housing loans	5,216,449	735,553	485,699	6,437,701	(18,660)	(10,300)	(138,595)	(167,555)
Agricultural loans	338,098	88,662	49,575	476,335	(1,189)	(6,578)	(20,128)	(27,895)
Other	46	-	-	46	-	-	-	-
Total retail	**13,285,243**	**2,065,648**	**1,001,613**	**16,352,504**	**(93,737)**	**(143,444)**	**(526,835)**	**(764,016)**
Total placements to customers	**104,502,228**	**10,353,510**	**5,092,691**	**119,948,429**	**(2,129,619)**	**(430,824)**	**(1,019,734)**	**(3,580,177)**
Placements to banks	**35,722,194**	**-**	**23,667**	**35,745,861**	**(20,607)**	**-**	**(1,346)**	**(21,953)**
Other – not covered by models	**23,684**	**-**	**1,086**	**24,770**	**(49)**	**-**	**(886)**	**(935)**

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

The Bank classified the risk categories based on the receivables' classification in line with the Decision of the National Bank of Serbia on the classification of balance sheet assets and off-balance sheet items. The receivables classified in categories A and B are considered as low; the receivables classified in categories C and D are included in medium risk, while high risk covers the receivables classified in category E.

The tables below analyse an overview of exposure trends by the classes of assets and risk levels:

			In RSD thousand 31 December 2022
Cash and balances with Central Bank	**Stage 1**	**Stage 2**	**Stage 3**
Low	75,833,126	-	-
Total gross carrying value	**75,833,126**	**-**	**-**
Allowance for impairment	**(28,810)**	**-**	**-**

			In RSD thousand 31 December 2021
Cash and balances with Central Bank	**Stage 1**	**Stage 2**	**Stage 3**
Low	33,675,473	-	-
Total gross carrying value	**33,675,473**	**-**	**-**
Allowance for impairment	**(4,735)**	**-**	**-**

			In RSD thousand 31 December 2022
Securities	**Stage 1**	**Stage 2**	**Stage 3**
Low	53,952,686	4,607,087	-
Medium	179,093	-	-
High	15,935	-	110,496
Total gross carrying value	**54,147,714**	**4,607,087**	**110,496**
Allowance for impairment	**(10,985)**	**(144)**	**(110,496)**

			In RSD thousand 31 December 2021
Securities	**Stage 1**	**Stage 2**	**Stage 3**
Low	47,343,380	-	-
Medium	333,191	-	-
High	1,280	-	110,496
Total gross carrying value	**47,677,851**	**-**	**110,496**
Allowance for impairment	**(14,823)**	**-**	**(110,496)**

				In RSD thousand 31 December 2022
Loans and placements to banks and other financial institutions	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**
Low	29,638,697	1,991	655,982	-
Medium	977,761	4	34,740	1
High	383,456	-	30	-
Total gross carrying value	**30,999,914**	**1,995**	**690,752**	**1**
Allowance for impairment	**(20,797)**	**(1,314)**	**(194,066)**	**-**

			In RSD thousand 31 December 2021
Loans and placements to banks and other financial institutions	**Stage 1**	**Stage 2**	**Stage 3**
Low	35,722,156	-	2,991
Medium	-	-	20,676
High	38	-	-
Total gross carrying value	**35,722,194**	**-**	**23,667**
Allowance for impairment	**(20,607)**	**-**	**(1,346)**

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

In RSD thousand
31 December 2022

Loans and placements to customers	Stage 1	Stage 2	Stage 3	POCI
Low	149,521,235	19,330,719	591,264	76,461
Medium	55,587,897	5,111,717	1,873,335	371,112
High	1,639,827	991,439	1,011,842	904,773
Total gross carrying value	**206,748,959**	**25,433,875**	**3,476,441**	**1,352,346**
Allowance for impairment	**(2,213,166)**	**(1,840,230)**	**(1,007,422)**	**(21,872)**

In RSD thousand
31 December 2021

Loans and placements to customers	Stage 1	Stage 2	Stage 3	POCI
Low	68,477,074	6,432,395	378,662	-
Medium	35,727,171	3,753,282	2,642,156	-
High	321,667	167,833	1,809,791	263,168
Total gross carrying value	**104,525,912**	**10,353,510**	**4,830,609**	**263,168**
Allowance for impairment	**(2,129,668)**	**(430,824)**	**(1,019,250)**	**(1,370)**

In RSD thousand
31 December 2022

Other assets	Stage 1	Stage 2	Stage 3	POCI
Low	4,263,600	1,207	1,407	5
Medium	87,745	5,910	4,368	106
High	40,463	183	109,424	12,070
Total gross carrying value	**4,391,808**	**7,300**	**115,199**	**12,181**
Allowance for impairment	**(12,881)**	**(277)**	**(103,623)**	**-**

In RSD thousand
31 December 2021

Other assets	Stage 1	Stage 2	Stage 3
Low	138,684	686	17,416
Medium	47,672	21,431	5,607
High	26,263	289	61,542
Total gross carrying value	**212,619**	**22,406**	**84,565**
Allowance for impairment	**(11,838)**	**(1,574)**	**(84,335)**

In RSD thousand
31 December 2022

Off-balance sheet assets	Stage 1	Stage 2	Stage 3	POCI
Low	43,307,515	2,702,847	126,636	1,659
Medium	13,690,314	616,806	61,268	1,005
High	381,750	33,455	100,368	2,189
Total gross carrying value	**57,379,579**	**3,353,108**	**288,272**	**4,853**
Allowance for impairment	**(137,797)**	**(88,294)**	**(57,983)**	**-**

In RSD thousand
31 December 2021

Off-balance sheet assets	Stage 1	Stage 2	Stage 3
Low	22,242,045	169,452	848
Medium	4,077,724	46,516	434
High	71,801	745	4,845
Total gross carrying value	**26,391,570**	**216,713**	**6,127**
Allowance for impairment	**(143,027)**	**(1,777)**	**(2,562)**

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Loans with Renegotiated (Modified) Initially Agreed Terms

Loans with renegotiated initially agreed terms are loans rescheduled and/or restructured (forborne) due to the borrowers' deteriorated financial situation or difficulties in servicing liabilities at their due date. Restructuring loan agreements stipulate terms significantly different from those originally defined and contracted and all the receivables (or their major portion) are replaced by a new loan.

Significantly different terms are deemed in particular to be the following: extension of the repayment due date for the principal and interest, reduction of the interest rate or amount receivable (write-off of part of the principal referring to the derecognition of that part in the balance sheet, write-off of part of the calculated interest), change in the due date for principal and/or interest, change in the valuation manner and other changes facilitating the borrower's position.

Loan restructuring (forbearance) is only acceptable to the Bank if it refers to loans that are otherwise not likely collectable and if the loan restructuring according to the financial consolidation program enables, within a period acceptable to the Bank, significant improvement in the financial situation of the borrower, with a high probability of loan collection in the agreed amount and the newly defined maturity, and additional collaterals or security – in the form of co-sureties adhering to debt or in the form of a pledge lien registered over the movable and immovable property of third parties, improving the quality of assets.

Upon loan restructuring, the Bank performs financial analysis of the borrowers, and if it estimates that, after restructuring, the borrower will realize cash flows sufficient for principal and interest repayment, the Bank decides on loan restructuring. The following table presents the gross exposure of restructured and rescheduled placements.

In RSD thousand

	Restructured		Rescheduled	
	31 December 2022	31 December 2021	31 December 2022	31 December 2021
Corporate customers	8,195,152	2,449,716	5,629	141,249
Retail customers	5,206,413	152,882	10,834	22,545
Total	**13,401,565**	**2,602,598**	**16,463**	**163,794**

The increase in restructured loans is the consequence of joining the portfolio of the Bank and Nasa AIK Banka due to the merger of Nasa AIK Banka that has a slightly higher amount of these placements.

Concentration Risk

The Bank manages concentration risk by establishing a system of limits to the exposures with the same or similar risk factors (industry sectors/activities, geographic regions, single borrowing entities or groups of related entities, collaterals, etc.).

Net loans and placements to customers, banks and other financial institutions by sectors

In RSD thousand

	31 December 2022	31 December 2021
Finance and insurance	29,882,304	35,723,908
Public enterprises	26,568,624	8,894,041
Corporate clients	128,664,042	78,434,221
Entrepreneurs	4,105,840	448,440
Public sector	1,326,501	3,195,570
Retail clients	54,808,258	15,046,300
Foreign entities	16,985,204	9,249,232
Private households and registered agricultural producers	443,858	712,521
Other clients	620,785	411,762
Balance as of	**263,405,416**	**152,115,995**

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Concentration Risk (Continued)

Net loans and placement to customers, banks and other financial institutions by geographic regions

In RSD thousand

	Serbia	Europe	Other	31 December 2022 Total
Loans and placements to banks and other financial institutions	14,646,977	15,922,588	906,920	31,476,485
Loans and placements to customers	216,539,076	15,135,212	254,643	231,928,931
TOTAL ASSETS	**231,186,053**	**31,057,800**	**1,161,563**	**263,405,416**

	Serbia	Europe	Other	31 December 2021 Total
Loans and placements to banks and other financial institutions	7,913,400	25,089,245	2,721,263	35,723,908
Loans and placements to customers	107,142,855	9,190,722	58,510	116,392,087
TOTAL ASSETS	**115,056,255**	**34,279,967**	**2,779,773**	**152,115,995**

Loans and placements to customers by industries

In RSD thousand

	31 December 2022			31 December 2021		
Industry	Gross exposure	Share	Impairment	Gross exposure	Share	Impairment
Retail	57,480,582	24%	(1,474,415)	16,352,504	14%	(764,016)
Wholesale and retail trade, repair of motor vehicles and motorcycles	39,145,016	17%	(734,757)	19,968,331	17%	(1,052,896)
Manufacturing industry	32,645,954	14%	(661,621)	16,409,807	14%	(384,762)
Supply of electricity, gas, steam and air conditioning	20,663,902	9%	(361,561)	5,037,858	4%	(58,517)
Real estate	19,397,225	8%	(525,158)	19,925,782	17%	(431,314)
Construction	15,357,522	6%	(184,750)	11,569,322	10%	(272,402)
Transportation and storage	12,120,227	5%	(436,728)	9,203,313	8%	(193,940)
Information and communication	10,736,444	5%	(127,434)	5,344,843	4%	(70,495)
Accommodation and catering	5,898,305	2%	(248,575)	4,160,150	3%	(35,521)
Administration and ancillary activities	5,050,915	2%	(97,676)	6,338,156	4%	(179,574)
Agriculture, forestry and fishing	4,986,131	2%	(71,824)	1,004,886	1%	(24,544)
Mining	4,589,415	2%	(11,795)	79,041	0%	(1,248)
Professional, scientific, innovative and technical activities	2,630,885	1%	(41,647)	545,824	0%	(5,085)
Finance and insurance	1,496,511	1%	(8,741)	1,152,957	1%	(3,909)
Arts, entertainment and recreation	1,379,767	1%	(57,849)	866,579	1%	(79,789)
Public administration and defence, compulsory social security	1,295,085	1%	(2,979)	763,080	1%	(9,217)
Water supply, wastewater management, control of waste disposal processes and similar activities	1,135,658	0%	(24,336)	356,845	0%	(4,697)
Health and social protection	508,037	0%	(7,273)	31,263	0%	(131)
Education	347,311	0%	(1,394)	656,649	1%	(400)
Other service activities	146,729	0%	(2,177)	206,009	0%	(8,655)
TOTAL	**237,011,621**	**100%**	**(5,082,690)**	**119,973,199**	**100%**	**(3,581,112)**

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Collaterals

For the purpose of protection against credit risk, in addition to the regular monitoring of the customer business operations, the Bank most commonly obtains collaterals to secure the collection of receivables and minimize credit risk.

As a standard type of loan collateral, the Bank demands and receives from clients contractual authorizations for account withdrawals and bills of exchange, whereas, additional collaterals agreed upon include the following: mortgages assigned over property; pledge liens assigned over movable assets; partial or full loan coverage with deposits; obtaining guarantees from another bank or a legal entity, adequate securities, arranging co-surety or debt adherence whereby another legal entity becomes a co-debtor; and when housing loans are at issue, insurance of the National Mortgage Insurance Corporation.

If the Bank arranges for a mortgage or pledge lien, assigned over property or movable assets, the Bank always demands an appraisal performed by a certified independent appraiser in order to minimize the potential risks.

In the following breakdown, the value of collaterals is presented as the fair value of collaterals so that it is shown only up to the extent of the gross loan amount (when the collateral value exceeds the loan amount). In instances of collateral values below the gross loan amounts, the fair value of the collateral is stated.

The values of collaterals and guarantees received in order to mitigate credit risk exposure inherent in the loans approved to customers are provided in the tables below:

					In RSD thousand 31 December 2022
	Mortgages	**Guarantees**	**Deposits**	**Other**	**Total**
Corporate customers	70,868,404	4,683,728	13,463,819	31,363,655	120,379,606
Entrepreneurs	738,236	365,173	142,829	2,836	1,249,074
Total corporate	**71,606,640**	**5,048,901**	**13,606,648**	**31,366,491**	**121,628,680**
Cash loans	305,973	-	537,307	-	843,280
Credit cards	-	-	292,383	-	292,383
Current account overdrafts	-	-	4,010	-	4,010
Housing loans	18,796,021	-	127,559	4,608	18,928,188
Agricultural loans	349,775	-	23,806	-	373,581
Other	139,034	-	35,620	-	174,654
Total retail	**19,590,803**	**-**	**1,020,685**	**4,608**	**20,616,096**
Total	**91,197,443**	**5,048,901**	**14,627,333**	**31,371,099**	**142,244,776**

An increase in collateralisation by means of a mortgage as of 31 December 2022 in comparison to 31 December 2021 is mainly the result of the merger of Nasa AIK Banka. Collaterals of Nasa AIK Banka as of 31 December 2022 amounted to RSD 32,605,857 thousand.

Note: A portion of the housing loans securitized with properties is insured with the National Mortgage Insurance Corporation (December 2022: RSD 4,770,830 thousand).

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Collaterals (Continued)

In RSD thousand
31 December 2021

	Mortgages	Guarantees	Deposits	Other	Total
Corporate customers	42,603,531	-	6,258,824	29,097,005	77,959,360
Entrepreneurs	402,211	-	75,847	8,552	486,610
Total corporate	**43,005,742**	**-**	**6,334,671**	**29,105,557**	**78,445,970**
Cash loans	127,751	-	333,535	-	461,286
Credit cards	200	-	287,003	-	287,203
Current account overdrafts	-	-	7,191	-	7,191
Housing loans	5,807,254	-	156,767	-	5,964,021
Agricultural loans	194,037	-	29,721	217	223,975
Other	74,797	-	38,166	982	113,945
Total retail	**6,204,039**	**-**	**852,383**	**1,199**	**7,057,621**
Total	**49,209,781**	**-**	**7,187,054**	**29,106,756**	**85,503,591**

Other collaterals include pledge liens assigned over goods, receivables, equipment, shares and precious metals.

The loan amount relative to the revalued amount of the property held as collateral is monitored as the loan to value ratio (LTV ratio).

Overview of housing loans by LTV ratio range

In RSD thousand

	31 December 2022	31 December 2021
<50%	6,762,414	1,979,971
51% - 70%	5,831,296	1,764,852
71% - 100%	7,297,114	2,539,411
100% - 150%	452,281	57,720
>150%	163,828	93,138
Other	299,502	-
Total	**20,806,435**	**6,435,092**
Average LTV ratio	*48%*	*55%*

Assets acquired in the process of debt collection (repossessed assets following the foreclosure on loans)

Assets representing security instruments (collaterals) acquired by the Bank in the process of debt collection are provided in the table below:

In RSD thousand

	31 December 2022	31 December 2021
Commercial buildings (Note 33(b))	760,678	728,086
Equipment (Note 33(b))	20,102	20,102
Non-current assets held for sale	5,537	5,537
Total	**786,317**	**753,725**

4. RISK MANAGEMENT (Continued)

4.2. Liquidity Risk

Liquidity risk is the risk of adverse effects on the Bank's financial result and equity due to its inability to discharge its liabilities when they are due arising from:

- the withdrawal of the existing sources of financing, i.e. inability to obtain new sources of funding (liquidity risk of sources of funding) or
- difficulties in converting assets into liquid assets due to disturbances in the market (market liquidity risk).

Liquidity risk is manifested as a daily mismatch of the inflows and outflows, a maturity mismatch of assets and liabilities, a mismatch of RSD and foreign currency inflows and outflows, i.e., assets and liabilities, a mismatch of cash and non-cash flows or a disproportion in the amounts and structures of balance sheet and off-balance sheet assets and liabilities or components thereof.

In that respect, the Bank's liquidity entails consideration of the total liquidity in several ways (long-term and short-term, market liquidity risk, funding concentration risk, risk of financing costs, transfer risk, liquidity in cash operations, liquidity in non-cash operations, in RSD and foreign exchange operations, etc.).

In order to minimise liquidity risk, the Bank:

- diversifies sources of funds by currency and maturity;
- establishes and maintains sufficient liquidity reserves;
- manages funds, monitors RSD and foreign currency account balances;
- monitors and makes forecasts of future cash flows and liquidity; and
- periodically tests the Liquidity Crisis Plan.

The liquidity risk management process is implemented through the identification, measurement, mitigation, monitoring and control of, as well as reporting on the liquidity risk.

The basic method of measuring liquidity risk entails the assessment and comparison of all future cash inflows and outflows per balance sheet and off-balance sheet items at different time intervals, in order to determine potential liquid asset shortages, both in the regular course of business and in stress events, i.e. liquidity crises. For the purposes of monitoring and measuring liquidity risk, the Bank has established the processes of:

- daily planning and monitoring of the realization of all planned inflows and outflows of funds, in RSD and in aggregate for all foreign currencies and
- monitoring the balances and changes in balances of assets and liabilities over their outstanding maturities and per significant currencies, individually and in aggregate for all currencies.

Liquidity risk measurement is performed through the calculation and monitoring of liquidity ratios and the monitoring of departures of the Bank's actual ratios from the internally defined and regulatory limits. In order to protect itself against liquidity risk and for its measurement, the Bank performs a ratio analysis, a GAP analysis and stress testing. Stress testing examines the effects of three types of scenarios: idiosyncratic, market and combined with two variants of severity (adverse and extreme), whereby the results of the combined adverse scenario and the survival period in the event of its occurrence are presented for the purposes of ILAAP.

Liquidity risk is mitigated through the diversification, transfer, reduction and/or avoidance of risks that may arise from the Bank's liquidity risk exposure. In order to minimize liquidity risk, the Bank uses long-term and short-term protection measures against liquidity risk. In addition, the Bank analyses the behaviour of the depositors and identifies sources of funds that are stable under various circumstances, as well as those that will be gradually drawn with the problems arising and those that will be drawn down as soon as the first problem signals appear. Accordingly, the Bank reduces its reliance on sources of funds that are unstable or volatile.

4. RISK MANAGEMENT (Continued)

4.2. Liquidity Risk (Continued)

The Bank reconciled its operations with current liquidity ratios and quick liquidity ratios prescribed by the regulator, which were well above the prescribed limits in 2022, as presented below:

	Current liquidity ratio		Quick liquidity ratio		Liquidity coverage ratio (LCR)	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021
As of	3.42	2.44	2.83	2.22	163%	197%
Average for the year	2.54	3.03	2.28	2.72	152%	197%
MAX	3.70	4.20	3.36	3.90	204%	272%
MIN	1.77	2.34	1.69	2.08	123%	152%
Regulatory limit	**1.00**		**0.70**		**100%**	

In the process of liquidity risk measurement, the Bank uses GAP analysis by grouping on balance sheet and off-balance sheet items per time brackets according to the contractually defined maturity dates, i.e. expected time for generating cash flows that may be manifest as inflows or outflows. Upon the preparation of the internal liquidity GAP report, the Bank considers the overall assets, liabilities and off-balance sheet items giving rise to potential outflows of funds and sorts these into several time brackets.

In 2022, the Bank continued to improve the liquidity risk management process, taking into account the continuous harmonisation with its Group's standards, as well as the impact of the Russia-Ukraine crisis. In 2022, the Bank complied with RAS and internally defined limits and targets of liquidity risk. Liquidity risk was within restricted ranges and actively managed by undertaking preventive measures in order to minimise the liquidity risk exposure.

At least annually, the Bank tests the Liquidity Contingency Plan and checks the survival period and the way of accessing available or potential liquidity sources, particularly the sources not used in the ordinary course of business.

The Liquidity Contingency Plan contains procedures for the early detection of possible problems regarding the Bank's liquidity, including early warning signs, the names and functions of the persons responsible for problem identification and the persons that need to be informed thereof.

A breakdown of the maturity structure of monetary assets and monetary liabilities as of 31 December 2022 and 2021 is provided in the following tables. The monetary items are grouped by outstanding maturity. The Bank applied a rather conservative assumption on the transaction deposits and demand deposits, which, accordingly, were allocated to the time bracket of up to one-month maturity.

NOTES ON THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2022

4. RISK MANAGEMENT (Continued)

4.2. Liquidity Risk (Continued)

In RSD thousand
31 December 2022

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total
Cash and balances with Central Bank	75,804,316	-	-	-	-	-	75,804,316
Derivatives	13,223	3,749	-	-	-	-	16,972
Securities	11,200,057	1,473,113	248,452	5,613,961	28,565,283	11,642,806	58,743,672
Loans and placements to banks and other financial institutions	22,490,955	576,214	365,648	35,246	1,019,083	6,989,339	31,476,485
Loans and placements to customers	10,772,700	14,501,149	27,208,338	41,088,893	106,500,108	31,857,743	231,928,931
Other assets	2,882,240	54,867	328	-	115,930	1,356,342	4,409,707
TOTAL ASSETS	**123,163,491**	**16,609,092**	**27,822,766**	**46,738,100**	**136,200,404**	**51,846,230**	**402,380,083**
Derivatives	7,900	-	-	-	-	-	7,900
Deposits and other liabilities due to banks, other financial institutions and Central Bank	7,650,571	1,701,895	1,227,872	1,096,573	5,112,120	-	16,789,031
Deposits and other liabilities due to customers	175,570,209	27,116,662	19,755,176	37,258,554	48,872,909	960,427	309,533,937
Other liabilities	2,157,741	68,225	63,295	104,195	862,764	17,199	3,273,419
TOTAL LIABILITIES	**185,386,421**	**28,886,782**	**21,046,343**	**38,459,322**	**54,847,793**	**977,626**	**329,604,287**
Net liquidity gap as of 31 December 2022	**(62,222,930)**	**(12,277,690)**	**6,776,423**	**8,278,778**	**81,352,611**	**50,868,604**	**72,775,796**
Cumulative net liquidity gap as of 31 December 2022	**(62,222,930)**	**(74,500,620)**	**(67,724,197)**	**(59,445,419)**	**21,907,192**	**72,775,796**	**-**

4. RISK MANAGEMENT (Continued)

4.2. Liquidity Risk (Continued)

In RSD thousand
31 December 2021

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total
Cash and balances with Central Bank	33,670,738	-	-	-	-	-	33,670,738
Derivatives	19,721	-	-	-	-	-	19,721
Securities	11,103,105	2,912,436	1,203,696	227,770	16,436,766	15,779,255	47,663,028
Loans and placements to banks and other financial institutions	30,547,386	822,862	145,769	-	458,238	3,749,653	35,723,908
Loans and placements to customers	1,963,369	5,401,589	9,759,072	15,681,421	68,218,332	15,368,304	116,392,087
Other assets	12,405	24,811	-	-	71,925	112,702	221,843
TOTAL ASSETS	**77,316,724**	**9,161,698**	**11,108,537**	**15,909,191**	**85,185,261**	**35,009,914**	**233,691,325**
Deposits and other liabilities due to banks, other financial institutions and Central Bank	14,841,785	276,732	1,245,735	1,430,777	6,038	-	17,801,067
Deposits and other liabilities due to customers	98,130,872	22,123,338	10,139,155	23,933,876	25,952,307	1,390,845	181,670,393
Other liabilities	1,198,072	72,228	59,396	111,579	424,748	24,700	1,890,723
TOTAL LIABILITIES	**114,170,729**	**22,472,298**	**11,444,286**	**25,476,232**	**26,383,093**	**1,415,545**	**201,362,183**
Net liquidity gap as of 31 December 2021	**(36,854,005)**	**(13,310,600)**	**(335,749)**	**(9,567,041)**	**58,802,168**	**33,594,369**	**32,329,142**
Cumulative net liquidity gap as of 31 December 2021	**(36,854,005)**	**(50,164,605)**	**(50,500,354)**	**(60,067,395)**	**(1,265,227)**	**32,329,142**	**-**

Liquidity risk reporting includes internal and external reporting, which is performed on a daily basis according to the established schedule and in compliance with the system in place.

4. RISK MANAGEMENT (Continued)

4.3. Market Risks

Market risks are the possibility of negative effects on financial result and capital arising from changes in the value of balance sheet and off-balance sheet items of the Bank arising from price movements on the market. Market risks in the narrow sense include foreign exchange risks for all banking operations, equity price risk per items in the trading book and commodity risk. In the broader sense, market risk also includes the risk of changes in interest rates within the banking book.

The objective of market risk management entails the maintenance of the level of exposure to the aforesaid risks acceptable to the Bank and the simultaneous maximizing of financial performance through establishing market positions in respect of existing and new products. For adequate market risk management, the Bank has established an organizational structure suitable for the volume, type and complexity of its operations, and ensured the separation of functions assuming the risk from those in charge of support and control.

In 2022 the Bank complied with the internally and externally defined foreign exchange risk exposure limits.

As of 31 December 2022, the Bank had bank and corporate shares with a total market value of RSD 2.4 billion in its trading book. Since Q4 2018, the Bank has started calculating capital requirements for the equity price risk in line with the National Bank of Serbia's Decision on Capital Adequacy of Banks.

In 2022 the Bank was not exposed to the commodity price risk as it did not possess items in kind.

4.3.1. Foreign Exchange Risk

Foreign exchange risk is the possibility of negative effects on the Bank's financial result and equity due to fluctuations in exchange rates. All the Bank's items denominated in a foreign currency and gold, including dinar items indexed with a foreign currency clause are exposed to the foreign exchange risk. The process of foreign exchange risk management entails identifying, measuring, minimizing, monitoring, control and foreign exchange risk reporting.

The Bank identifies its exposure to the foreign exchange risk by means of open positions in a certain currency and for all currencies it operates with in aggregate. The Bank's open foreign currency position is the difference between foreign currency assets and liabilities in a particular currency, as well as between RSD assets and liabilities indexed to a currency clause (including the absolute value of the net open positions in gold). The measurement of foreign exchange risk entails an assessment of the Bank's exposure thereto using the regulatory limits (foreign exchange risk ratio) and internally defined methods. The basis of the measurement and assessment of the Bank's exposure to the foreign exchange risk is the calculation of the foreign currency position per all individually significant currencies and all other currencies stated in aggregate.

Foreign exchange risk monitoring includes projections of foreign exchange risk in order to reduce the Bank's exposure thereto. Such projections allow defining precautionary measures for reducing the Bank's exposure to the foreign exchange risk. Foreign exchange risk measurement and monitoring is performed on a daily basis with the obligatory preparation of detailed reports on the foreign exchange risk ratio in accordance with the Bank's internal bylaws in the following instances:

- the difference between two consecutive foreign exchange risk ratios is 2 percentage points;
- the sum of five consecutive absolute differences between consecutive foreign exchange risk ratios exceeds 5 percentage points.

In 2022 the Bank's foreign exchange risk ratio was within the internally and legally prescribed limits:

	31 December 2022	31 December 2021
As of	1.13%	3.34%
MAX	14.07%	11.44%
MIN	0.02%	0.02%
Regulatory limit	Maximum 20%	Maximum 20%

In order to ensure efficient foreign exchange risk control, the Bank pays close attention to the compliance of the foreign exchange ratio, monitors the foreign currency position and departures from the internally and regulatory limits.

4. RISK MANAGEMENT (Continued)

4.3. Market Risks (Continued)

4.3.1. Foreign Exchange Risk (Continued)

The tables below present the Bank's exposure to foreign exchange risk, i.e. the net open foreign exchange position per currencies as of 31 December 2022 and 2021:

In RSD thousand
31 December 2022

	EUR	USD	CHF	Other currencies	Foreign currency total
Cash and balances with Central bank	27,230,231	491,940	710,893	81,941	28,515,005
Securities	8,220,270	-	-	-	8,220,270
Loans and placements to banks and other financial institutions	18,176,317	1,507,169	648,889	877,872	21,210,247
Loans and placements to customers	146,843,007	863,072	156,582	-	147,862,661
Other assets	1,259,930	8,679	182	23,214	1,292,005
TOTAL ASSETS	**201,729,755**	**2,870,860**	**1,516,546**	**983,027**	**207,100,188**
Deposits and other liabilities due to banks, other financial institutions and Central Bank	10,198,658	463,240	44,979	17,094	10,723,971
Deposits and other liabilities due to customers	173,223,132	9,312,885	7,562,788	953,673	191,052,478
Provisions	41,654	1,390	-	-	43,044
Other liabilities	1,400,620	85,028	1,893	5,432	1,492,973
TOTAL LIABILITIES	**184,864,064**	**9,862,543**	**7,609,660**	**976,199**	**203,312,466**
Off-balance sheet items - Net spot position	(16,239,767)	6,981,692	6,089,090	8,207	(3,160,778)
Long foreign currency position	625,924	-	-	18,045	643,969
Short foreign currency position	-	9,991	4,024	3,010	17,025
Net open foreign exchange position as of 31 December 2022	**625,924**	**(9,991)**	**(4,024)**	**18,045**	**643,969**

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For the Year Ended 31 December 2022

4. RISK MANAGEMENT (Continued)

4.3. Market Risks (Continued)

4.3.1. Foreign Exchange Risk (Continued)

In RSD thousand
31 December 2021

	EUR	USD	CHF	Other currencies	Foreign currency total
Cash and balances with Central Bank	16,050,350	137,511	264,372	25,592	16,477,825
Securities	10,415,029	-	-	-	10,415,029
Loans and placements to banks and other financial institutions	25,879,176	2,993,943	88,750	64,698	29,026,567
Loans and placements to customers	81,052,013	1,259,757	25,629	-	82,337,399
Other assets	1,796,003	94	1	-	1,796,098
TOTAL ASSETS	**135,192,571**	**4,391,305**	**378,752**	**90,290**	**140,052,918**
Deposits and other liabilities due to banks, other financial institutions and Central Bank	16,092,146	37,935	92	-	16,130,173
Deposits and other liabilities due to customers	108,281,930	4,486,328	3,127,853	90,164	115,986,275
Provisions	43,542	2,706	-	-	46,248
Other liabilities	648,486	31,421	1,679	1,547	683,133
TOTAL LIABILITIES	**125,066,104**	**4,558,390**	**3,129,624**	**91,711**	**132,845,829**
Off-balance sheet items - Net spot position	(8,895,086)	170,653	2,744,741	-	(5,979,692)
Long foreign currency position	1,231,381	3,568	-	2,033	1,236,982
Short foreign currency position	-	-	6,131	3,454	9,585
Net open foreign exchange position as of 31 December 2021	**1,231,381**	**3,568**	**(6,131)**	**(3,454)**	**1,236,982**

4. RISK MANAGEMENT (Continued)

4.3. Market Risks (Continued)

4.3.1. Foreign Exchange Risk (Continued)

The Bank performs regular foreign exchange risk stress testing in order to estimate the impact of extraordinary circumstances and stress events on the Bank's financial result, equity and foreign exchange risk ratio.

The table below shows the impact of changes in the exchange rates on the foreign exchange ratio and open foreign currency position:

	Foreign exchange ratio (%)	31 December 2022 Open foreign currency position (000 RSD)
RSD depreciation (15%)	1.44%	740,033

Foreign exchange risk reporting includes internal and external reporting performed on a daily basis.

For the purpose of further monitoring and the assessment of foreign exchange risk, from the beginning of 2020 the Bank also began applying the VaR (value-at-risk) model of the open foreign exchange position monitored on a daily basis. VaR is a measure of the greatest expected loss the Bank can suffer under normal market conditions, in a set time period for a defined level of confidence (probability). The three basic parameters taken into account when assessing VaR are: time period, probability (confidence interval) and currency.

The Bank applies the following parameters in the assessment of VaR:

- period of time – one day;
- probability (confidence interval) – 99%; and
- currency (all currencies in which the Bank has an open foreign exchange position).

The Bank calculates the VaR of the open foreign exchange position on a daily basis (taking into account the net long or short position in each currency) on the one hand, and the realized profit/loss compared to the previous day, depending on the rate of exchange fluctuations, on the other hand. The Bank has also established the internal limit system – "VaR limit".

The internal limit for monitoring the VaR of an open foreign exchange position is set as an absolute amount, whereby it is monitored that the maximum estimated loss based on the calculated VaR of the open foreign exchange position does not exceed the set limit.

4. RISK MANAGEMENT (Continued)

4.3. Market Risks (Continued)

4.3.2. Interest Rate Risk

Interest rate risk is the probability of negative effects on the Bank's financial result and equity through items of the banking general ledger due to adverse interest rate fluctuations. Movements in interest rates directly affect the generation of interest income due to mismatching between the aggregate interest-bearing assets and interest-bearing liabilities or fixed prices of interest-bearing instruments.

The types of interest risk are as follows:

- risk of temporal mismatch between maturity and repricing (repricing risk);
- yield curve risk due to changes in the yield curve shape (yield curve risk);
- the basis risk, to which the Bank is exposed due to different reference interest rates for interest rate sensitive items with similar maturity or repricing characteristics (basis risk); and
- optionality risk, to which the Bank is exposed due to contractually agreed option terms, such as loans with an option of early repayment, deposits with an option of early withdrawal, etc. (optionality risk).

The process of interest rate risk management consists of identification, measurement, minimizing, monitoring, control and interest rate risk reporting.

The Bank identifies, measures and manages interest rate risk on a monthly basis for all significant currencies in the banking book.

The identification of interest rate risk relates primarily to the identification of the form of the interest rate risk that the Bank is exposed to, extent of exposure to each individual form of interest rate risk and establishing opportunities for the measurement of each individual form of interest rate risk.

Interest rate risk measurement entails measuring the impact of the changes in interest rates on the financial performance and economic value of the equity of the Bank. The bank uses the following techniques for interest rate risk measurement: GAP analysis, EVE and NII methodologies and stress testing. Stress testing is used to measure the sensitivity of the economic value of equity (standard shock and six scenarios of interest rate changes), as well as changes in net interest income against Bank's equity.

Interest rate risk monitoring primarily includes analysis of the balances, movements and trends in the Bank's interest rate risk exposure. The Bank manages the interest rate risk using the defined limits and prescribed protection measures against interest rate risk.

Minimizing interest rate risk means maintaining this risk at a level that is acceptable for the Bank's risk profile.

The Bank defines the internal limits to interest rate risk exposure based on the internal interest rate GAP report. These internal limits include the limits of EVE sensitivity to the standard interest rate shock, EVE sensitivity in case of six scenarios, limits of changes in net interest income against interest rate changes, and the disparity coefficient limit.

The table below provides an overview of the aforesaid internal limits and stress testing effects as of 31 December 2022 and 2021:

	Limits	31 December 2022	31 December 2021
Disparity coefficient	0.9-1.5	1.23	1.03
Relative equity impact (EVE)	15%	(4.05%)	(9.74%)
EVE sensitivity (6 scenarios)	14%	(5.54%)	(12.94%)
NII changes	5%	1.88%	0.5%

Interest risk exposure is perceived based on the report on interest GAP, which includes an overview of the monetary assets and liabilities as presented in the tables below.

4. RISK MANAGEMENT (Continued)

4.3. Market Risks (Continued)

4.3.2. Interest Rate Risk (Continued)

The Bank's interest rate risk exposure as of 31 December 2022 and 2021 is provided in the tables below:

In RSD thousand
31 December 2022

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total interest-bearing	Non-interest-bearing	Total
Cash and balances with Central Bank	43,613,167	-	-	-	-	-	43,613,167	32,191,149	75,804,316
Derivatives	-	-	-	-	-	-	-	16,972	16,972
Securities	8,822,059	5,507,461	-	5,413,688	23,958,660	12,005,357	55,707,225	3,036,447	58,743,672
Loans and placements to banks and other financial institutions	22,523,894	1,034,965	382,042	31,803	567,538	6,768,686	31,308,928	167,557	31,476,485
Loans and placements to customers	28,985,650	37,823,142	5,682,434	25,893,629	79,878,097	52,484,445	230,747,397	1,181,534	231,928,931
Other assets	-	-	-	-	-	-	-	4,409,707	4,409,707
TOTAL ASSETS	**103,944,770**	**44,365,568**	**6,064,476**	**31,339,120**	**104,404,295**	**71,258,488**	**361,376,717**	**41,003,366**	**402,380,083**
Derivatives	-	-	-	-	-	-	-	7,900	7,900
Deposits and other liabilities due to banks, other financial institutions and Central Bank	7,009,603	309,496	427,679	3,356,632	5,619,398	-	16,722,808	66,223	16,789,031
Deposits and other liabilities due to customers	153,347,830	31,946,698	13,430,368	46,876,351	57,747,298	4,832,240	308,180,785	1,353,152	309,533,937
Other liabilities	-	-	-	-	-	-	-	3,273,419	3,273,419
TOTAL LIABILITIES	**160,357,433**	**32,256,194**	**13,858,047**	**50,232,983**	**63,366,696**	**4,832,240**	**324,903,593**	**4,700,694**	**329,604,287**
Net gap as of 31 December 2022	**(56,412,663)**	**12,109,374**	**(7,793,571)**	**(18,893,863)**	**41,037,599**	**66,426,248**	**36,473,124**	**36,302,672**	**72,775,796**
Cumulative net gap as of 31 December 2022	**(56,412,663)**	**(44,303,289)**	**(52,096,860)**	**(70,990,723)**	**(29,953,124)**	**36,473,124**	**36,473,124**	**36,302,672**	**72,775,796**

4. RISK MANAGEMENT (Continued)

4.3. Market Risks (Continued)

4.3.2. Interest Rate Risk (Continued)

In RSD thousand
31 December 2021

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total interest-bearing	Non-interest-bearing	Total
Cash and balances with Central Bank	13,285,331	-	-	-	-	-	13,285,331	20,385,407	33,670,738
Derivatives	-	-	-	-	-	-	-	19,721	19,721
Securities	7,068,649	6,897,557	937,434	-	11,884,160	15,404,917	42,192,717	5,470,311	47,663,028
Loans and placements to banks and other financial institutions	30,238,121	818,617	146,714	-	458,570	3,717,234	35,379,256	344,652	35,723,908
Loans and placements to customers	22,252,688	11,485,362	8,613,336	10,107,394	56,735,949	6,972,761	116,167,490	224,597	116,392,087
Other assets	-	-	-	-	-	-	-	221,843	221,843
TOTAL ASSETS	**72,844,789**	**19,201,536**	**9,697,484**	**10,107,394**	**69,078,679**	**26,094,912**	**207,024,794**	**26,666,531**	**233,691,325**
Deposits and other liabilities due to banks, other financial institutions and Central Bank	14,809,600	272,881	1,242,318	1,416,287	21,541	-	17,762,627	38,440	17,801,067
Deposits and other liabilities due to customers	94,965,245	24,279,764	10,357,962	23,820,387	26,038,026	1,306,483	180,767,867	902,526	181,670,393
Other liabilities	-	-	-	-	-	-	-	1,890,723	1,890,723
TOTAL LIABILITIES	**109,774,845**	**24,552,645**	**11,600,280**	**25,236,674**	**26,059,567**	**1,306,483**	**198,530,494**	**2,831,689**	**201,362,183**
Net gap as of 31 December 2021	**(36,930,056)**	**(5,351,109)**	**(1,902,796)**	**(15,129,280)**	**43,019,112**	**24,788,429**	**8,494,300**	**23,834,842**	**32,329,142**
Cumulative net gap as of 31 December 2021	**(36,930,056)**	**(42,281,165)**	**(44,183,961)**	**(59,313,241)**	**(16,294,129)**	**8,494,300**	**8,494,300**	**23,834,842**	**32,329,142**

4. RISK MANAGEMENT (Continued)

4.3. Market Risks (Continued)

4.3.2. Interest Rate Risk (Continued)

In the process of interest rate risk measurement, the Bank uses GAP analysis encompassing all interest-bearing balance and off-balance sheet items in accordance with:

- Re-fixing the interest rate (in instances of variable interest rates) – all assets and liabilities maturing prior to the date of re-fixing the interest rate are grouped in time brackets based on the remaining maturity. In instances of administrative interest rates (e.g. key policy rate, discount rate) for which the re-fixing date is not known, classification into appropriate time brackets is performed based on historical data analysis.
- Remaining maturities of respective items (in case of fixed interest rates) – classification in the time brackets is performed according to the repayment schedule.

One of the segments of interest rate risk management entails considering interest rate risk exposure under stress circumstances. The Bank performs stress testing on a monthly basis in order to identify and measure interest rate risk under extraordinary circumstances, by analysing the possible impact on the Bank's financial result and equity. The results of the conducted stress testing are considered against the internally set limits for their impact on the economic value of equity (EVE) and NII. There were no limit exceedances in 2022.

4.3.3. Price Risk

As of 31 December 2022, the Bank had bank and corporate shares with the total market value of RSD 2.23 billion in its trading book. Given that the value of the Bank's trading book items exceeded RSD 1.8 billion for more than three consecutive working days in a calendar month and that at one point the said value was in excess of RSD 2.4 billion (Article 310, Paragraph 4 of the National Bank of Serbia's Decision on the Capital Adequacy of Banks), the Bank calculated the capital requirement for general and specific price risks as of 31 December 2022.

The Bank's trading book was in compliance with the Bank's internally defined limits during 2022.

As of 31 December 2022, the Bank's capital requirement for general and specific price risk based on equity securities amounted to RSD 381.3 million.

The Bank did not contract any forward transactions.

4.4. Operational Risk

Operational risk is the possibility of negative effects on the Bank's financial result and equity due to employee errors (intentional or accidental), inadequate procedures and processes in the Bank, the inadequate management of information and other systems in the Bank, as well as the occurrence of unforeseen external events. Operational risk includes legal risk.

The operational risk management process also covers risks connected to the processing of personal data, such as accidental or unlawful destruction, loss, alteration, unauthorized disclosure or access to personally identifiable information that is transferred, stored or otherwise processed.

Operational risks are identified for all significant products, service outsourcing, processes, systems and external factors. Operational risk identification throughout the Bank is performed through a combination of mapping operational risks, the performance of self-assessment and risk control, as well as the collection of information on events deemed to constitute operational risks.

The Bank monitors operational risk events per the following business lines: corporate financing, trading and sales, broker-dealer operations with retail customers, banking operations involving corporate customers, banking operations involving retail customers, payment transfers, agency services and asset management services.

The Bank classifies identified events into predefined categories of events giving rise to losses: internal and external fraud, omissions in relations with employees and the system of safety at work, omissions and irregularities in relations with customers, in respect of the products and operating procedures, damage to tangible assets, interruptions in operations and errors in the Bank's systems, omissions in the performance of transactions and deliveries and process management in the Bank.

4. RISK MANAGEMENT (Continued)

4.4. Operational Risk (Continued)

The Bank performs both quantitative and qualitative measurements of its operational risk exposure. The measurement includes risk assessment, risk early warning indicators, scenario analysis and the collection of information and data on operational risk events. The Bank measures/assesses operational risk exposure taking into account the possibility (frequency) of such risk occurrence, as well as its potential effects on the Bank's financial result, with a particular focus on events assessed as unlikely to occur, but assumed or known to be able to cause huge material losses should they occur after all.

Upon the measurement and assessment of operational risk, the Bank particularly estimates whether it is or may be exposed to this type of risk with regard to the introduction of new products, activities, processes and systems and whether and how its outsourced activities (if any) may affect the operational risk level.

The control, monitoring of and reporting on the identified and assessed sources of risk, as well as undertaking measures to alleviate the possible adverse effect of these risks are an integral part of the operational risk management process.

The Bank's Board of Directors has adopted the Business Continuity Plan, as well as the Disaster Recovery Plan and the Executive Board is responsible for their implementation, the training and testing of employees and introducing the employees to their roles and responsibilities in the event of an emergency.

In order to ensure the continuity of its operations, the Bank has determined the key activities (including third party activities), resources and systems required for conducting business processes, critical times for certain processes, and risks that may disrupt the continuity of operations, while its Recovery Strategy defines the key goals that the Bank needs to achieve in the event of interrupted operations.

The Bank's capital requirement for operational risk as of 31 December 2022 and 2021 amounted to RSD 2.96 billion and RSD 1.99 billion, respectively.

4.5. Investment Risk

The Bank's investment risks include risks of the Bank's investments in other legal entities and capital expenditures, where:

- the Bank's investment in a single non-financial-sector entity may not exceed 10% of its own assets (the Bank's acquisition of shares or equity interest in a non-FS entity); and
- the sum of the total Bank's investments in non-FS entities and capital expenditures may not exceed 60% of the Bank's equity; this restriction, however, does not apply to the acquisition of shares for further sale within 6 months of the acquisition date.

The Bank's exposure to the investment risk was within the prescribed limits in 2022.

4.6. Exposure Risk

The risk of the Bank's exposure to the same or similar risk source or the same or similar risk type – concentration risk – refers to the Bank's large exposure to a single party or a group of related parties of over 10% of its equity, which is the sum of the Bank's stake capital and supplementary capital up to one third of its stake capital and in accordance with the National Bank of Serbia's Decision on Risk Management by Banks.

The Bank's exposures to a single party or a group of related parties cannot exceed 25% of the Bank's capital, and the aggregate sum of all exposures cannot exceed 400% of the Bank's capital calculated in the above-explained manner.

The Bank controls the exposure risk using pre-defined exposure limits that enable loan portfolio diversification and the use of tangible and intangible collaterals in accordance with the National Bank of Serbia's Decision on the Capital Adequacy of Banks.

The aggregate sum of the Bank's large exposures as of 31 December 2022 was 131.22% of equity.

4. RISK MANAGEMENT (Continued)

4.7. Country Risk

Country risk is the risk that relates to:

- the risk of the country of origin of an entity with which the Bank has concluded a business transaction; and
- the risk of the occurrence of negative effects on the Bank's financial result and equity due to its inability to collect receivables from the said entity/entities caused by political, economic and social circumstances in the country of origin of the said entity/entities.

Country risk includes:

- political and economic risk (Bank's inability to collect receivables due to limitations stipulated by government regulations of the borrower's country of origin or due to other general and systemic circumstance in the given country); and
- transfer risk (inability to collect receivables denominated in a currency that is not the official currency of the borrower's country of origin due to limitations of liability settlement towards creditors from other countries in a specific currency, which are stipulated by government regulations of the borrower's country of origin).

The Bank manages country risk by defining and monitoring the exposure limits, which are determined individually as per the customer's country of origin. The Bank uses internationally defined and recognized standards for country risk assessment and measurement. In order to secure its operations from country risk, the Bank applies the Risk Management Policy and the Country Risk Management Procedure.

The Bank's exposure to country risk in 2022 was monitored in accordance with Bank's corporate by-laws.

4.8. Capital Management

The Bank has established a risk management system in accordance with the volume and structure of its business activities and the capital management is aimed at the unhindered achievement of the Bank's business strategy goals.

The Bank defines its business strategy goals and periods for their realization in its Business Policies and Business Strategy with a three-year strategic plan.

The calculation of the amount of capital and the capital adequacy ratio is performed in accordance with Basel III Standard.

The key objectives of capital management are:

- maintaining the minimum amount of capital of EUR 10 million in RSD equivalent at the official median exchange rate of the National Bank of Serbia at the date of calculation;
- maintaining the minimum levels of the Bank's regulatory capital adequacy ratios in accordance with the National Bank of Serbia's Decision on Capital Adequacy of Banks, maintaining trust in the safety and stability of its operations,
- achieving business and financial plans that can support the expected increase in loans, future sources of funds and their usage, and
- implementing its dividend policy.

The Bank's strategic objective is to maintain capital adequacy ratios at a level above the prescribed minimum (4.5% for the common equity Tier 1 capital adequacy ratio, 6% for the Tier 1 capital adequacy ratio and 8% for the capital adequacy ratio) and minimum at a level that allows coverage of the requirement for the combined capital buffer in accordance with the National Bank of Serbia's Decision on Capital Adequacy of Banks.

As of 31 December 2022, the Bank calculated the common equity Tier 1 capital adequacy ratio, the Tier 1 capital adequacy ratio and the capital adequacy ratio in accordance with the National Bank of Serbia's Decision on the Capital Adequacy of Banks.

4. RISK MANAGEMENT (Continued)

4.9. Capital Adequacy Ratio

As of 31 December 2022, the Bank calculated the common equity Tier 1 capital adequacy ratio, the Tier 1 capital adequacy ratio and the capital adequacy ratio in accordance with the National Bank of Serbia's Decision on the Capital Adequacy of Banks, as presented below:

	In RSD thousand 31 December 2022
Basic share capital (common equity)	54,753,766
Supplementary capital	2,228,827
Equity	**56,982,593**
Credit risk-weighted assets	245,756,299
Risk-weighted assets based on market risk exposure	4,766,450
Risk-weighted assets based on operational risk exposure	37,058,183
Risk-weighted assets based on credit risk adjustment	26,517
Common equity Tier 1 capital adequacy ratio (min. 4.5%)	***19.04%***
Tier 1 capital adequacy ratio (min. 6%)	***19.04%***
Capital adequacy ratio (min. 8%)	***19.81%***

	31 December 2021
Basic share capital (common equity)	36,818,798
Supplementary capital	267,928
Equity	**37,086,726**
Credit risk-weighted assets	146,839,827
Risk-weighted assets based on market risk exposure	10,354,757
Risk-weighted assets based on operational risk exposure	24,839,304
Risk-weighted assets based on credit risk adjustment	18,471
Common equity Tier 1 capital adequacy ratio (min. 4.5%)	***20.22%***
Tier 1 capital adequacy ratio (min. 6%)	***20.22%***
Capital adequacy ratio (min. 8%)	***20.37%***

In 2022, the capital adequacy ratio was above of the prescribed regulatory limit of 8%. More significant changes in some items are the result of the merger of Nasa AIK Banka.

The amount and structure of the Bank's capital always need to provide coverage of the minimum capital requirements and internal capital requirements regarding the risks that the Bank is exposed to in its operations, in full compliance with the Risk Management Strategy and Policy.

By implementing the Capital Management Strategy and Plan, the Bank performs the process of internal capital adequacy assessment, i.e. determines the amount of internal capital in accordance with its risk-weighted portfolio, thereby computing the capital requirements for risks that it has identified as materially significant.

The Bank's Capital Management Strategy and Plan ensures that at all times the Bank has at its disposal such a level and such a structure of internal capital so as to provide the Bank's compliance with all its legal obligations, maintenance of the trust of its shareholders and depositors in the security and stability of its operations, realization of the Bank's business and financial plans, which can support the expected growth of the Bank's loans and investments, future sources of funds and their deployment, dividend policy and all changes to the prescribed minimum amount of capital.

4. RISK MANAGEMENT (Continued)

4.9. Capital Adequacy Ratio (Continued)

The Bank's Capital Management Strategy and Plan contains:

- Organization of the internal capital management process, which includes the competencies and responsibilities of the Bank's bodies and boards: Bank's Assembly, Board of Directors, Executive Board, other Bank's committees and competent divisions and departments: Risk Control Department, Treasury, Compliance Division, Planning and Analysing Division and Internal Audit Unit;
- Procedures for planning adequate internal capital levels;
- Definition of Bank's capital – stake capital, supplementary capital and deductible items;
- Internal capital adequacy assessment process (described in detail in the Methodology for Internal Capital Requirement Assessment);
- Calculation of the capital requirements for credit risk (determining credit risk-weighted assets, capital requirements for settlement risk and counterparty risk);
- Calculation of the capital requirements for market risks,
- Calculation of the capital requirements for operational risks;
- Main principles of the internal capital adequacy assessment process;
- Available internal capital management, and
- Business continuity plan in case of the occurrence of unforeseen events that could affect the amount of the Bank's internal capital.

5. USE OF ESTIMATES AND JUDGMENTS

The preparation and presentation of the financial statements in accordance with IFRS requires the Bank's management to make judgments, estimates and assumptions that affect the application of the accounting policies and amounts of assets and liabilities and income and expenses presented in the financial statements. Actual results may vary from these estimates. Estimates and assumptions are subject to constant review and are based on previous (historical) experience and other factors, including anticipation of future events deemed reasonable under the current circumstances. Revised accounting estimates are recognized in the period in which the revisions were made, as well as in those future periods affected by the revisions of the estimates.

Assumptions and other sources of uncertainty estimate on the balance sheet date that have a significant risk of causing a material adjustment to items in the financial statements within the next financial year are provided below.

5.1. Key Sources of Estimate Uncertainty

Provisions for Credit Losses

Impairment of assets carried at amortized cost is estimated in the manner described in the accounting policy in Note 3.9. - Impairment Identification and Measurement.

A separate counterparty element in the aggregate impairment provision is applied to financial assets subject to individual-level impairment assessment, and is based on the management's best estimate of the present value of expected future cash flows. Upon estimating such cash flows, the management makes estimates on the financial standing of the counterparty and on the net realizable value of the existing collateral. Each impaired asset is assessed in terms of quality and output strategy, where the Bank's Credit Risk Function independently approves the estimate of the cash flows considered to be recoverable.

Provisions assessed on a group level cover credit losses inherent in the portfolios of loans and receivables and securities held to maturity sharing similar credit risk characteristics due to the objective evidence of impaired items that are no yet identifiable. Upon estimating the need for forming group-level provisions for losses, the management takes into accounts factors such as loan quality, size of the portfolio, risk concentration and economic factors.

In order to estimate the required provision, the management makes assumptions to define the manner for modelling losses inherent in the portfolio and determine the necessary inputs, based on historical experience and current economic circumstances. The accuracy of provision depends on the estimated cash flows for individual counterparty provisions, as well as on the assumptions and inputs of the model used in determining the amount of group-level provision.

5. USE OF ESTIMATES AND JUDGMENTS (Continued)

5.1. Key Sources of Estimate Uncertainty (Continued)

Fair Value Assessment

Determining the fair value of financial assets and liabilities for which there is no observable market price requires uses estimation techniques described in the accounting policy in Note 3.9. - Fair Value Measurement. Fair values of financial instruments which are rarely traded and the prices of which are not very transparent are less objective and require estimating to a greater extent, depending on the liquidity, concentration, uncertainty of the market factors, assumptions on pricing and other risks related to the specific instruments.

Retirement Benefits

The costs of defined employee benefits payable upon the termination of employment, i.e. retirement in accordance with the legal requirements are determined based on an actuarial valuation. The actuarial valuation includes an assessment of the discount rate, future movements in salaries, mortality rates and employee fluctuation rates.

As these plans are long-term ones, significant uncertainties influence the outcome of the assessment. Additional information is disclosed in Note 36(b) to the financial statements.

5.2. Key Accounting Estimates in the Application of Bank's Accounting Policies

Measurement of Financial Instruments

The Bank's accounting policy on the fair value measurement is disclosed in Note 3.9.

The Bank measures fair value of financial assets using the following fair value hierarchy of the quality of the inputs used in measurement of the inputs used in measurement:

- Level 1: Quoted prices (unadjusted) on active markets for identical instruments.
- Level 2: Valuation techniques based on inputs that are not quoted prices for identical instruments but are information available and determinable either directly (e.g. prices) or indirectly (e.g. derived from prices). This level includes instruments measured using the official active market prices of instruments with similar characteristics, official market prices of identical instruments or instruments with similar characteristics in a market deemed less active or using other measurement techniques with all significant inputs directly or indirectly available on the market.
- Level 3: Valuation techniques that use unavailable and undeterminable inputs. This level includes all instruments the fair values of which are assessed based on unavailable or unobservable input data, which therefore have significant effects on the instrument's fair value measurement. Such instruments are measured based on the official market prices for instruments with the similar characteristics, where significant adjustment or assumptions are required to reflect the differences between the instruments.

Fair values of financial assets and financial liabilities traded in an active market are based on the market prices. The Bank determines the fair values of all other financial instruments 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 Bank uses generally accepted models for determining the fair values of regular and common financial instruments such as interest 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.

5. USE OF ESTIMATES AND JUDGMENTS (Continued)

5.2. Key Accounting Estimates in the Application of Bank's Accounting Policies (Continued)

Measurement of Financial Instruments (Continued)

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.

Assessment whether the Bank has Control over Legal Entities

In accordance with the requirements of IFRS 10 "Consolidated Financial Statements" and IFRS 12 "Disclosure of Interests in Other Entities", the Bank reassesses whether it truly exercises control over its investee and considers all the facts, events, and circumstances indicating that there may have been a change in one or more of the three elements of control. The Bank also considers changes that affect its exposure to or rights to variable returns from its involvement with the investee.

The Bank's initial assessment of control does not change merely due to the occurrence of different market conditions (e.g., change in the returns from the investee triggered by market conditions), unless such changes in market conditions cause changes in one or more of the three elements of control or the entire relationship with the investee has changed.

Under IFRS 10, control over an investee is achieved when the investor has exposure, or rights, to variable returns from its involvement with the investee and has the ability the ability to use its power over the investee to affect the amount of returns. Hence, the investor controls the investee only and only if the all of the following criteria are met:

(a) power over the investee;
(b) exposure or rights to variable returns from its involvement with the investee, and
(c) the ability to use its power over the investee to affect the amount of returns.

Taking into consideration the requirements of the aforesaid standards, and based on its own assessment, the Bank determined that it had acquired control over an investee in 2018, but it was not required to prepare consolidated financial statements as of 31 December 2021 and 2020, since it fulfilled the requirements of IFRS 10.4 and Article 32 of the Law on Accounting. As of 31 December 2022, the Bank lost control over its subsidiary due to the sale of its equity interest in it (Note 25.2).

Useful Life of Intangible Assets, Property, Plant and Equipment

The determination of the useful lives of intangible assets, property, plant and equipment is based on historical experience with similar assets, as well as the anticipated technical development and changes affected by numerous economic and industrial factors.

The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions.

Right-of-use Assets and Lease Liabilities

IFRS 16 requires certain estimates, primarily related to lease term and the determination of the incremental borrowing rate used for the measurement of lease liabilities.

It is necessary to remeasure lease liability upon certain events occurred (changes in lease term, future payments due to change in index or rate applied to calculate those payments). The lessee recognizes the amount of remeasured lease liability as adjustment of value of a right-of-use asset.

6. FINANCIAL ASSETS AND LIABILITIES – ACCOUNTING CLASSIFICATION AND FAIR VALUE

The following tables provide a breakdown of financial instruments measured at fair value at the end of the reporting period per fair value hierarchy levels based on which fair value measurement is categorized:

				In RSD thousand 31 December 2022 Total assets/liabilities at fair value
	Level 1	Level 2	Level 3	
Assets				
Derivatives	-	-	16,972	16,972
Securities measured at fair value through profit or loss	3,529,272	-	-	3,529,272
Securities measured at fair value through other comprehensive income	-	54,579,367	-	54,579,367
Total	**3,529,272**	**54,579,367**	**16,972**	**58,125,611**
Liabilities				
Derivatives	-	-	7,900	7,900
Total liabilities	**-**	**-**	**7,900**	**7,900**

				In RSD thousand 31 December 2021 Total assets at fair value
	Level 1	Level 2	Level 3	
Assets				
Derivatives	-	-	19,721	19,721
Securities measured at fair value through profit or loss	10,270,858	-	-	10,270,858
Securities measured at fair value through other comprehensive income	-	36,533,272	-	36,533,272
Total	**10,270,858**	**36,533,272**	**19,721**	**46,823,851**

Level 1 includes financial instruments traded on the stock exchange, while Level 2 includes securities the fair values of which are assessed based on the internally developed models based on the information from auctions on the secondary securities market. Fair values of assets determined based on the prices from the stock market for instruments with similar characteristics are allocated to Level 3.

6. FINANCIAL ASSETS AND LIABILITIES – ACCOUNTING CLASSIFICATION AND FAIR VALUE (Continued)

The carrying values and fair values of financial assets and liabilities not measured at fair value are presented in the tables below:

In RSD thousand
31 December 2022

	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets					
Loans and placements to customers	231,928,931	241,828,120	-	-	241,828,120
Securities measured at amortized cost	635,033	660,156	-	-	660,156
Financial liabilities					
Deposits and other liabilities due to customers	309,533,937	310,396,541	-	-	310,396,541

In RSD thousand
31 December 2021

	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets					
Loans and placements to customers	116,392,087	121,286,290	-	-	121,286,290
Securities measured at amortized cost	858,898	892,878	-	-	892,878
Financial liabilities					
Deposits and other liabilities due to customers	181,670,393	182,176,669	-	-	182,176,669

The methodology and assumptions used for calculating fair values of the aforesaid financial assets and liabilities not stated at fair value in the financial statements are as follows:

Assets whose fair values approximate their carrying values

For highly liquid financial assets and liabilities with short-term maturities (up to a year) it is assumed that their carrying values approximate their fair values. This assumption is also used for demand deposits, savings deposits without a defined maturity and all financial instruments at variable interest rates.

Fixed rate financial instruments

The fair value of financial assets and liabilities at fixed interest rates carried at amortized cost is assessed by comparing the market interest rates upon initial recognition to the current interest rates prevailing on the market for financial assets with similar characteristics.

The estimated fair values of financial instruments at fixed interest rates are based on the cash flows discounted using the interest rate prevailing on the money market for financial instruments with similar credit risk characteristics and maturities.

Financial assets held to maturity, loans and deposits include a portion of the fixed interest rate portfolio, which gives rise to the differences between their carrying values and fair values.

7. INTEREST INCOME AND EXPENSES

Interest income and expenses according to financial instrument classes are presented below:

	In RSD thousand Year Ended 31 December 2022	2021
Interest income		
Loans and placements to customers	7,964,284	6,347,211
Loans and placements to banks	185,170	120,773
Deposits held with the National Bank of Serbia	85,454	12,444
Securities:		
- repo transactions	35,583	17,752
- Republic of Serbia's RSD bonds	935,122	771,997
- Republic of Serbia's RSD bills	71,092	-
- Corporate RSD bonds	230,358	176,758
- Republic of Serbia's foreign currency bonds	233,393	249,147
Promissory notes	43,861	46,283
Total	**9,784,317**	**7,742,365**
Interest expenses		
Borrowings	(65,628)	(92,313)
Deposits from customers	(1,975,947)	(1,310,427)
Deposits from banks	(55,977)	(184)
Securities	(284,434)	(224,167)
Lease liabilities (Note 37.1)	(8,388)	(9,388)
Other interest expenses	(33,522)	(110)
Total	**(2,423,896)**	**(1,636,589)**
Net interest income	**7,360,421**	**6,105,776**

8. FEE AND COMMISSION INCOME AND EXPENSES

	In RSD thousand Year Ended 31 December 2022	2021
Fee and commission income		
Payment card transactions	1,007,547	795,136
Payment transaction services	1,033,692	989,114
Fees on issued guarantees	302,627	265,926
Realised foreign exchange gains	427,161	151,850
Other fees and commissions	177,099	148,679
Total	**2,948,126**	**2,350,705**
Fee and commission expenses		
Payment card transactions	(695,786)	(489,593)
Payment transaction services	(166,962)	(160,280)
Realised foreign exchange losses	(124,526)	(210)
Other fees and commissions	(100,331)	(20,125)
Total	**(1,087,605)**	**(670,208)**
Net fee and commission income	**1,860,521**	**1,680,497**

9. NET GAINS FROM CHANGES IN FAIR VALUE OF FINANCIAL INSTRUMENTS

	In RSD thousand Year Ended 31 December 2022	2021
Changes in fair value of held-for-trading securities	65,618	1,523,787
Changes in fair value of investment units	32,924	32,426
Changes in fair value of derivatives	(60,947)	149,544
Net gains	**37,595**	**1,705,757**

10. NET GAINS FROM DERECOGNITION OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

	In RSD thousand Year Ended 31 December 2022	2021
Losses on sale of securities measured at fair value through profit or loss	(139,619)	(596)
Gains on sale of securities measured at fair value through other comprehensive income	161,704	2,013
Net gains	**22,085**	**1,417**

11. NET FOREIGN EXCHANGE GAINS/(LOSSES) AND EFFECTS OF CONTRACTED FOREIGN CURRENCY CLAUSE

	In RSD thousand Year Ended 31 December 2022	2021
Foreign exchange gains		
Foreign exchange gains	2,733,168	936,705
Positive effects of contracted foreign currency clause	421,935	277,304
Total foreign exchange gains	**3,155,103**	**1,214,009**
Foreign exchange losses		
Foreign exchange losses	(2,565,129)	(1,162,710)
Negative effects of contracted foreign currency clause	(491,878)	(171,200)
Total foreign exchange losses	**(3,057,007)**	**(1,333,910)**
Net foreign exchange gains/(losses)	**98,096**	**(119,901)**

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

(a) (Charged)/Credited to the Income Statement

	In RSD thousand Year Ended 31 December 2022	2021
Impairment losses - financial assets measured at amortized cost		
Cash and balances with Central Bank (Note 20)	(30,933)	(4,566)
Securities measured at amortized cost (Note 22)	(17,176)	(20,115)
Loans and placements to banks (Note 23)	(129,746)	(68,580)
Loans and placements to customers (Note 24)	(7,443,997)	(6,173,793)
Other assets (Note 33)	(80,719)	(58,186)
	(7,702,571)	**(6,325,240)**
Provisions for off-balance sheet items (Note 36(c))	**(345,539)**	**(390,199)**
Losses from impairment of financial assets measured at FVOCI (Note 38.1(ii))	**(195,901)**	**(19,018)**
Write-off of irrecoverable receivables		
Loans and placements to customers	(13)	(1,678)
Losses from modification of financial instruments	**(784)**	**(4,588)**
Total losses	**(8,244,808)**	**(6,740,723)**
Gains from reversal of impairment losses		
Cash and balances with Central Bank (Note 20)	7,668	4,656
Securities measured at amortized cost (Note 22)	20,872	18,448
Loans and placements to banks (Note 23)	131,864	61,350
Loans and placements to customers (Note 24)	6,779,131	5,891,287
Other assets (Note 33)	79,837	58,504
	7,019,372	**6,034,245**
Release of provision for off-balance sheet items (Note 36(c))	**340,034**	**283,000**
Reversal of impairment losses on financial assets measured at FVOCI (Note 38.1(ii))	**78,889**	**23,614**
Recovery of receivables previously provided for		
Loans and placements to customers	1,211,274	1,043,242
Gains from modification of financial instruments	**510**	**12**
Total gains	**8,650,079**	**7,384,113**
Net gains from reversal of impairment of financial assets and credit risk-weighted off-balance sheet items	**405,271**	**643,390**

12. NET GAINS FROM REVERSAL OF IMPAIRMENT ON FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

(b) Movements in the Allowance for Impairment and Provisions for Credit Risk-weighted Off-balance Sheet Items during the Year

In RSD thousand

	Cash and balances with Central Bank (Note 20)	Securities at amortized cost (Note 22.3.)	Loans and placements to banks (Note 23)	Loans and placements to customers (Note 24)	Other assets (Note 33)	Off-balance sheet assets (Note 36(c))	Total
Balance as of 1 January 2021	**4,824**	**184,896**	**167,098**	**4,031,364**	**118,210**	**43,421**	**4,549,813**
Increase in impairment losses	4,566	20,115	68,580	6,173,793	58,186	390,199	6,715,439
Decrease in impairment losses	(4,656)	(18,448)	(61,350)	(5,891,287)	(58,504)	(283,000)	(6,317,245)
Impairment of interest on impaired loans	-	-	-	41,404	-	-	41,404
Write-off	-	-	(126,746)	(4,478)	(12,523)	-	(143,747)
Transfer to off-balance sheet items	-	-	(28,350)	(305,159)	-	-	(333,509)
FX differences	1	-	2,721	(235)	8,323	(3,254)	7,556
Other/derecognition of financial instruments	-	(61,244)	-	(464,290)	8,317	-	(517,217)
Balance as of 31 December 2021	**4,735**	**125,319**	**21,953**	**3,581,112**	**122,009**	**147,366**	**4,002,494**
Balance as of 1 January 2022	**4,735**	**125,319**	**21,953**	**3,581,112**	**122,009**	**147,366**	**4,002,494**
Effects of Nasa AIK Banka merger	620	-	195,895	1,410,951	64,057	131,913	1,803,436
Increase in impairment losses	30,933	17,176	129,746	7,443,997	80,719	345,539	8,048,110
Decrease in impairment losses	(7,668)	(20,872)	(131,864)	(6,779,131)	(79,837)	(340,034)	(7,359,406)
Impairment of interest on impaired loans	-	-	-	44,595	-	-	44,595
Write-offs and derecognition of financial insttruments	-	-	-	(29,825)	-	-	(29,825)
Transfer to off-balance sheet items	-	-	-	(589,009)	(45,888)	-	(634,897)
FX differences, other	190	2	447	-	(4)	(710)	(75)
Balance as of 31 December 2022	**28,810**	**121,625**	**216,177**	**5,082,690**	**141,056**	**284,074**	**5,874,432**

13. NET GAINS FROM DERECOGNITION OF FINANCIAL INSTRUMENTS MEASURED AT AMORTIZED COST

	In RSD thousand Year Ended 31 December 2022	2021
Net gains from derecognition of financial instruments – loan sales	14,250	57,579
Net losses from derecognition of financial instruments – other effects	(1,739)	(36,040)
Net gains	**12,511**	**21,539**

14. OTHER OPERATING INCOME

	In RSD thousand Year Ended 31 December 2022	2021
Rental income (business premises)	124,904	255,172
Cost refunds	290,393	92,148
Dividend income	82,678	115,037
Other operating income	23,881	24,213
Total	**521,856**	**486,570**

Rental income in 2022 in the amount of RSD 124,904 thousand (2021: RSD 255,172 thousand) relates to the income from the lease of investment property to third parties (Note 30).

Income from cost refunds in 2022 in the amount of RSD 290,393 thousand mostly relates to the operating costs refund in the amount of RSD 209,078 thousand. In 2021, these costs mainly related to the cost refunds for leased property in the amount of RSD 38,414 thousand.

In 2022, dividend income amounting to RSD 82,678 thousand related to dividends received from Nova Ljubljanska Banka d.d. Ljubljana, Slovenia, in the amount of RSD 74,962 thousand and from Intesa Sanpaolo SPA in the amount of RSD 7,716 thousand. Dividend income in 2021 mainly related to the dividend received from Nova Ljubljanska Banka d.d. Ljubljana, Slovenia, in the amount of RSD 87,258 thousand.

15. SALARIES, COMPENSATIONS AND OTHER PERSONAL EXPENSES

	In RSD thousand Year Ended 31 December 2022	2021
Salaries	941,359	668,112
Compensations	125,717	108,506
Payroll taxes and contributions	609,544	460,093
Other personal expenses for temporary jobs	39,995	36,934
Provisions for employee benefits (Note 36(b))	119,196	47,939
Release of provisions for employee benefits (Note 36(b))	(30,054)	-
Total	**1,805,757**	**1,321,584**

16. DEPRECIATION AND AMORTIZATION EXPENSE

	In RSD thousand Year Ended 31 December 2022	2021
Amortization of intangible assets (Note 27)	243,741	159,775
Depreciation of buildings (Note 28)	2,278	22,188
Depreciation of equipment and other assets (Note 28)	107,210	105,794
Depreciation of right-of-use assets (Note 29)	219,879	187,599
Total	**573,108**	**475,356**

17. OTHER INCOME

	In RSD thousand Year Ended 31 December 2022	2021
Release of provision for litigations (Note 36(a))	11,302	72,730
Release of other unused provisions	-	8,449
Gains on sale of property, plant and equipment and small inventory	274,627	196,999
Liabilities waived	19,991	44,332
Recovery of receivables provided for	86,739	92,852
Other income	25,436,152	35,371
Valuation gains on investment property (Note 30)	338	9,316
Total	**25,829,149**	**460,049**

Gains on sale of property, plant and equipment and small inventory realized in 2022 in the total amount of RSD 274,627 thousand mostly relate to the gains on the sale of investment property in the amount of RSD 195,091 thousand (Note 30) and the sale of buildings in the amount of RSD 75,465 thousand (Note 28).

Gains on sale of property, plant and equipment and small inventory realized in 2021 in the total amount of RSD 196,999 thousand mainly related to the gains on the sale of buildings in the amount of RSD 163,042 thousand, the sale of investment property in the amount of RSD 16,865 thousand and the sale of repossessed property following the foreclosure in the amount of RSD 16,107 thousand.

18. OTHER EXPENSES

	In RSD thousand Year Ended 31 December 2022	2021
Cost of material	131,136	94,310
Rental costs and other costs related to leased business premises	140,102	109,339
Telecommunications and postage services	415,880	315,417
Other services	21,865	20,453
Property maintenance	331,162	194,110
Marketing and advertising fees	99,262	125,795
Donations and sponsorships	33,408	13,967
Entertainment	24,908	18,939
Audit and expertise costs	141,885	104,837
Insurance premiums	622,330	595,548
Membership fees	4,564	4,429
Lawyer, appraiser and expert fees	135,349	145,248
Court and other fees	45,427	32,258
Broker and Central Depository fees	113,105	25,588
Security	84,550	85,831
Other non-material costs	202,114	178,606
Taxes and contributions	116,888	71,017
Re-invoiced costs	35,943	37,610
Provisions for litigations (Note 36a)	25,690	141,810
Losses on sale of property	251,993	86,299
Other expenses	321,343	214,448
Losses from changes in property value	32,277	46,119
Total	**3,331,181**	**2,661,978**

18. OTHER EXPENSES (Continued)

Losses on sale of property in 2022 in the amount of RSD 251,993 thousand mostly relate to the losses on the sale of investment property in the amount of RSD 229,533 thousand (Note 30) and the sale of buildings in the amount of RSD 19,891 thousand (Note 28).

Losses from changes in property value in 2022 in the amount of RSD 32,277 thousand (2021: RSD 46,119 thousand) include negative effects of investment property valuation in the amount of RSD 28,724 thousand (2021: RSD 34,858 thousand) (Note 30) and impairment of repossessed property following the foreclosure in the amount of RSD 3,553 thousand (2021: RSD 11,261 thousand) (Note 33(b)).

19. INCOME TAXES

19.1. Components of Income Taxes

	In RSD thousand	
	2022	2021
Current income tax expense	(4,168,535)	(765,499)
Deferred tax (expenses)/income (Note 32.2)	(135,964)	183,497
Total income tax expense	**(4,304,499)**	**(582,002)**

19.2. Numerical Reconciliation of Income Tax Recognised in the Income Statement and Profit for the Year Before Tax Multiplied by the Statutory Income Tax Rate

	In RSD thousand	
	2022	2021
Profit before tax	**30,437,459**	**6,526,176**
Income tax at the statutory tax rate (15%)	**4,565,619**	**978,926**
Tax effects of non-deductible expenses	(178,605)	(138,451)
Tax effects of the net capital gains/losses	39,347	67,613
Tax effects of interest income on debt securities issued by the Republic of Serbia	(140,268)	(118,628)
Used tax credits	-	(23,961)
Effects of other temporary differences	18,406	(183,497)
Income tax expense reported in the income statement	**4,304,499**	**582,002**
Effective tax rate	***14.14%***	***8.92%***

The income tax payable determined in the 2022 tax return amounts to RSD 4,045,046 thousand (2021: RSD 765,499 thousand). It was partially offset against monthly advance tax payments made during 2022 in the amount of RSD 2,280,879 thousand (2021: RSD 765,499 thousand).

20. CASH AND BALANCES WITH CENTRAL BANK

	In RSD thousand	
	31 December 2022	31 December 2021
In RSD:		
Gyro account	39,769,197	13,287,633
Cash on hand	7,515,639	3,907,156
Other funds	5,108	-
Accruals per funds held with the Central Bank	9,927	424
	47,299,871	**17,195,213**
In foreign currency:		
Cash on hand	5,743,420	2,439,339
Required foreign currency reserve held with the National Bank of Serbia	22,789,835	14,040,921
	28,533,255	**16,480,260**
Total	**75,833,126**	**33,675,473**
Less: Allowance for impairment	(28,810)	(4,735)
Balance as of	**75,804,316**	**33,670,738**
Adjustments to cash and cash equivalents for the purpose of preparing the Statement of Cash Flows		
Foreign currency accounts with foreign banks (Note 23)	9,840,943	23,370,331
Accruals per funds held with the Central Bank	(9,927)	(424)
Required foreign currency reserve held with the National Bank of Serbia	(22,789,835)	(14,040,921)
	(12,958,819)	**9,328,986**
Cash and cash equivalents reported in the Statement of Cash Flows	**62,874,307**	**43,004,459**

Movements in the allowance for impairment during the year were as follows:

	In RSD thousand	
	2022	2021
Balance as of 1 January	**(4,735)**	**(4,824)**
Effects of Nasa AIK Banka merger	(620)	-
Charge for the year (Note 12)	(30,933)	(4,566)
Reversal of impairment losses (Note 12)	7,668	4,656
FX differences	(190)	(1)
Balance as of 31 December	**(28,810)**	**(4,735)**

For the purpose of the Statement of Cash Flows, cash and cash equivalents include: cash at the gyro account held with the National Bank of Serbia, cash on hand in RSD and foreign currencies, cash at accounts held with foreign banks and cash at the account held with the Central Securities Depository and Clearing House.

Banks deposit the required dinar reserve on their gyro accounts held with the National Bank of Serbia. The required dinar reserve is the minimum RSD reserve set aside in accordance with the National Bank of Serbia's Decision on Required Reserves of Banks with the National Bank of Serbia ("RS Official Gazette", No. 76/2018).

The Bank is obliged to calculate and set aside the required dinar reserve against the average daily balance of the liabilities in RSD during the preceding calendar month applying the rate of 5% to liabilities with maturity of up to 2 years, i.e. within 730 days, and 0% to liabilities with maturity of over 2 years, i.e. over 730 days (2021: 5% and 0%).

20. CASH AND BALANCES WITH CENTRAL BANK (Continued)

In addition, the required dinar reserve includes 38% and 30% of the RSD equivalent of the required foreign currency reserve (2021: 38% and 30%).

The Bank is obliged to maintain the average daily balance of the required dinar reserve during the accounting period in the amount of the calculated required dinar reserve.

The calculated required dinar reserve that was to be maintained on the gyro account from 18 December 2022 to 17 January 2023 amounted to RSD 19,577,738 thousand (from 18 December 2021 to 17 January 2022: RSD 10,962,115 thousand) and was in compliance with the Decision of the National Bank of Serbia.

Pursuant to the Decision on Banks' Required Reserves with the National Bank of Serbia, the Bank calculates and allocates the obligatory foreign currency reserve against the average daily balance of foreign currency liabilities from the preceding month at a rate of 20% applied to liabilities with contracted maturity of up to 2 years, i.e. within 730 days, at a rate of 13% applied to liabilities with contracted maturity of over 2 years, i.e. over 730 days (2021: 20% and 13%), and at a rate of 100% applied to the average daily balance of RSD liabilities indexed with a foreign currency clause (2021: 100%).

The Bank allocates the required foreign currency reserve to foreign currency accounts of the National Bank of Serbia. Out of the total calculated required foreign currency reserve, 62% (for liabilities with maturity of up 2 years, i.e. within 730 days), i.e. 70% (for liabilities with maturity of over 2 years, i.e. over 730 days) is allocated in foreign currencies, and the remaining 38%, i.e. 30%, is allocated in RSD to the gyro account.

The Bank is obliged to maintain the average daily balance of the required foreign currency reserve during the accounting period in the amount of the calculated required foreign currency reserve. The calculated required foreign currency reserve for the period from 18 December 2022 to 17 January 2023 amounted to EUR 205,430 thousand (from 18 December 2021 to 17 January 2022: EUR 118,537 thousand), and was in compliance with the Decision of the National Bank of Serbia.

21. DERIVATIVES

21.1. DERIVATIVES RECEIVABLE

	In RSD thousand	
	31 December 2022	31 December 2021
Derivatives - currency swap	16,972	19,721
Balance as of	**16,972**	**19,721**

21.2. DERIVATIVES PAYABLE

	In RSD thousand	
	31 December 2022	31 December 2021
Derivatives - currency swap	7,900	-
Balance as of	**7,900**	**-**

Financial receivables and payables arising from held-for-trading derivatives are related to the effects resulting from the fair value of instruments whose nominal value is stated within off-balance sheet items (Note 39.2).

22. SECURITIES

	In RSD thousand 31 December 2022	 31 December 2021
Securities measured at fair value through profit or loss	3,529,272	10,270,858
Securities measured at fair value through other comprehensive income	54,579,367	36,533,272
Securities measured at amortized cost	635,033	858,898
Balance as of	**58,743,672**	**47,663,028**

22.1. Securities Measured at Fair Value through Profit or Loss

	In RSD thousand 31 December 2022	 31 December 2021
In RSD:		
Securities held for trading – shares	727,554	2,305,281
Securities initially recognized at fair value	1,146,048	5,711,965
	1,873,602	**8,017,246**
In foreign currency:		
Securities held for trading – shares	1,655,670	2,253,612
	1,655,670	**2,253,612**
Balance as of	**3,529,272**	**10,270,858**

The Bank's investments in RSD securities held for trading totalling RSD 727,554 thousand as of 31 December 2022 completely relate to shares of the company Fintel energija a.d. Belgrade.

The Bank's investments in RSD securities held for trading totalling RSD 2,305,281 thousand as of 31 December 2021 related to the purchased shares of the following legal entities: Komercijalna banka a.d. Belgrade in the amount of RSD 1,582,392 thousand and Fintel energija a.d. Belgrade in the amount of RSD 722,889 thousand.

The Bank's investments in securities initially recognized at fair value - investment units in RSD in the amount of RSD 1,146,048 thousand as of 31 December 2022 (31 December 2021: RSD 5,711,965 thousand) relate to investment units of Raiffeisen Cash in the amount of RSD 423,790 thousand (31 December 2021: RSD 4,608,342 thousand), Kombank Cash Fund in the amount of RSD 416,276 thousand (31 December 2021: RSD 1,103,623 thousand) and Intesa Invest Cash in the amount of RSD 305,982 thousand.

The Bank's investment in securities held for trading in foreign currency, which amount to RSD 1,655,670 thousand as of 31 December 2022 (31 December 2021: RSD 2,253,612 thousand), are mainly, i.e. in the amount of RSD 1,513,894 thousand, related to purchased GDR instruments of NLB d.d. Ljubljana, Slovenia (31 December 2021: RSD 1,904,200 thousand). Based on these instruments, the Bank's equity interest in NLB d.d. Ljubljana as of 31 December 2022 was 1.02% (31 December 2021: 1.08%).

22. SECURITIES (Continued)

22.2. Securities Measured at Fair Value through Other Comprehensive Income

	In RSD thousand	
	31 December 2022	31 December 2021
In RSD:		
Republic of Serbia's bonds	43,414,105	23,781,823
Corporate bonds	4,603,816	4,593,201
	48,017,921	**28,375,024**
In foreign currency:		
Republic of Serbia's bonds	6,561,446	8,158,248
	6,561,446	**8,158,248**
Balance as of	**54,579,367**	**36,533,272**

As of 31 December 2022, the Bank has investments in RSD bonds of the Republic of Serbia at a fixed interest rate. Treasury bonds with fixed interest rates have maturities from 24 to 144 months and a yield ranging from 2.07% to 5.64% per annum (31 December 2021: maturities from 24 to 144 months and a yield ranging from 1.6% to 12.34% per annum).

The Bank's investments in the Republic of Serbia's foreign currency bonds as of 31 December 2022 and 31 December 2021 have maturities from 60 to 180 months and a yield ranging from 1.6% to 3.38% per annum.

The Bank's investments in corporate bonds as of 31 December 2022 and 31 December 2021 relate to bonds of the company JP Jugoimport – SDPR, Belgrade at a variable interest rate and with a five-year maturity.

22.3. Securities Measured at Amortized Cost

	In RSD thousand	
	31 December 2022	31 December 2021
Corporate bills of exchange		
- in RSD	753,488	981,040
- in foreign currencies	3,170	3,177
	756,658	**984,217**
Less: Allowance for impairment	(121,625)	(125,319)
Balance as of	**635,033**	**858,898**

Movements in the allowance for impairment during the year were as follows:

	In RSD thousand	
	2022	2021
Balance as of 1 January	**(125,319)**	**(184,896)**
Charge for the year (Note 12)	(17,176)	(20,115)
Reversal of impairment losses (Note 12)	20,872	18,448
Sales, FX differences, other	(2)	61,244
Balance as of 31 December	**(121,625)**	**(125,319)**

23. LOANS AND PLACEMENTS TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2022	In RSD thousand 31 December 2021
RSD loans:		
Loans per REPO transactions	10,000,000	5,000,000
Transaction account loans	27,179	-
Overnight loans	-	600,000
Liquidity and working capital loans	569,129	-
Other loans	199,764	99,729
Other non-earmarked deposits	-	700,000
Other placements	41,318	305,125
Interest and fees receivable	9,272	391
Deferred fee income as part of the effective interest rate	(5,608)	(1,696)
	10,841,054	**6,703,549**
Foreign currency loans:		
Foreign currency accounts with foreign banks - nostro	9,840,943	23,370,331
Loans per REPO transactions	1,113,379	1,036,027
Investment loans	459,519	458,570
Overnight deposits	2,229,126	415,705
Other foreign currency loans	5,866,120	2,351,642
Other earmarked deposits	556,164	197,524
Other placements	779,768	1,202,120
Interest and fees receivable	6,589	10,393
	20,851,608	**29,042,312**
Gross loans and placements	**31,692,662**	**35,745,861**
Less: Allowance for impairment	(216,177)	(21,953)
Balance as of	**31,476,485**	**35,723,908**

Movements in the allowance for impairment during the year were as follows:

	2022	In RSD thousand 2021
Balance as of 1 January	**(21,953)**	**(167,098)**
Effects of Nasa AIK Banka merger	(195,895)	-
Charge for the year (Note 12)	(129,746)	(68,580)
Reversal of impairment losses (Note 12)	131,864	61,350
Write-off, FX differences and other changes	(447)	124,025
Transfer to off-balance sheet items	-	28,350
Balance as of 31 December	**(216,177)**	**(21,953)**

23. LOANS AND PLACEMENTS TO BANKS AND OTHER FINANCIAL INSTITUTIONS (Continued)

In 2022 the Bank invested funds in RSD repo transactions with the National Bank of Serbia at interest rates ranging from 0.51% to 2.19% per annum.

In 2022, funds in repo transactions with other customers and in foreign currencies were placed at interest rates of 1.3% and 2.5% per annum.

The Bank invested funds at an interest rate ranging from 0.45% to 1.90% per annum in repo transactions with other banks during the first half of 2022.

In 2022, the Bank placed RSD funds at interest rates ranging from 0.25% to 6.85% per annum, EUR funds at interest rates ranging from 0.05% to 2.00% per annum and USD funds at interest rates ranging from 0.05% to 2.32% per annum (2021: RSD funds from 0.10% to 1.00% per annum, EUR funds from 0.05% to 0.06% per annum and USD funds from 0.05% to 0.20% per annum).

Other placements in foreign currency totalling RSD 779,768 thousand as of 31 December 2022 (31 December 2021: RSD 1,202,120 thousand) are mainly, i.e. in the amount of RSD 594,385 thousand (31 December 2021: RSD 1,095,275 thousand), related to other long-term sureties – coverage for the Bank's confirmed guarantees and letters of credit.

24. LOANS AND PLACEMENTS TO CUSTOMERS

	31 December 2022	In RSD thousand 31 December 2021
Corporate customers:		
Transaction account loans	1,455,238	685,099
Working capital loans	60,835,703	14,980,104
Investment loans	86,798,642	74,606,409
Deposits placed	872	863
Foreign currency loans	19,399,952	9,375,222
Advances per guarantees and acceptances	5,289	21,937
Factoring receivables	5,992,080	3,266,528
Other loans and advances	4,539,943	615,182
Interest and fees receivable	1,794,136	573,925
Deferred fee income as part of the effective interest rate	(530,433)	(504,570)
	180,291,422	**103,620,699**
Retail customers:		
Transaction account loans	591,299	239,843
Consumer loans	9,198	9,045
Housing loans	19,816,820	6,282,759
Cash loans	32,645,410	8,242,657
Other loans and advances	3,008,765	1,337,651
Interest and fees receivable	739,346	299,575
Deferred fee income as part of the effective interest rate	(90,639)	(59,030)
	56,720,199	**16,352,500**
Gross loans and advances	**237,011,621**	**119,973,199**
Less: Allowance for impairment	(5,082,690)	(3,581,112)
Balance as of	**231,928,931**	**116,392,087**

Movements in the allowance for impairment during the year were as follows:

	2022	In RSD thousand 2021
Balance as of 1 January	**(3,581,112)**	**(4,031,364)**
Effects of Nasa AIK Banka merger	(1,410,951)	-
Charge for the year (Note 12)	(7,443,997)	(6,173,793)
Reversal of impairment losses (Note 12)	6,779,131	5,891,287
Impairment of interest on impaired loans	(44,595)	(41,404)
Write-off, FX differences	29,825	4,713
Transfer to off-balance sheet items	589,009	305,159
Other/derecognition of financial instruments	-	464,290
Balance as of 31 December	**(5,082,690)**	**(3,581,112)**

Short-term RSD loans were approved to corporate customers and entrepreneurs for a period of up to 12 months, predominantly at nominal interest rates ranging from 4% to 25% per annum.

Short-term foreign-currency indexed loans were approved to corporate customers at interest rates ranging from 4% tod 6mEB + 8.25% per annum.

Long-term RSD loans were approved to corporate customers at interest rates ranging from 4% to 25% per annum.

Long-term RSD loans (with a foreign currency clause) were approved to corporate customers and entrepreneurs at interest rates ranging from 4 % to 11.5% per annum.

24. LOANS AND PLACEMENTS TO CUSTOMERS (Continued)

Loans and placements to entrepreneurs are granted under the same terms and conditions applicable to legal entities from the SME segment.

Short-term RSD loans were extended to retail customers at a fixed nominal interest rate of 6.1% per annum.

Short-term RSD loans were approved to registered agricultural households at nominal interest rates ranging from 4% to 25% per annum.

Long-term RSD loans were extended to retail customers at a fixed nominal interest rate of 6.1% per annum, i.e. at a variable interest rate of 3M Belibor + 5.28% per annum. Long-term RSD loans indexed to EUR were extended at a variable nominal interest rate of 6-month Euribor + 4% per annum, i.e. at a fixed annual nominal rate of 4.10% per annum.

Short-term foreign currency loans were approved to registered agricultural households that are retail customers at nominal interest rates ranging from 4% to 30% per annum.

Long-term RSD loans were extended to registered agricultural households that are retail customers at a nominal interest rate of 4.1% per annum.

Long-term RSD loans with a foreign currency clause were extended to registered agricultural households at nominal fixed interest rates ranging from 4.1% to 6M Euribor + 6.95% per annum.

Interest rates on loans based on earmarked term deposits are formed using appropriate interest margins against the interest rates applied to earmarked term deposits.

25. INVESTMENTS IN JOINT VENTURES AND SUBSIDIARIES

25.1 INVESTMENTS IN JOINT VENTURES

	In RSD thousand	
	31 December 2022	31 December 2021
Investments in joint ventures	150,064	-
Balance as of	**150,064**	**-**

As of 31 December 2022, the Bank has investments in joint ventures related to the interest in the company "Super Kartica" d.o.o. Belgrade.

25.2 INVESTMENTS IN SUBSIDIARIES

	In RSD thousand	
	31 December 2022	31 December 2021
Equity investment in:		
- Gorenjska banka d.d. Kranj	-	11,923,810
Balance as of	**-**	**11,923,810**

As of 31 December 2021, the Bank had equity interest of 91.70% in Gorenjska banka d.d. Kranj, i.e. voting interest of 100%. The remaining portion of 8.3% represents the treasury shares of Gorenjska banka d.d. Kranj.

On 30 December 2022, the Bank sold 100% of equity interest in the subsidiary – Gorenjska Banka d.d. Kranj, Slovenia, to the company Agri Europe Cyprus Limited, Cyprus.

26. BUSINESS COMBINATIONS DURING THE YEAR

26.1. Acquired Entity

On 1 March 2022 the Bank acquired 100% of shares of Sberbank Srbija a.d., Belgrade and changed its name to Nasa AIK Banka a.d., Belgrade ("Nasa AIK Banka") on 2 March 2022.

The merger of Nasa AIK Banka was aimed to achieve synergistic effects that would result in more prominent presence on the local market, better control over capital and the risk management process.

Considering the foregoing, the Bank performed a status change of merging the subsidiary Nasa AIK Banka on 1 December 2022.

During the process of merging Nasa AIK Banka to the Bank, and after the merger process and its registration, the share capital of the Bank, as the acquirer, was neither changed by the amount of subscribed nor paid-in capital, i.e. there was no proportional exchange of shares, given that Nasa AIK Banka was merged with the Bank as its fully owned subsidiary (i.e. the parent bank is the acquiring bank at the same time), whereas the existing Bank's shareholders remained as they are.

Under IFRS 3 "Business Combinations", this transaction has been accounted for using the acquisition method.

26.2. Value of Equity Investment in the Acquired Entity

	In RSD thousand Nasa AIK Banka
Transferred consideration in cash	8,245,826
Total	**8,245,826**

26.3. Recognition and Measurement of Acquired Identifiable Assets and Liabilities

The details about the acquired assets and commitments of Nasa AIK Banka on the date of the merger, i.e. 1 December 2022, are presented below:

	In RSD thousand Fair value
ASSETS	
Cash and securities	47,902,574
Loans and receivables	104,996,952
Intangible assets, plant and equipment	1,084,044
Other assets	1,242,194
TOTAL ACQUIRED ASSETS	**155,225,764**
LIABILITIES	
Deposits	126,252,635
Provisions	838,601
Other liabilities	1,267,359
TOTAL LIABILITIES	**128,358,595**
NET ASSETS ACQUIRED	**26,867,169**

26. BUSINESS COMBINATIONS DURING THE YEAR (Continued)

26.3. Recognition and Measurement of Acquired Identifiable Assets and Liabilities (Continued)

Acquired assets mostly relate to loans and placements, while assumed liabilities mostly include deposits. Taking the aforesaid into account, the key inputs used to estimate the fair value of acquired assets and liabilities in accordance with IFRS 3 are average market interest rates on loans and deposits on local and European markets, abstracting the shocks caused by the Russia-Ukraine conflict on the business operations and reputation of the acquired entity, which existed at the time of the entity acquisition.

During the period between the acquisition date and the merger date, the Bank managed to mitigate the adverse effects on business operations and the reputation of the acquired entity, primarily by providing support in terms of liquidity, the stability of relationships with clients, and infrastructural and application support to services needed to ensure the ability of the acquired entity to continue as a going concern.

26.4. Recognition and Measurement of a Bargain Purchase Gain

The difference between the carrying value of the equity interest in the acquired entity, i.e. the purchase price paid for Nasa AIK Banka, and the amortized fair value of net assets acquired of this bank as of the merger date is recorded as a gain in the income statement of the current reporting period.

Before recognising the gain, the acquirer's management subsequently acknowledges that acquired assets and liabilities of Nasa AIK Banka are correctly identified, and the difference between the purchase price and the value of the equity investment in the acquired entity is recorded in the income statement within other income. Net cash flows resulting from this acquisition in the amount of RSD 9,573,579 thousand are reported in the Statement of Cash Flows.

26.5. Sold Entity

On 30 December 2022 the Bank sold 100% of equity investment in the subsidiary – Gorenjska Banka d.d. Kranj, Slovenia, to the company Agri Europe Cyprus Limited, Cyprus.

The Bank recognised the gain on the sale, as the difference between the value of the equity investment in the subsidiary recorded in the Bank's books of accounts and the realised sales value, in the income statement of the current reporting period within other income.

27. INTANGIBLE ASSETS

	31 December 2022	31 December 2021
		In RSD thousand
Cost		
Patents, licenses and software	2,854,204	1,221,705
Other intangible rights	163,898	163,898
	3,018,102	**1,385,603**
Less: Accumulated amortization	(2,450,843)	(909,854)
Carrying value as of	**567,259**	**475,749**

Movements in intangible assets during 2021 and 2022 were as follows:

	Patents, licenses and software	Intangible assets under construction	Other intangible rights	Total
				In RSD thousand
COST				
As of 1 January 2021	**1,087,307**	**8,786**	**163,898**	**1,259,991**
Additions	125,974	-	-	125,974
Write-off and disposals	(362)	-	-	(362)
Transfer (from)/to	8,786	(8,786)	-	-
Balance as of 31 December 2021	**1,221,705**	**-**	**163,898**	**1,385,603**
Effects of Nasa AIK Banka merger	1,437,334	40,653	-	1,477,987
Transfer (from)/to	40,653	(40,653)	-	-
Additions	154,512	-	-	154,512
Balance as of 31 December 2022	**2,854,204**	**-**	**163,898**	**3,018,102**
ACCUMULATED AMORTIZATION				
As of 1 January 2021	**586,543**	**-**	**163,898**	**750,441**
Amortization (Note 16)	159,775	-	-	159,775
Write-off and disposals	(362)	-	-	(362)
Balance as of 31 December 2021	**745,956**	**-**	**163,898**	**909,854**
Effects of Nasa AIK Banka merger	1,297,248	-	-	1,297,248
Amortization (Note 16)	243,741	-	-	243,741
Balance as of 31 December 2022	**2,286,945**	**-**	**163,898**	**2,450,843**
Carrying value as of:				
- 31 December 2022	**567,259**	**-**	**-**	**567,259**
- 31 December 2021	**475,749**	**-**	**-**	**475,749**

28. PROPERTY, PLANT AND EQUIPMENT

	In RSD thousand	
	31 December 2022	31 December 2021
Cost		
Buildings	126,028	412,380
Equipment	2,795,926	1,933,861
Construction in progress	1,115,675	113,490
Leasehold improvements	601,074	150,365
Right-of-use assets (Note 29)	1,667,382	859,959
	6,306,085	**3,470,055**
Less: Accumulated depreciation	(3,481,774)	(2,221,620)
Carrying value as of	**2,824,311**	**1,248,435**

Movements in property and equipment during 2021 and 2022 were as follows:

In RSD thousand

	Buildings	Equipment	Construction in progress	Leasehold improve-ments	Right-of-use assets	Total
COST						
As of 1 January 2021	**1,956,360**	**1,935,775**	**110,600**	**144,347**	**750,293**	**4,897,375**
Additions	2,969	75,139	2,890	6,491	144,474	231,963
Write-off and disposals	(1,546,949)	(77,053)	-	(473)	(32,712)	(1,657,187)
Lease contract modifications	-	-	-	-	(2,096)	(2,096)
Balance as of 31 December 2021	**412,380**	**1,933,861**	**113,490**	**150,365**	**859,959**	**3,470,055**
Effects of Nasa AIK Banka merger	-	900,849	4,615	495,544	856,339	2,257,347
Additions	7,677	148,953	1,001,299	11,157	150,733	1,319,819
Write-off and disposals	(294,029)	(187,737)	(3,729)	(55,992)	(199,649)	(741,136)
Balance as of 31 December 2022	**126,028**	**2,795,926**	**1,115,675**	**601,074**	**1,667,382**	**6,306,085**
ACCUMULATED DEPRECIATION						
1 As of 1 January 2021	**737,327**	**1,607,270**	**-**	**106,988**	**224,969**	**2,676,554**
Depreciation (Note 16)	22,188	93,644	-	12,150	187,599	315,581
Write-off and disposals	(665,760)	(76,111)	-	(473)	(28,103)	(770,447)
Lease contract modifications	-	-	-	-	(68)	(68)
Balance as of 31 December 2021	**93,755**	**1,624,803**	**-**	**118,665**	**384,397**	**2,221,620**
Effects of Nasa AIK Banka merger	-	633,713	-	420,835	299,494	1,354,042
Depreciation (Note 16)	2,278	86,479	-	20,731	219,879	329,367
Write-off and disposals	(83,027)	(183,350)	-	(54,793)	(102,085)	(423,255)
Balance as of 31 December 2022	**13,006**	**2,161,645**	**-**	**505,438**	**801,685**	**3,481,774**
Carrying value as of:						
- 31 December 2022	**113,022**	**634,281**	**1,115,675**	**95,636**	**865,697**	**2,824,311**
- 31 December 2021	**318,625**	**309,058**	**113,490**	**31,700**	**475,562**	**1,248,435**

28. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Bank does not have mortgages over its buildings for the purpose of securing loan repayments.

In 2022, the Bank sold four buildings, whose total net book value was RSD 211,002 thousand:

- Commercial building in Nis, at Nikole Pasica 42, with a net book value of RSD 105,188 thousand;
- Business premises in Uzice, at Dimitrija Tucovica 44, with a net book value of RSD 81,037 thousand;
- Business premises in Uzice, at Dimitrija Tucovica 44, with a net book value of RSD 14,301 thousand; and
- Business premises in Nis, at Marka Oreskovica 25, net a net book value of RSD 10,476 thousand.

The gain on the sale of the buildings in 2022 amounted to RSD 75,465 thousand (Note 17), while the loss on the sale amounted to RSD 19,891 thousand (Note 18).

In line with the requirements of IAS 36 “Impairment of Assets“, an independent certified appraiser assessed the value of the Bank’s buildings as of 30 November 2022 and no impaired was identified.

As of 31 December 2022, the Bank did not have title deeds for two buildings with a net book value of RSD 8,105 thousand. The Bank’s management is undertaking all actions necessary to obtain the title deeds.

29. RIGHT-OF-USE ASSETS

29.1. Structure of Right-of-use Assets

		In RSD thousand
	31 December 2022	31 December 2021
Business premises	706,231	453,929
Parking places and cars	5,589	4,665
ATM space	153,877	16,968
Carrying value as of	**865,697**	**475,562**

29.2. Movements in right-of-use assets during 2021 and 2022

				In RSD thousand
	Business premises	Parking places	ATM space	Total
GROSS CARRYING VALUE				
As of 1 January 2021	**706,952**	**8,502**	**34,839**	**750,293**
Additions	140,754	8,270	5,176	154,200
Inactive contracts	(20,505)	-	(1,162)	(21,667)
Lease contract modifications - increase/(decrease)	(9,599)	(8,270)	(4,998)	(22,867)
Balance as of 31 December 2021	**817,602**	**8,502**	**33,855**	**859,959**
Effects of Nasa AIK Banka merger	667,530	29,884	158,925	856,339
Additions	147,811	78	2,844	150,733
Inactive contracts	(196,058)	-	(3,591)	(199,649)
Balance as of 31 December 2022	**1,436,885**	**38,464**	**192,033**	**1,667,382**
ACCUMULATED AMORTIZATION				
As of 1 January 2021	**201,226**	**3,957**	**19,786**	**224,969**
Amortization (Note 16)	177,964	2,193	7,442	187,599
Inactive contracts	(8,170)	-	(1,090)	(9,260)
Lease contract modifications - increases/(decreases)	(7,347)	(2,313)	(9,251)	(18,911)
Balance as of 31 December 2021	**363,673**	**3,837**	**16,887**	**384,397**
Effects of Nasa AIK Banka merger	255,108	27,049	17,337	299,494
Amortization (Note 16)	211,498	1,989	6,392	219,879
Inactive contracts	(99,625)	-	(2,460)	(102,085)
Balance as of 31 December 2022	**730,654**	**32,875**	**38,156**	**801,685**
Carrying value as of:				
- 31 December 2022	**706,231**	**5,589**	**153,877**	**865,697**
- 31 December 2021	**453,929**	**4,665**	**16,968**	**475,562**

30. INVESTMENT PROPERTY

	In RSD thousand	
	31 December 2022	31 December 2021
Investment property	2,179,371	5,603,528
Balance as of	**2,179,371**	**5,603,528**

Movements in investment property during 2021 and 2022 were as follows:

	In RSD thousand
Balance as of 1 January 2021	**8,417,955**
Additions	8,069
Sales	(2,796,954)
Change in fair value	(25,542)
Carrying value as of 31 December 2021	**5,603,528**
Sales	(3,395,771)
Change in fair value	(28,386)
Carrying value as of 31 December 2022	**2,179,371**

In 2022, the Bank sold ten buildings classified as investment property, whose total carrying value amounted to RSD 3,395,771 thousand. The gains on the sales totalled RSD 195,091 thousand (Note 17), while the loss totalled RSD 229,533 thousand (Note 18).

The total carrying value of the sold investment property in the amount of RSD 3,395,771 thousand mostly relates to the following investment property:

- Commercial complex in Belgrade, Zmaj I, at Autoput 18, with a carrying value of RSD 2,302,316 thousand;
- Commercial complex, Hall 2 “Stoteks“ in Novi Sad, with a carrying value of RSD 459,040 thousand;
- Construction land in Pecinci, with a carrying value of RSD 271,380 thousand; and
- Family residential building with auxiliary facilities in Novi Sad, with a carrying value of RSD 124,167 thousand.

The Bank’s income from leased investment property in 2022 amounts to RSD 124,904 thousand (Note 14).

In accordance with IFRS 13, the Bank determines the fair value of investment property by engaging independent certified appraisers. Fair value assessments by independent certified appraisers are done once a year for each investment property individually. To determine the fair value independent appraisers consider all three methods allowed by the standard: comparable market transactions, yield capitalization and replacement cost method, while the final one used depends on what best suits the assessment of each individual property in given circumstances. In addition, the estimated fair value would increase /(decrease) if real estate prices in the local market increased/(decrease). Taking into consideration that the established fair values of investment property for 2022 represent a combination of the above methods from the hierarchy standpoint, they are classified in Level 2.

According to a certified appraiser’s valuation, the value of the Bank’s investment property in 2022 was decreased by RSD 28,386 thousand. The valuation gains amounted to RSD 338 thousand (Note 17), whereas the valuation losses amounted to RSD 28,724 thousand (Note 18).

As of 31 December 2022, the Bank did not have title deeds for four buildings classified as investment property, whose net book value is RSD 18,890 thousand. The Bank’s management is undertaking all actions necessary to obtain the title deeds.

31. CURRENT TAX ASSETS AND LIABILITIES

31.1. Current Tax Assets

	In RSD thousand 31 December 2022	 31 December 2021
Current tax assets	2,280,879	1,166,336
Balance as of	**2,280,879**	**1,166,336**

31.1. Current Tax Liabilities

	In RSD thousand 31 December 2022	 31 December 2021
Current tax liabilities	4,168,535	-
Balance as of	**4,168,535**	**-**

32. NET DEFERRED TAX ASSETS

32.1. Deferred Tax Assets and Liabilities

	Tax assets	Tax liabilities	In RSD thousand 2022 Net deferred tax assets
Buildings and equipment	126,333	-	126,333
Impairment of assets	470,687	-	470,687
Securities measured at fair value through other comprehensive income (FVOCI)	438,588	-	438,588
Actuarial losses	-	(46)	(46)
Balance as of 31 December 2022	**1,035,608**	**(46)**	**1,035,562**

	Tax assets	Tax liabilities	2021 Net deferred tax assets
Buildings and equipment	48,422	-	48,422
Impairment of assets	396,649	-	396,649
Securities measured at fair value through other comprehensive income (FVOCI)	-	(117,496)	(117,496)
Actuarial losses	-	(100)	(100)
Balance as of 31 December 2021	**445,071**	**(117,596)**	**327,475**

32. NET DEFERRED TAX ASSETS (Continued)

32.2. Movements in Net Deferred Tax Assets during 2022 and 2021

In RSD thousand

	Balance as of 1 January	Effects of of Nasa AIK Banka merger	Recognized in income statement	Recognized in equity	Total
2022					
Buildings and equipment	48,422	-	77,911	-	126,333
Impairment of assets	396,649	-	74,038	-	470,687
Unrealized (losses)/gains on FVOCI securities	(117,496)	201,830	(201,830)	556,084	438,588
Provisions for retirement benefits	-	3,943	(3,943)	-	-
Repossessed property following the foreclosure	-	602	(602)	-	-
Tax credits		81,538	(81,538)	-	-
Actuarial losses (Note 38(iii))	(100)	-	-	54	(46)
Balance as of 31 December 2022	**327,475**	**287,913**	**(135,964)**	**556,138**	**1,035,562**
2021					
Buildings and equipment	(196,287)	-	244,709	-	48,422
Impairment of assets	457,861	-	(61,212)	-	396,649
Unrealized (losses)/gains on FVOCI securities	(182,821)	-	-	65,325	(117,496)
Actuarial losses (Note 38(iii))	(60)	-	-	(40)	(100)
Balance as of 31 December 2021	**78,693**	**-**	**183,497**	**65,285**	**327,475**

33. OTHER ASSETS

	31 December 2022	In RSD thousand 31 December 2021
Other RSD receivables:		
Fees receivable per other assets	44,514	42,107
Advances paid for working capital	218,342	78,042
Advances paid for capital expenditures	12,007	14,294
Other accounts receivable	3,023,318	105,761
Receivables in settlement	68,795	622
	3,366,976	**240,826**
Other foreign currency receivables		
Fees receivable per other assets	5,000	4,146
Advances paid for working capital	296,235	643
Other receivables in foreign currency	858,277	73,975
	1,159,512	**78,764**
Other investments:		
Equity investments (a)	37,664	1,746,198
	37,664	**1,746,198**
Prepayments and accrued income:		
Accrued interest expense	13,539	23,593
Accrued other expenses	126,417	26,106
	139,956	**49,699**
Inventories:		
Other inventories	83	83
Repossessed property following the foreclosure (b)	780,780	748,188
	780,863	**748,271**
Other receivables, gross	**5,484,971**	**2,863,758**
***Less:* Allowance for impairment**		
RSD receivables	(107,650)	(92,926)
Foreign currency receivables	(9,131)	(4,821)
Equity investments	(24,243)	(24,243)
Prepayments and accrued income	(32)	(19)
	(141,056)	**(122,009)**
Balance as of	**5,343,915**	**2,741,749**

Movements in the allowance for impairment during the year were as follows:

	2022	In RSD thousand 2021
Balance as of 1 January	**(122,009)**	**(118,210)**
Effects of Nasa AIK Banka merger	(64,057)	-
Charge for the year (Note 12)	(80,719)	(58,186)
Reversal of impairment losses (Note 12)	79,837	58,504
Write-off and FX differences	45,888	4,200
Other	4	(8,317)
Balance as of 31 December	**(141,056)**	**(122,009)**

33. OTHER ASSETS (Continued)

(a) As of 31 December 2022 and 2021, the Bank had equity investments in the following legal entities:

	31 December 2022	In RSD thousand 31 December 2021
Equity investments from 10% to 20%:		
HG Budvanska rivijera a.d. Budva	-	1,140,526
Sveti Stefan hoteli a.d. Budva	-	571,637
	-	**1,712,163**
Equity investments up to 10%:		
Univerzal Banka a.d. Belgrade – in bankruptcy	14,381	14,381
PB Agrobanka a.d. Belgrade – in bankruptcy	9,825	9,825
Ikarbus a.d. Belgrade	3,819	-
Yu trade Zeleznik d.o.o. Belgrade	3,171	3,171
Beogradska berza a.d. Belgrade	2,114	2,114
AMS Osiguranje a.d.o. Belgrade	1,400	1,349
Politika a.d. Belgrade	1,327	1,568
Other equity investments	1,627	1,627
	37,664	**34,035**
Gross equity investments	**37,664**	**1,746,198**
Less: Allowance for impairment	(24,243)	(24,243)
Balance as of	**13,421**	**1,721,955**

In 2022, the Bank sold all its equity investments in Hotel Group Budvanska Rivijera a.d., Budva and the company Sveti Stefan Hoteli a.d., Budva. The Bank's equity interest as of 31 December 2021 in Hotel Group Budvanska Rivijera a.d., Budva was 19.92%, i.e. 19.98% in the company Sveti Stefan Hoteli a.d. Budva.

Pursuant to the sale, the Bank reclassified all realised effects of the investments measurement on the day of their sale in the amount of RSD 831,327 thousand from revaluation reserves to retained earnings, as disclosed in the Statement of Changes in Equity and Note 38(ii).

(b) Repossessed property following the foreclosure include:

	31 December 2022	In RSD thousand 31 December 2021
Buildings	760,678	728,086
Equipment	20,102	20,102
Total	**780,780**	**748,188**

Movements in repossessed property during the year were as follows:

	2022	In RSD thousand 2021
Balance as of 1 January	**748,188**	**856,151**
Effects of Nasa AIK Banka merger	147,447	-
Assets acquired during the year	-	332
Sales	(111,302)	(97,034)
Impairment (Note 18)	(3,553)	(11,261)
Balance as of 31 December	**780,780**	**748,188**

33. OTHER ASSETS (Continued)

(b) Repossessed property following the foreclosure (Continued)

According to the independent appraiser's assessment, repossessed property following the foreclosure in 2022 was impaired by RSD 3,553 thousand. The impairment loss was charged to the income statement of the current accounting period.

In 2022, the Bank sold seven repossessed property items following the foreclosure, whose total net book value amounted to RSD 111,302 thousand, out of which, the largest portion related to:

- A villa with surrounding land on Zlatibor, with the carrying value of RSD 52,911 thousand;
- A building "Sanitarije", at Futoska 80 in Novi Sad, with the carrying value of RSD 35,274 thousand; and
- Business premises in Stara Pazova, at Jane Sikore 215, with the carrying value of RSD 17,755 thousand.

The Bank realized a gain on the sale of repossessed property in 2022 in the amount of RSD 2,813 thousand, while no losses were incurred.

The Bank's management is undertaking all necessary measures to sell the remaining acquired assets.

As of 31 December 2022, the Bank did not have title deeds for two buildings classified as repossessed property following the foreclosure, whose carrying value amounted to RSD 10,392 thousand. The Bank's management is undertaking all actions necessary to obtain the said title deeds.

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

	In RSD thousand	
	31 December 2022	31 December 2021
Transaction deposits	4,551,808	1,431,036
Deposits for granted loans	117,322	13,898
Earmarked deposits	86,653	61,454
Other deposits and loans	6,838,142	8,025,495
Overnight deposits	-	8,230,747
Savings	219,160	-
Borrowings	4,692,896	-
Other financial liabilities	219,160	6,694
Interest, accrued interest and fees payable	63,890	31,743
Balance as of	**16,789,031**	**17,801,067**

In 2022, the Bank paid an interest at rates ranging from 0.50% to 3.60% per annum (2021: from 0.08% to 0.20% per annum) on RSD overnight deposits and loans received from banks.

In 2022, the Bank paid an interest at rates ranging from 0.94% to 3.40% per annum on borrowed funds in RSD with maturities of over one day (2021: on borrowed RSD funds from 0.08% to.0.27% per annum). Interest rates on EUR borrowed funds ranged from minus 0.5% to plus 2% per annum, whereas annual interest rates on USD borrowed funds ranged from 0.35% and 0.90% per annum.

In 2022, the Bank paid an interest at the rate of 1.25% per annum on RSD funds received from financial institutions maturing within one year, i.e. from 1.25% to 1.91% per annum in 2021. Interest rates on EUR funds from financial institutions maturing within one year ranged from 0.95% to 3.20% per annum.

35. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

	31 December 2022	In RSD thousand 31 December 2021
Corporate customers		
Transaction deposits	53,092,312	23,166,727
Savings	7,125,467	-
Deposits for granted loans	14,100,455	6,045,060
Earmarked deposits	2,751,123	1,066,607
Other deposits	59,861,831	37,851,077
Overnight deposits and loans	7,198,067	64,768
Borrowings	1,799,046	2,090,453
Other financial liabilities	310,361	269,867
Interest, accrued interest and fees payable	387,959	75,252
	146,626,621	**70,629,811**
Retail customers		
Transaction deposits	41,178,606	29,223,885
Savings deposits	117,135,508	76,755,795
Deposits for issued loans	2,424,117	1,887,828
Earmarked deposits	374,148	110,359
Other deposits	977,972	2,505,309
Other financial liabilities	95,290	76,409
Interest, accrued interest and fees payable	721,675	480,997
	162,907,316	**111,040,582**
Balance as of	**309,533,937**	**181,670,393**

The Bank paid an interest at rates ranging from 0% to REF+1.0% per annum on RSD transaction deposits of corporate and public sector customers. The Bank paid an interest at rates ranging from 0% to 0.07% per annum and from 0% to 0.06% per annum on foreign currency transaction deposits of corporate and public sector customers in EUR and USD, respectively.

Interest rates on RSD term deposits of corporate and public sector customers ranged from 0% to 7.75% per annum. The term deposits were placed between one day and over one year.

Interest rates on EUR term deposits of corporate and public sector customers ranged from 0% to 3.7% per annum. The term deposits were placed between one day and over one year.

As of 31 December 2022, the Bank had borrowings from the European Investment Bank (EIB) and the Revolving Credit Fund in the amount of RSD 1,786 million. The loans received from the EIB through the Republic of Serbia Government are related to APEX loan agreements concluded with the National Bank of Serbia, which will mature by 2031, while loans from the Revolving Credit Fund will mature by 2026.

Transaction deposits from retail customers in RSD and foreign currencies are non-interest bearing.

A nominal interest rate on sight savings of retail customers was 0.01% per annum.

Nominal interest rates on standard term savings deposits in EUR maturing within one year ranged from 0.01% to 1% per annum, i.e. from 0.05% to 0.10% per annum on CHF deposits and from 0.55% to 1.20% per annum on USD deposits. Nominal interest rates on standard term savings deposits in EUR with maturity of over one year (over 12 months up to 36 months) ranged from 0.50% to 1.50% per annum, whereas nominal interest rates on standard term savings deposits in USD with maturity of over one year (over 12 months up to 36 months) ranged from 0.95% to 1.30% per annum.

Nominal interest rates on term savings deposits in RSD maturing within one year ranged from 0.01% to 1.70% per annum. Nominal interest rates on term savings deposits in RSD with maturity of over one year (over 12 months up to 36 months) ranged from 1.80% to 2.00 per annum.

35. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS (Continued)

Movements in liabilities arising from *financing activities*, i.e. borrowings from banks and other financial organisations (Note 34) and other customers, in the Statement of Cash Flows are provided below:

	In RSD thousand	
	2022	2021
Balance as of 1 January	**2,090,453**	**2,383,186**
Receipts from borrowings n	4,746,431	71,407
Repayment of borrowings	(375,019)	(364,148)
Net FX differences	(1)	8
Effects of Nasa AIK Banka merger	30,078	-
Balance as of 31 December	**6,491,942**	**2,090,453**

36. PROVISIONS

	In RSD thousand	
	31 December 2022	31 December 2021
Provisions for litigations (a)	852,303	327,245
Provisions for employee benefits (b)	173,826	71,708
Provisions for off-balance sheet items (c)	284,074	147,366
Balance as of	**1,310,203**	**546,319**

(a) Movements in provisions for litigations during the year were as follows:

	In RSD thousand	
	2022	2021
Balance as of 1 January	**327,245**	**549,934**
Effects of Nasa AIK Banka merger	644,492	-
Charge for the year (Note 18)	25,690	141,810
Release of provisions (Note 17)	(11,302)	(72,730)
Used provisions	(133,822)	(291,769)
Balance as of 31 December	**852,303**	**327,245**

(b) Movements in provisions for employee benefits (retirement benefits, jubilee awards and other benefits) during the year were as follows:

	In RSD thousand	
	2022	2021
Balance as of 1 January	**71,708**	**72,565**
Effects of Nasa AIK Banka merger	62,196	-
Charge for the year (Note 15)	119,196	47,939
Actuarial losses/(gains) (Note 38(iii))	354	(262)
Release of provisions (Note 15)	(30,054)	-
Used provisions	(49,574)	(48,534)
Balance as of 31 December	**173,826**	**71,708**

36. PROVISIONS (Continued)

(b) Provisions for employee benefits (Continued)

Main actuarial assumptions used in the calculation of provisions for retirement benefits were as follows:

	31 December 2022	31 December 2021
Discount rate	6%	4.5%
Bank's salary growth rate	7.5%	6.5%
Employee turnover rate	11%	11%

(c) Movements in provisions for off-balance sheet items during the year were as follows:

	In RSD thousand	
	2022	2021
Balance as of 1 January	**147,366**	**43,421**
Effects of Nasa AIK Banka merger	131,913	-
Charge for the year (Note 12)	345,539	390,199
Release of provisions (Note 12)	(340,034)	(283,000)
FX differences	(710)	(3,254)
Balance as of 31 December	**284,074**	**147,366**

37. OTHER LIABILITIES

	In RSD thousand	
	31 December 2022	31 December 2021
Other liabilities:		
Trade payables	86,191	107,807
Advances received	63,315	21,174
Lease liabilities (Note 37.1)	830,164	491,029
Liabilities for guarantees and acceptances called on	96	176
Liabilities from profit	130,870	131,460
Liabilities for managed funds	12,965	11,817
Other liabilities from operating activities	807,530	364,692
Liabilities in settlement	261,868	303,017
Temporary accounts	7,356	6,751
Liabilities to employees	1,252	-
Other liabilities in foreign currency	565,445	195,582
	2,767,052	**1,633,505**
Taxes payable:		
Value added tax	7,620	9,826
Other taxes and contributions	11,856	10,357
	19,476	**20,183**
Accruals and deferred income:		
Accrued other expenses	266,092	71,675
Deferred income	43,004	73,786
Other deferrals	177,795	91,574
	486,891	**237,035**
Balance as of	**3,273,419**	**1,890,723**

37. OTHER LIABILITIES (Continued)

37.1. Lease Liabilities

The maturity structure of lease liabilities is provided in the following table:

	31 December 2022	In RSD thousand 31 December 2021
Maturity:		
- Up to 1 year	234,300	185,219
- Up to 2 years	298,994	140,989
- Up to 3 years	133,998	78,417
- Up to 4 years	87,474	46,447
- Up to 5 years	42,769	16,352
- Over 5 years	32,629	23,605
Total	**830,164**	**491,029**

The maturity structure of undiscounted expected cash outflows arising from lease liabilities (including interest outflows) is provided in the following table:

	31 December 2022	In RSD thousand 31 December 2021
Maturity:		
- Up to 1 year	261,417	190,318
- Up to 2 years	335,736	144,870
- Up to 3 years	150,554	80,575
- Up to 4 years	96,881	47,125
- Up to 5 years	46,921	16,802
- Over 5 years	36,264	24,255
Total	**927,773**	**503,945**

The structure of total lease payments reported in the Statement of Cash Flows in 2022 and 2021 is provided in the following table:

	2022	In RSD thousand 2021
Fixed payments	363,549	196,436
Variable payments	11,094	5,172
Total	**374,643**	**201,608**

Variable payments that are included in a lease liability are index dependent payments. Out of the total cash outflows of RSD 374,643 thousand in 2022 (2021: RSD 201,608 thousand), an amount of RSD 363,549 thousand is related to the principal (2021: RSD 196,436 thousand), which is reported within cash outflows from financing activities, whereas an amount of RSD 11,094 thousand is related to the interest (2021: RSD 5,172 thousand), which is reported within cash outflows from operating activities.

The structure of rental expenses in 2022 and 2021 was as follows:

	2022	In RSD thousand 2021
Interest expense on lease liabilities (Note 7)	(8,388)	(9,388)
Depreciation of right-of-use assets (Note 16)	(219,879)	(187,599)
Rental costs (Note 18)	(140,102)	(109,339)
Total	**(368,369)**	**(306,326)**

38. EQUITY

Equity Structure

	In RSD thousand 31 December 2022	 31 December 2021
Share capital:		
Ordinary shares	17,320,083	17,320,083
Preference shares	2,442,512	2,442,512
Total	**19,762,595**	**19,762,595**
Share premium	7,433,135	7,433,135
	27,195,730	**27,195,730**
Reserves:		
Profit reserves and other reserves	13,953,877	13,953,877
(Losses)/gains from changes in value of equity instruments	(4,669)	493,459
(Losses)/gains from changes in value of debt instruments	(2,480,658)	172,356
Actuarial gains based on defined employee benefit plans	263	563
	11,468,813	**14,620,255**
Retained earnings	**38,609,706**	**13,237,614**
Balance as of	**77,274,249**	**55,053,599**

(i) Share Capital

Shareholder Structure

The Bank's shareholder structure with a share above 1% as of 31 December 2022 and 2021 was as follows:

	In RSD thousand 1 December 2022 Total share capital	 Share in %	 Controlling capital	 Share %
M&V Investments a.d. Belgrade	19,284,006	97.58	17,320,083	100.00
BDD M&V Investments – 80200ZMVI0008	252,968	1.28	-	-
BDD M&V Investments - 80200Z	225,621	1.14	-	-
Total	**19,762,595**	**100.00**	**17,320,083**	**100.00**

	31 December 2021 Total Share Capital	 Share %	 Controlling Capital	 Share %
M&V Investments a.d. Belgrade	19,284,006	97.58	17,320,083	100.00
BDD M&V Investments – 80200ZMVI0008	252,968	1.28	-	-
BDD M&V Investments - 80200Z	225,621	1.14	-	-
Total	**19,762,595**	**100.00**	**17,320,083**	**100.00**

The total number of the Bank's subscribed and paid in shares as of 31 December 2022 amount to 9,453,797 shares, which are comprised of 8,285,377 ordinary shares and 1,168,420 preference shares, whose par value is RSD 2,090.44 (31 December 2021: 8,285,377 ordinary shares and 1,168,420 preference shares with the par value of RSD 2,090.44).

38. EQUITY (Continued)

(i) Share Capital (Continued)

Pursuant to the Decision no. 05-LIII/2021 on the Distribution of the Bank's Profit generated according to the Financial Statements for the Year Ended 31 December 2020 totalling RSD 9,801,586 thousand passed by the Shareholders Assembly on 28 April 2021, the amount of RSD 3,626,727 thousand was appropriated for dividend payments to the Bank's shareholders, the amount of RSD 4,582,664 thousand was allocated to retained earnings that were included in the share capital (in accordance with the Decision 05-LI/2020 dated 27 April 2020), while the remaining amount of RSD 1,592,195 thousand was allocated to retained earnings that were not included in the Bank's share capital.

Pursuant to the Decision no. 05-LV/2022, on the Distribution of the Bank's Profit generated according to the Financial Statements for the Year Ended 31 December 2021 totalling RSD 5,944,174 thousand passed by the Shareholders Assembly on 28 March 2022, the afore said amount was fully allocated to retained earnings that were included in the share capital.

Pursuant to the Decision no. 04-LIX/2022 on the Distribution of the Bank's Retained Earnings according to the Financial Statements for the Year Ended 31 December 2020 passed by the Shareholders Assembly on 4 November 2022, the amount of RSD 1,592,195 thousand was appropriated for dividend payments to the Bank's shareholders.

(ii) Revaluation Reserves - Unrealized (Losses)/Gains on Securities

Revaluation reserves based on equity and debt instruments, i.e. securities measured at fair value through other comprehensive income, as of 31 December 2022 and 2021, constitute a sum of the following items:

	In RSD thousand	
	2022	**2021**
Balance as of 1 January	**665,815**	**1,035,991**
Net (losses)/gains from changes in fair value:		
- based on valuation	(2,758,887)	(430,905)
- based on impairment (Note 12(a))	(117,012)	(4,596)
Effect of the sale of equity instruments (Note 33(a))	(831,327)	-
Deferred taxes related to items of other comprehensive income (Note 32.2)	556,084	65,325
Balance as of 31 December	**(2,485,327)**	**665,815**

(iii) Actuarial Gains

Actuarial gains as of 31 December 2022 and 2021 are related to actuarial losses from provisions for retirement benefits.

	In RSD thousand	
	2022	**2021**
Balance as of 1 January	**563**	**341**
Actuarial (losses)/gains (Note 36(b))	(354)	262
Deferred taxes related to items of other comprehensive income (Note 32.2)	54	(40)
Balance as of 31 December	**263**	**563**

39. CONTINGENT LIABILITIES AND OFF-BALANCE SHEET ITEMS

39.1. Litigations

The Bank acts as a defendant in 11,102 disputes as of 31 December 2022 (31 December 2021: 13,231 disputes), in which plaintiffs seek monetary claims from the Bank. The total value of these claims, which may result in cash outflows (for damage compensation, debts, etc.) in case of negative outcomes for the Bank, amounts to RSD 6,144,688 thousand (31 December 2021: RSD 2,045,698 thousand).

According to the Bank's lawyer, claims with estimated positive outcomes account for 92.79% out of the total monetary claims from the Bank by plaintiffs as of 31 December 2022. Pursuant to the requirements of IAS 37 and its internal methodology, the Bank made a provision in the amount of RSD 852,303 thousand (31 December 2021: RSD 327,245 thousand) (Note 36(a)) for claims with the estimated negative outcome.

The current level of provisions has been assessed as adequate by the Bank's management, but the Bank will closely monitor the market situation and outcomes of such litigations, and will make adequate provisions in the future reporting periods, according to the best estimates, in order to avoid any unexpected effects on the Bank's performance.

The Bank is also involved in a number of lawsuits filed against third parties, mostly for the purpose of debt collection.

39.2. Off-Balance Sheet Items

	In RSD thousand 31 December 2022	 31 December 2021
Managed funds on behalf of third parties (a)	1,230,191	1,041,702
Guarantees and other sureties issued (b)	71,546,434	30,180,301
Derivatives held for trading at contracted value (c)	25,066,913	14,885,940
Securities received as pledges (d)	69,113,707	46,077,025
Other off-balance sheet assets (e)	672,081,989	515,058,389
Balance as of	**839,039,234**	**607,243,357**

39. CONTINGENT LIABILITIES AND OFF-BALANCE SHEET ITEMS (Continued)

39.2. Off-Balance Sheet Items (Continued)

	31 December 2022	In RSD thousand 31 December 2021
a) Managed funds on behalf of third parties		
Loans in RSD		
- short-term	4,812	4,835
- long-term	1,225,379	1,036,867
	1,230,191	**1,041,702**
b) Contingent liabilities		
Payment guarantees		
- in RSD	8,230,092	7,686,760
- in foreign currency	1,368,789	293,144
Performance guarantees		
- in RSD	38,709,777	15,950,317
- in foreign currency	3,491,810	1,754,405
	51,800,468	**25,684,626**
Undrawn letters of credit	19,649	-
Undrawn loan facilities	9,205,695	929,784
	9,225,344	**929,784**
Irrevocable commitments per own guarantees and spot		
- in RSD	4,405,517	1,696,177
- in foreign currency	6,115,105	1,869,714
	10,520,622	**3,565,891**
	71,546,434	**30,180,301**
(c) Derivatives		
Currency swap and forward (Note 22)	25,066,913	14,885,940
	25,066,913	**14,885,940**
(d) Sureties received as pledges		
Securities received as collaterals	69,113,707	46,077,025
	69,113,707	**46,077,025**
(e) Other off-balance sheet items		
Tangible assets, guarantees and other sureties received as collaterals	548,690,596	442,807,134
Unused revocable loan facilities	56,966,720	25,498,498
Depositary operations	519	507
Loro guarantees	16,041,234	5,950,516
Suspended interest	2,692	538
Receivables transferred to off-balance sheet items	43,546,918	33,937,959
Other	6,833,310	6,863,237
	672,081,989	**515,058,389**
Balance as of	**839,039,234**	**607,243,357**

A breakdown of Bank's credit risk-weighted off-balance sheet items that are classified as of 31 December 2022 and 2021 is provided below:

	31 December 2022	In RSD thousand 31 December 2021
Guarantees	51,800,468	25,684,626
Irrevocable commitments – undrawn letters of credit and loan facilities	9,225,344	929,784
Irrevocable commitments per own guarantees and spot	3,166,942	587,890
Revocable commitments	56,599,231	25,488,498
Balance as of	**120,791,985**	**52,690,798**

40. RELATED PARTY DISCLOSURES

(a) Transactions with Management

Transactions with the Bank's management members are based on the standard market conditions.

Remunerations to management	2022	2021
	In RSD thousand	
Members of the Executive Board	(86,850)	(83,542)
Members of the Board of Directors	(33,783)	(34,093)
Total	**(120,633)**	**(117,635)**

Other transactions with management	Balance as of 31 December 2022	Balance as of 31 December 2021	Income/ (expenses) 2022	Income/ (expenses) 2021
	In RSD thousand			
Payment cards, cash and consumer loans	66,012	12,936	1,912	486
Deposits	(77,239)	(56,667)	(236)	(942)
Other liabilities	55	16	(346)	(159)
Total	**(11,172)**	**(43,715)**	**1,330**	**(615)**

(b) Transactions with the Bank's Related Parties

In the regular course of business, the Bank enters into business transactions with its shareholders and other related parties under the standard market conditions.

The following table shows related party transactions (balances of receivables and payables, income and expenses) as of the reporting date:

	Balance sheet gross exposure	Off-balance sheet exposure	Total	Liabilities
	In RSD thousand			
Employees	32,170	22,241	54,411	346,310
Other individuals	61,168	13,075	74,243	159,268
Legal entities *	9,457,185	107,747	9,564,932	14,263,994
Balance as of 31 December 2022	**9,550,523**	**143,063**	**9,693,586**	**14,769,572**
Employees	37,392	22,834	60,226	104,582
Other individuals	3,511	10,806	14,317	277,241
Legal entities *	10,492,595	5,565,321	16,057,916	25,876,404
Balance as of 31 December 2021	**10,533,498**	**5,598,961**	**16,132,459**	**26,258,227**

* Legal entities are provided in the tables below.

40. RELATED PARTY DISCLOSURES (Continued)

(b) Transactions with the Bank's Related Parties (Continued)

In RSD thousand
31 December 2022

Legal entity	Balance sheet exposure	Off-balance sheet exposure	Total	Liabilities	Income	Expenses
Gorenjska banka d.d. Kranj	6,097,679	57	6,097,736	(4,692,896)	6,964,494	(86,365)
Cista voda projekt d.o.o. za usluge, Savudrija	3,138,393	-	3,138,393	-	203,663	(46,881)
Agri Europe Cyprus Limited, Cyprus	208,958	-	208,958	(994,193)	223,091	(7,304)
MK Group d.o.o. Belgrade	543	5,506	6,049	(2,968,022)	4,344	(59,288)
Sunoko d.o.o Novi Sad	-	-	-	(2,280,556)	6,539	(14,562)
M&V Investments a.d. Belgrade				(834,486)	1,921	(96,331)
Pik-Bečej a.d. Becej	83	367	450	(645,341)	2,039	(5,131)
MK Holding d.o.o. Belgrade	-	-	-	(505,718)	9,699	(34,972)
Carnex d.o.o. Vrbas	3	-	3	(428,060)	1,690	(4,009)
MK Mountain Resort d.o.o. Kopaonik	361	-	361	(123,343)	4,228	(16,811)
MK Agriculture d.o.o. Novi Sad	52	1,748	1,800	(12,512)	92	(157)
Other	11,113	100,069	111,182	(778,867)	11,906	(28,518)
Total	**9,457,185**	**107,747**	**9,564,932**	**(14,263,994)**	**7,433,706**	**(400,329)**

In RSD thousand
31 December 2021

Legal entity	Balance sheet exposure	Off-balance sheet exposure	Total	Liabilities	Income	Expenses
Gorenjska banka d.d. Kranj	7,055,761	284	7,056,045	(11,758,210)	148,707	(8,050)
Cista voda projekt d.o.o. za usluge, Savudrija	3,433,823	164,854	3,598,677	-	89,741	(58,119)
MK Holding d.o.o. Belgrade	-	2,939,553	2,939,553	(3,398,247)	172,286	(43,102)
MK Group d.o.o. Belgrade	679	2,405,342	2,406,021	(1,470,623)	67,961	(6,386)
MK Logistika d.o.o. Novi Sad	-	50,000	50,000	(35,024)	1,926	(275)
Agroglobe d.o.o. Novi Sad	207	2,493	2,700	(99,333)	22,423	(24,044)
MK Agriculture d.o.o. Novi Sad	195	1,605	1,800	(4,592)	150	(119)
DR Nikola Vunjak, entrepreneur	1,776	-	1,776	(302)	217	(30)
D.o.o. Agrounija Indjija	13	587	600	(154,351)	9,172	(26,475)
Pik-Bečej a.d. Becej	35	415	450	(269,037)	664	(1,687)
Banat Seme d.o.o. Zrenjanin	12	188	200	(28)	6	(5)
MK Mountain Resort d.o.o. Kopaonik	94	-	94	(697,674)	1,298	(5,687)
Victoria project d.o.o. Novi Sad	-	-	-	(4,575,241)	0	(762)
M&V Investments a.d. Belgrade	-	-	-	(856,528)	357	(13,495)
Sunoko d.o.o. Novi Sad		-	-	(942,902)	2,462	(25,786)
SJPT NON-CORE DOO	-	-	-	(762,510)	7	(53)
Carnex d.o.o. Vrbas	-	-	-	(531,310)	1,453	(16,207)
Other	-	-	-	(320,492)	2,949	(6,950)
Total	**10,492,595**	**5,565,321**	**16,057,916**	**(25,876,404)**	**521,779**	**(237,232)**

41. RECONCILIATION OF OUTSTANDING BALANCES WITH COUNTERPARTIES

According to Article 18 of the Law on Accounting, the Bank is obliged to reconcile outstanding balances of receivables and payables with its counterparties. The reconciliation is performed at least once a year, before the preparation of the financial statements. In accordance with the Bank's bylaws, 1 December of the current year is set as the date for the reconciliation of receivables and payables with customers.

Out of the total amount of receivables requested to be reconciled, the amount of RSD 2,127 thousand, i.e. 0.0007%, remained unreconciled. Out of the total amount of payables requested to be reconciled, the amount of RSD 815 thousand, i.e. 0.0015% remained unreconciled.

42. EFFECTS OF THE RUSSIAN-UKRAINIAN CONFLICT ON THE BANK'S OPERATIONS

Since early March 2022, there has been increased instability in global financial and commodity markets due to the escalation of the conflict in Ukraine, which was accompanied by imposing sanctions on certain Russian companies and individuals.

The Bank has immaterial direct exposure to both Russia and Ukraine and accordingly, did not have any adverse effects on its operation in 2022. In the coming period, the Bank does not expect a significant impact based on direct exposure to these countries. Despite the limited direct exposure, due to the ongoing conflict, an additional adverse effect on the global economy can be expected, particularly in terms of the prices of energy products, changes in foreign exchange rates, interest rates, stock market activities, supply chain disruptions and increased inflationary pressures, which may indirectly impact the Bank.

The management carefully monitors and assesses the potential impact of the circumstances caused by the Russia-Ukraine conflict, and undertakes all necessary measures to ensure the stability of Bank's operations, although future effects cannot be predicted with reasonable certainty.

43. EVENTS AFTER THE REPORTING PERIOD

On 19 January 2023, Mrs. Maja Grubor was appointed as a member of the Executive Board in charge of risk management.

Apart from the aforesaid, there were no significant events subsequent to the reporting date, which would require disclosure in the notes to the accompanying financial statements of the Bank as of and for the year ended 31 December 2022.

44. EXCHANGE RATES

The official median exchange rates of the National Bank of Serbia for the major currencies, used in the translation of balance sheet items denominated in foreign currencies as of 31 December 2022 and 2021 into the functional currency (RSD), were as follows:

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

Ana Medojevic
Head of Accounting and Reporting

AGROINDUSTRIJSKO KOMERCIJALNA BANKA AKCIONARSKO DRUŠTVO "AIK BANKA" BEOGRAD 2

Jelena Galic
Executive Board Chairperson

Milan Mirkov
Executive Board Member

ANNUAL REPORT 2022.

AIK Banka a.d. Beograd

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1. Message of the Chairperson of the Executive Board



Dear all,

The previous period was marked by numerous challenges, from global geopolitical events, to increasingly accelerating technological development and more pronounced needs to mitigate the effects of climate change and ensure sustainable development. What was most important in that period was timely reaction and readiness to adapt. When we look back, we can be proud that we once again demonstrated a high degree of responsibility, agility and determination to meet challenges and further develop our business in accordance with our vision and strategy. Through our dedicated actions, we have confirmed that we are, first of all, a reliable support for economic policy makers, as well as the real sector of the economy and the population.

At the same time, in addition to these challenges, we continued to implement our strategic initiatives aimed at expanding our business and strengthening our market position, as well as further improving the processes and services we offer to our customers.

Due to the completed acquisition process of Sberbank Serbia, as well as successfully implemented integration, our vision - to be one of the leading banking groups in the region - has been further strengthened. AIK Bank increased its market share in Serbia to 9 percent and with the value of its balance sheet assets became one of the most important systemic banks in the country. By expanding our business, we combined expertise and technologies, expanded the range of products and further improved the level of service and customer satisfaction for our customers.

Further development of our digital platform and mobile application is a direction of strategic determination. Today, through our digital platform, we offer 11 products from cash loans, refinancing loans, to various models of credit cards and savings. I am especially proud that, despite the demanding project such as the integration we went through, we managed to implement the planned projects in the further improvement of our digital services and in February put into production a new version of the mobile banking application for individuals with the ultimate goal of making doing business with the bank even easier and more affordable for our customers and partners.

Despite geopolitical influences, inflation, rising energy and raw material prices, interruptions in the supply chain, economic activity, and thus credit activity in the country, has not decreased. Believing that small and medium-sized enterprises are the backbone of successful economies, we have been particularly focused on providing support to this segment, which represents a vital part of our economy, accounting for 99 percent of the total number of enterprises and 57.7 percent of the gross domestic product. For this reason, in previous years, we have seen significant support specifically for small and medium-sized enterprises through various programs and guarantee schemes aimed at ensuring liquidity and working capital, as well as investments, in which we actively participated. In the coming period, one can expect the development of another important role of banks in this segment, namely advisory activities in the field of financing current and investment activities and projects with the aim of ensuring continuous support for the growth and development of this sector. At the same time, as a responsible member of the community in which we operate, by signing a credit line of EUR 50 million with the International Finance Corporation (IFC), for the financing of this sector, primarily in the part of

green financing, we supported business entities ready to invest in green projects in order to improve business and mitigate the effects of climate changes.

The financial performance indicators in 2022 are a reflection of the stability and sustainability of our business. We ended the year behind us with a balance sheet total of EUR 3.5 billion, and a strong deposit base was further increased to EUR 2.6 billion, reflecting the trust that customers place in us year after year. Capital adequacy of 19.81% is significantly above regulatory requirements, while indicators of profitability and business efficiency (RoA - 2.9% and CIR - 32.6%) indicate the strength and quality of our business model.

And finally, but equally important, a sustainable relationship towards the local community, nurturing family values, caring for employees, children, adults and families, especially those facing major life challenges, remains at the heart of AIK Bank's business and social engagement.

The regional project "Family Support", within the framework of which we realised a donation in seven maternity hospitals in the five countries of the Adria region where we operate, shows the regional strength of our banking group. We rounded off the assistance to health institutions with a donation to the Institute of Oncology and Radiology of Serbia, intended for the purchase of medicines, and confirmed our commitment to families and children with new financial support to the Center for Family Support in Niš and the organization SOS Children's Villages Serbia, as well as through support for the humanitarian work of the organization Nurdor.

We also believe in the strength and potential of the generations to come. In 2022, AIK Bank, through the "Dobar Glas" Foundation, supported the musical talents of our country, but also firmly stood by the Faculty of Mathematics and excellent high school students ready to improve their mathematical and IT skills and knowledge through competitive tasks.

Considering the circumstances in which we dedicatedly and devotedly worked on the realization of common business objectives, we can say with pleasure that our corporate values - responsibility (our tomorrow), commitment (our way), innovation (our inspiration), trust (our strength), excellence (our measure) led us on the way to the realization of our vision and mission. I am grateful to all our customers, partners and shareholders, for the strong support and trust that motivates us to always look for a way to improve ourselves and the environment in which we do business. As a systemic bank, we remain a consistent and reliable partner in ensuring financial stability, sustainable development of the economy and the safety of citizens.

Kind regards,

Jelena Galić
Chairperson of the Executive Board

2. Identity Card

Full legal name of the issuer	**Agroindustrijsko komercijalna banka "AIK Banka" ad Belgrade**
Registered address	**Bulevar Mihajla Pupina 115đ 11070 Novi Beograd Republic of Serbia**
Web address	**www.aikbanka.rs**
Legal form	**Shareholding company**
Legal status of the issuer	**Active company**
Corporate identification number	**06876366**
Fiscal code – tax identification number	**100618836**
Current accounts held with banks	**National Bank of Serbia – 908000000001050197**
Date of incorporation	**10 August 1993**
No. of decision on registration with the Serbian Business Registers Agency	**2946/2005, dated 1 March 2005**
Business activity code	**6419 – Other monetary intermediation**
Telephone no	**+ 381 11 202 9050**
Fax	**+ 381 11 312 9787**
e-mail	**kabinet@aikbanka.rs**
Executive Board Chairperson	**Jelena Galić**
Shareholder list available in:	**Centralni registar, depo i kliring hartija od vednosti Republike Srbije a.d, www.crhov.rs**
Social networks:	
Auditor for FY 2022	**BDO d.o.o. Beograd, Knez Mihailova 10, 11000 Beograd, Srbija**

3. Macroeconomic Trends

Real GDP growth in the first quarter of 2022 compared to the same period of the last year was 4.2%. In the second quarter of 2022, compared to the same period last year, real GDP growth amounted to je 3.8%, while real GDP growth in the third quarter of 2022 compared to the third quarter of 2022 amounted t1.0%. Real GDP growth in the fourth quarter of 2022 compared to the same period of the previous year was 0.4%.

In 2022, the state budget deficit reached the amount of RSD 235.2 billion, which represents 3.3% of GDP. The achieved result exceeded the planned, foreseen in the October budget rebalance by RSD 43.9 billion (0.6% of GDP). Revenues were generated in the amount of RSD 1,680.3 billion, and expenses were incurred in the amount of RSD 1,915.5 billion. In December, the deficit amounted to RSD 154.2 billion. At the general government level in 2022, a fiscal deficit in the amount of RSD 221.2 billion was reached and a primary fiscal deficit in the amount of RSD 114.5 billion was realised. The general government deficit in 2022 was 3.1% of GDP. The achieved result is better than planned by 0.7% of GDP, i.e. RSD 50.3 billion.

In December 2022, industrial production in the Republic of Serbia increased by 1.8% u compared to December 2021, while compared to the 2021 average, it increased by 8.5%. Industrial production in 2022 compared to 2021 is higher by 1.7%. Observed by sectors, in December 2022, compared to the same month in 2021, the following trends were recorded: the Mining sector – growth of 28.9%, the Supply of electricity, gas, steam and air conditioning sector – growth of 11.3%, and Manufacturing sector – drop of 3.4%.

Data on industrial production by purpose groups in December 2022, compared to the same month last year, show that there was an increase in the production of: capital goods (13,1%), and energy (9.5%), while a decline was recorded in the production of: intermediate goods, other than energy (1.5%), non-durable consumer goods (4.3%), and durable consumer goods (12.4%).

The volume of industrial production in December 2022 compared to December 2021 increased in 15 areas (participation of 56% in the structure of industrial production), and decreased in 14 areas (participation of 44% in the structure of industrial production).
The following had the greatest impact on the growth of industrial production in December 2022 compared to the December of the previous year: Manufacture of electricity, Exploitation of metal ores, Manufacture of coke and petroleum derivatives, Manufacture of machinery and equipment n.e.c., and Exploitation of coal.

The volume of industrial production in 2022, when compared to 2021, increased in 17 areas (participation of 57% the structure of industrial production), and decreased in 12 areas (participation of 43% in the structure of industrial production). The following had the greatest impact on the growth of industrial production in 2022 when compared to 2021: Exploitation of metal ores, Manufacture of coke and refined petroleum products, Manufacture of machinery and equipment n.e.c, Manufacture of computer, electronic and optical products and Manufacture of basic pharmaceutical products.

The seasonally adjusted index of industrial production for December 2022, compared to November 2022, shows that the total growth of industrial production was 2.8% and that manufacturing industry realized growth of 0.5%.
The seasonally adjusted index of industrial production for December 2022, compared to the average for 2021, shows an overall growth of 4.5%, and that the Manufacturing industry is at the average level for 2021.

The aggregate foreign trade of Serbia for the period January-December 2022 amounts to: EUR 66,613.4 million – - an increase of 31.1% compared to the same period last year. Exports of goods in euros amounted to EUR 27,604.7 million, which is an increase of 26.3% compared to the same period last year. Imports of goods amounted to EUR 39.008,7 million, which is 34.8% more than in the same period last year.

The deficit amounts to EUR 11.404,0 million and has increased by 61.1% when compared to the same period last year. Exports-to-imports coverage was 70.6% and is lower than the coverage in the same period last year when it amounted to 75.6%. Observed regionally, the region of Vojvodina had the most significant share in Serbia's exports (33.6%); followed by the Belgrade region (23.3%), Šumadija and Western Serbia (21.0%), the Southern and Eastern Serbia region (19.9%), and around 2.1% of exports remained unclassified by territory. The Belgrade region had the most significant share in Serbia's imports (42.0%); followed by the Region of Vojvodina (33.8%), the Region of Šumadija and Western Serbia (12.5%), the Southern and Eastern Serbia region (8.0%), while around 3.7% of imports remained unclassified by territory. There is no data available for the Region of Kosovo and Metohija.

	EU	CEFTA	Russia	Others	Total
2022 Exports	**17,691**	**4,387**	**1,139**	**4,388**	**27,605**
Region's share in the total exports up to 31 December 2022	64.09%	15.89%	4.13%	15.89%	
Increase/decrease in exports against 2021	3,621	871	299	956	5,747
Percentage of increase/decrease in exports against 2021	25.73%	24.76%	16.25%	27.87%	26.77%
2022 Imports	**21,396**	**2,023**	**2,930**	**12,659**	**39,009**
Region's share in the total imports up to 31 December 2022	54.85%	5.19%	7.51%	32.45%	
Increase/decrease in imports against 2021	4,863	629	1,396	3,185	10,073
Percentage of increase/decrease in imports against 2021	29.41%	31.10%	91.03%	33.62%	34.81%
2022 Foreign trade deficit	**-3,705**	**2,363**	**-1,791**	**-8,271**	**-11,404**
Region's share in the total surplus/deficit up to 31 December 2022	32.49%	-20.72%	15.71%	72.53%	
Increase/decrease in surplus/deficit against 2021	-1,242	242	-1,097	-2,229	-4,327
Percentage of increase/decrease in surplus/deficit against 2021	50.41%	11.38%	158.20%	36.89%	-61.13%

Table 1 – Movements in foreign trade over the year 2022 per region (in EUR million). Source: RSO

According to the survey of the RS Statistical Office, unemployment in the third quarter of 2022 in the Republic of Serbia was 8.90%. The unemployment rate decreased compared to the same period in 2021 by 1.6 p.p. The average earnings (gross) calculated for November 2022 totalled RSD 108.001, while the average earnings without taxes and contributions (net) amounted to RSD 78,326. In the period January-November 2022, compared to the same period last year, a nominal growth of average net wages of 13.9% was achieved. In the same period, net earnings increased by 2.0% in real terms. Compared to the same month of the previous year, the average gross and net earnings for November 2022 are nominally higher by 13.3%, and in real terms they are lower by 1.6%.

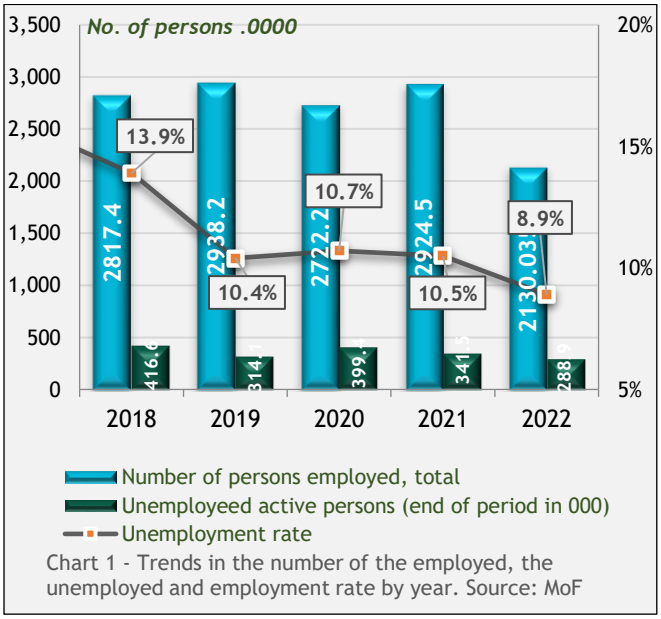


Chart 1 - Trends in the number of the employed, the unemployed and employment rate by year. Source: MoF

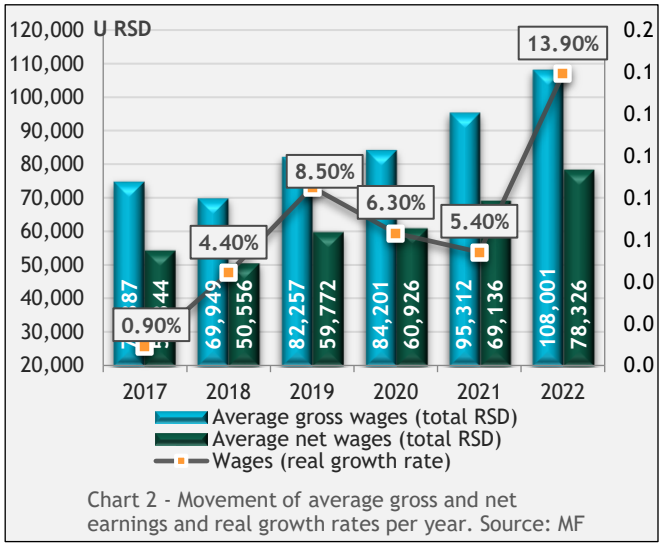


Chart 2 - Movement of average gross and net earnings and real growth rates per year. Source: MF

In December 2022, inflation increased by 0.5% on a monthly basis, while compared to December 2022, it amounted to 15.1%. Average annual inflation in 2022 was 11.9%. Observed according to the structure, two thirds of the year-on-year inflation was still determined by the movement of food and energy prices. High year-on-year growth in food prices occurred due to several factors – increase in world food prices, higher production costs, the conflict in Ukraine and lower levels of these prices during 2021 and 2022 due to the absence of a significant portion of demand.

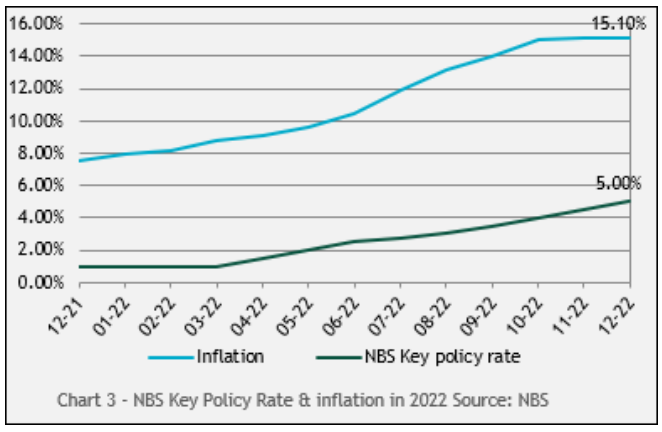


Chart 3 - NBS Key Policy Rate & inflation in 2022 Source: NBS

For the first time after more than a year, in December, energy prices on a monthly basis had a decline (-2.2%). Their movement was largely determined by global factors, primarily by the decrease in the global oil prices, which spilled over to the lower prices of petroleum products on the domestic market (decrease by 7.5%). According to the current medium-term projection of the National Bank of Serbia, overall inflation should remain elevated at the beginning of 2023, after which it should be on a downward path, with a significant decrease in the second half of 2023 and a return to the target by the end of the projection period. The previous tightening of monetary conditions, the expected weakening of the effects of global factors that led the growth of energy and food prices in the previous period, as well as lower external demand in conditions of less favourable prospects for global economic growth, will work in the direction of calming inflationary pressures.

In 2022, the National Bank of Serbia increased the NBS interest rate nine times, starting in April 2022 in line with inflation. The NBS interest rate ranged from 1.00% to 5.00% in 2022.

The share of government public debt in GDP (ESA 2010 methodology) at the end of December 2022 was 55.2%, and the share of general government public debt in GDP was 55.7%. The public debt of the central government in December 2022, compared to November of the same year, increased by RSD 121,8 billion and it amounted to RSD 3.909,9 billion (EUR 33.3 billion). The participation of public debt in foreign currency at the end of December 2022 was 74.8%. The participation of public debt in EUR is 55.8%, in USD 14.3%, in SDR 4.0%, in CHF 0.1% i and in other foreign currencies 0.7% (GBP, JPY, DKK, SEK, NOK, AED, KWD, CNY), while the share in RSD is 25.2%.

At the end of 2022, the dinar exchange rate against the euro was anchored, stable on a monthly basis, and strengthened by 0.2% since the beginning of 2022. In 2022, the dinar was at its weakest on 13 April, when one euro cost RSD 117.7627, and it had its highest value against the euro on 12 December, when the exchange rate was RSD 117.2751. In 2022, in order to maintain relative stability on the foreign exchange market, and in the conditions of significantly increased global uncertainty due to the crisis caused by the pandemic, inflationary pressures and the crisis due to the conflict in Ukraine, the National Bank of Serbia purchased a net amount of EUR 1 billion.

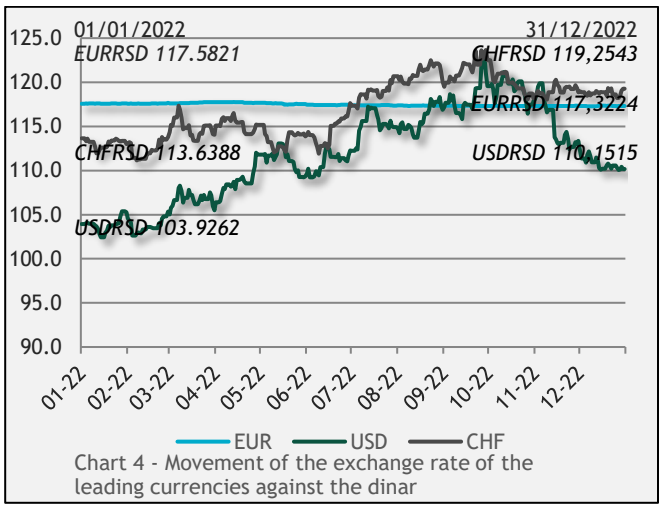


Chart 4 - Movement of the exchange rate of the leading currencies against the dinar

The NBS interest rate was at the level of 5.0% at the end of 2022, which represented a significant growth of 4 pp compared to the value at the end of 2021 (1.0%).

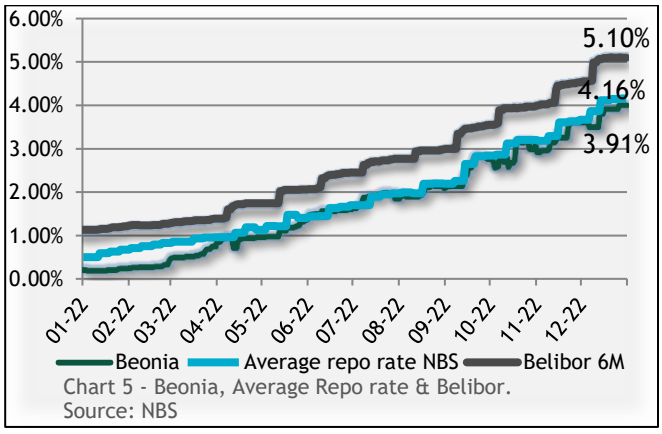


Chart 5 - Beonia, Average Repo rate & Belibor. Source: NBS

The most frequently issued securities had maturities of 24M and 120M.

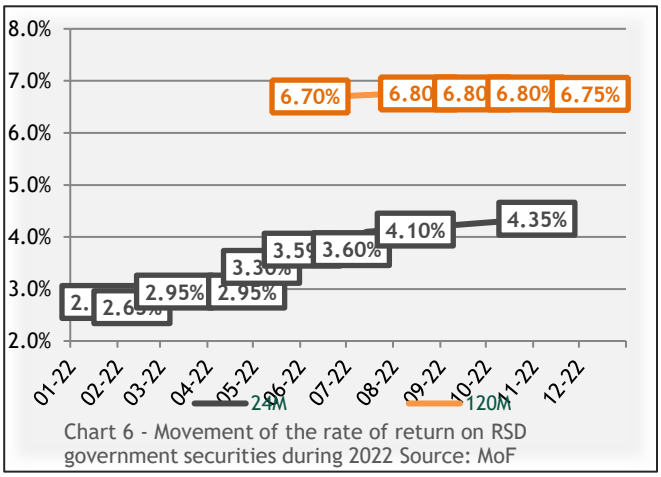


Chart 6 - Movement of the rate of return on RSD government securities during 2022 Source: MoF

The following returns were realized at the latest primary RSD auctions in 2022:

- 24M – 4.35%; 120M – 6.75%;

Euro securities primarily traded on the domestic financial market had a significantly lower trading volume and number of auctions, considering that the Republic of Serbia borrowed on foreign markets, issuing international bonds in prior years and reaching the amount of borrowing on foreign markets at the end of 2022 of EUR 6.3 billion and USD 1,2 billion.

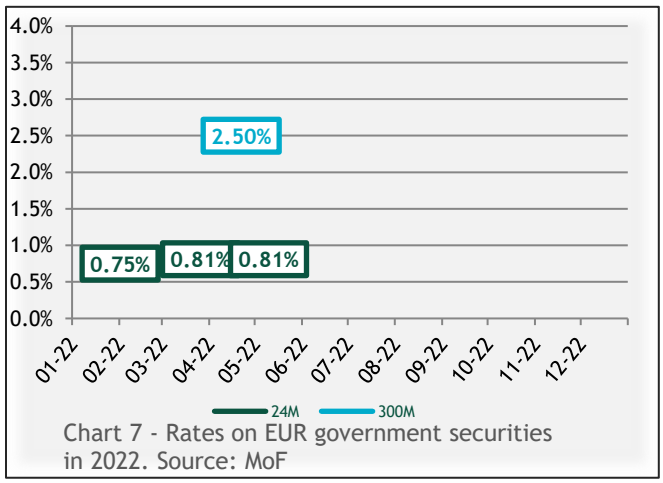


Chart 7 - Rates on EUR government securities in 2022. Source: MoF

The following returns were realized at the latest primary EUR auctions in 2022:

- 24M – 0.81%; 300M – 2.50%.

4. Market Position and Overview of the Key Performance Indicators

4.1 Market Position

Considering that the acquisition process of Sberbank Serbia has been successfully completed and that the integration process has been finalised, the Bank's market share is significantly higher than the level that can be seen by comparing the latest available market data. In order to adequately reflect the Bank's position, the Bank's balance sheet data were aggregated with data from the third quarter of 2022.[1].

Ranking	30/09/2022			31/12/2021			30/09/2021		
	Rank	Market share	RSD billion	Rank	Market share	RSD billion	Rank	Market share	RSD billion
Net assets	6	7.7%	407.0	9	5.1%	257.0	8	4.6%	229.0
Net loans and receivables	6	7.4%	232.9	10	4.0%	116.4	12	3.7%	104.4
Total deposits *	7	7.2%	319.5	9	4.8%	199.5	8	4.2%	171.4
Deposits**	7	8.0%	296.6	8	5.1%	181.7	8	4.8%	164.2
Total equity	4	11.7%	83.1	6	7.6%	55.1	6	7.7%	55.3
Profit before tax	6	9.0%	5.3	3	12.1%	6.5	3	12.8%	5.3

** Total deposits: Transactional deposits, Other deposits, Borrowings; ** Deposits: Transactional deposits, Other deposits*

Table 2 - The Bank's market position (30 September 2022 pro forma). Source: NBS

At the end of Q3 2022, the top 10 banks accounted for 92.6% of the total balance sheet assets of Serbia's banking sector. As of 30 September 2022, the Bank was at the sixth place according to the amount of net assets. With total balance sheet assets of EUR 407.0 billion, it has a market share of 7.7%.

As of 30 September 2022, the customer deposits amounted to EUR 296.6 billion, based on which the Bank is ranked at the 7th position on the market on this basis, with a share of 8.0% in the Serbian banking market. Based on the amount of net loans and advances at the end of Q3 of 2022, the Bank has a market share of 7.4%.

The Bank's share in terms of capital volume in the Serbian banking market remains high. The total level of capital at the end of Q3 of 2022 slightly increased (0.2%) compared to the end of 2021, which increases the Bank's market share to 11.7% and puts it in the sixth position.

[1] After which the process of acquiring Sberbank of Serbia by AIK Bank was completed, while the process of acquiring Credit Agricole Bank by Raiffeisen Bank was still ongoing.

4.2 Bank Ranking

NET ASSETS											
30/09/2022				31/12/2021				30/09/2021			
Bank	Rank	Market share	RSD bill	Bank	Rank	Market share	RSD bill	Bank	Rank	Market share	RSD bill
Banca Intesa	1	15.0%	794.6	Banca Intesa	1	14.8%	745.6	Banca Intesa	1	15.4%	761.3
OTP banka	2	13.8%	734.9	OTP banka	2	13.2%	665.6	OTP banka	2	13.0%	640.0
Raiffesien Pro forme	3	13.0	690.8	UniCredit banka	3	10.7%	538.1	UniCredit bank	3	10.7%	530.3
UniCredit Bank	4	10.8%	572.2	Komercijalna banka	4	9.7%	489.4	Komercijalna banka	4	9.8%	484.0
NLB Komercijalna banka	5	10.2%	540.7	Raiffeisen banka	5	8.6%	432.7	Raiffeisen banka	5	8.8%	432.5
AIK Banka pro forme	6	**7.7%**	**407.0**	Banka poštanska štedionica	6	6.9%	348.1	Banka poštanska štedionica	6	6.8%	334.5
Banka poštanska stedionica	7	7.3%	386.2	Erste Bank	7	6.3%	319.6	Erste Bank	7	6.3%	309.6
Erste Bank	8	6.5%	344.1	Eurobank Direktna	8	5.8%	290.3	**AIK Banka**	**8**	**4.6%**	**229.0**
Eurobank Direktna	9	5.5%	291.1	**AIK Banka**	**9**	**5.1%**	**257.0**	Eurobank Direktna	9	4.3%	210.5
ProCredit Bank	10	2.9%	151.8	Sberbank	10	3.8%	194.2	Sberbank	10	3.8%	189.3
Addico Bank	11	2.0%	105.0	Credit Agricole	11	3.3%	166.8	Credit Agricole	11	3.3%	163.9

Table 3 – Bank ranking per net assets (30 September.2022, pro forma). Source: NBS

PROFIT BEFORE TAX*											
01/01-30/09/2022				01/01-31/12/2021				01/01-30/09/2021			
Bank	Rank	Market share	RSD bill	Bank	Rank	Market share	RSD bill	Bank	Rank	Market share	RSD bill
OTP banka	1	18.6%	10.8	Banca Intesa	1	22.1%	11.8	Banca Intesa	1	20.6%	8.6
Banca Intesa	2	17.2%	10.0	Raiffeisen banka	2	14.6%	7.8	Raiffeisen banka	2	14.3%	5.9
Raiffeisen banka proforma	3	16.3%	9.5	**AIK Banka**	**3**	**12.2%**	**6.5**	**AIK Banka**	**3**	**12.8%**	**5.3**
UniCredit Bank	4	12.0%	7.0	UniCredit Bank	4	11.8%	6.3	UniCredit Bank	4	12.8%	5.3
NLB Komercijalna	5	11.2%	6.5	OTP banka	5	11.6%	6.2	Komercijalna banka	5	7.5%	3.1
AIK Banka proforma	**6**	**9.0%**	**5.3**	Komercijalna banka	6	6.5%	3.5	OTP banka	6	7.0%	2.9
Banka poštanska štedionica	7	4.5%	2.6	Erste Bank	7	4.7%	2.5	Erste Bank	7	5.6%	2.3
Erste Bank	8	3.4%	2.0	Banka poštanska štedionica	8	4.1%	2.2	Banka poštanska štedionica	8	4.1%	1.7
ProCredit Bank	9	2.0%	1.2	Sberbank	9	3.3%	1.8	Credit Agricole banka	9	3.8%	1.6
Halkbank	10	1.5%	0.9	Credit Agricole	10	3.0%	1.6	Sberbank	10	3.8%	1.6
Addico Bank	11	1.5%	0.9	Halkbank	11	1.8%	0.9	Eurobank	11	2.2%	0.9

Note: Bank ranking per profit before taxes was made based on the profit before taxes for the entire banking sector (including banks with positive and banks with negative results).

Table 4 – Bank ranking per profit before tax (30 September.2022, pro forma). Source: NBS

4.3 Profitability and Efficiency Indicators

Profitability & Efficiency Ratios	30/09/2022			31/12/2021			30/09/2021		
	AIK	Peers	Sector	AIK	Peers	Sector	AIK	Peers	Sector
Profit Before Tax / Average Equity (ROE)	8.6%	10.5%	10.3%	12.0%	7.8%	7.5%	13.0%	8.1%	7.7%
Profit Before Tax / Average Assets (ROA)	1.6%	1.4%	1.4%	2.8%	1.2%	1.1%	3.1%	1.3%	1.2%
Net Interest Income / Average Assets	2.6%	2.5%	2.7%	2.6%	2.6%	2.7%	2.6%	2.6%	2.7%
Interest Income / Average Assets	3.5%	3.0%	3.2%	3.3%	3.0%	3.1%	3.3%	3.0%	3.1%
Interest Expense / Average Assets	0.9%	0.5%	0.5%	0.7%	0.3%	0.4%	0.7%	0.3%	0.4%
Loan Loss Provisions / Average Assets	0.1%	0.3%	0.3%	-0.3%	0.3%	0.2%	-0.5%	0.3%	0.2%
Interest Expense / Average Interest Liabilities	1.1%	0.6%	0.6%	0.9%	0.4%	0.5%	0.9%	0.4%	0.5%
Net Fee Income / Average Assets	1.0%	1.2%	1.3%	0.7%	1.2%	1.2%	0.6%	0.9%	0.9%
Fee Income / Average Assets	1.7%	1.7%	2.0%	1.0%	1.7%	1.7%	0.9%	1.4%	1.4%
Profit Before Tax / Total Revenue	31.2%	29.1%	27.0%	53.5%	25.6%	22.6%	59.0%	27.4%	23.9%
Profit Before Provisions / Average Assets	1.8%	1.6%	1.7%	2.5%	1.5%	1.4%	2.6%	1.6%	1.4%
Total Revenue / Average Assets	5.2%	4.7%	5.3%	5.2%	4.9%	5.0%	5.3%	4.8%	4.9%
Operating Expense / Average Assets	1.9%	2.1%	2.4%	1.7%	2.5%	2.6%	1.6%	2.4%	2.6%
Operating Expense / Operating Income (CIR)	51.9%	55.6%	58.3%	40.5%	62.5%	66.1%	38.3%	60.7%	64.9%
Operating Expense / Interest and Commission Income	36.9%	44.3%	45.6%	39.6%	52.9%	54.9%	38.6%	55.5%	57.4%
Personnel Expense / Average Assets	0.6%	0.7%	0.9%	0.6%	0.9%	1.0%	0.6%	0.8%	0.9%
Interest Income / Total Revenue	66.4%	62.7%	60.3%	63.5%	61.0%	62.3%	63.3%	62.6%	63.9%
Fee Income / Total Revenue	32.7%	35.6%	38.6%	19.3%	35.8%	34.6%	17.3%	29.0%	28.6%

Peers: Raiffeisen banka, UniCredit Bank, Eurobank Direktna, OTP banka, Erste Bank, Credit Agricole banka, ProCredit Bank

Table 5 – Profitability and efficiency indicators (30 September.2022, pro forma). Source: NBS

4.4 Balance Sheet Indicators

Balance Sheet Ratios	30/09/2022			31/12/2021			30/09/2021		
	AIK	Peers	Sector	AIK	Peers	Sector	AIK	Peers	Sector
Net Loans / Net Assets	57.2%	62.9%	59.2%	45.3%	58.5%	57.8%	45.6%	57.2%	56.9%
Equity / Net Assets	20.4%	12.7%	13.4%	21.4%	15.1%	14.3%	24.1%	15.3%	14.6%
Total Deposits* / Net Assets	78.5%	83.6%	83.4%	77.6%	82.0%	83.0%	74.8%	81.2%	82.1%
Deposits** / Net Assets	72.9%	63.9%	70.1%	70.7%	70.2%	71.2%	71.7%	68.7%	69.8%
Net Loans / Total Deposits*	72.9%	75.2%	71.0%	58.4%	71.2%	69.7%	60.9%	70.5%	69.3%
Net Loans / Deposits**	78.6%	98.4%	84.5%	64.1%	83.3%	81.2%	63.5%	83.4%	81.5%

** Total deposits: Transactional deposits, Other deposits, Borrowings; ** Deposits: Transactional deposits, Other deposits*

Peers: Raiffeisen banka, UniCredit Bank, Eurobank Direktna, OTP banka, Erste Bank, Credit Agricole banka, ProCredit Bank

Table 6 – Balance sheet indicators (30 September.2022, pro forma). Source: NBS

With a total equity to net assets ratio of 20.4% the Bank retained a capitalization level significantly above that of the entire banking sector and the Peers Group.

At the end of Q3 2022, interest income relative to average assets was slightly above the Peers Group and the banking sector levels. The net fee income to total income indicator recorded a significant increase over the same period of previous years.

The CIR of 51.9% at the end of Q3 2022 is significantly lower than the level of indicator realized within the observed Peers Group, as well as in the entire banking sector.

5. The Bank's Operations

5.1 Assets

Item	31/12/2022	31/12/2021	YoY change absolute / in %	
Cash and balances with the Central Bank	75,804	33,671	42,133	125.1%
Financial assets	58,761	47,683	11,078	23.2%
Loans and placements to banks and financial institutions	31,476	35,724	-4,248	-11.9%
Loans and placements to customers	231,929	116,392	115,537	99.3%
Investments in subsidiaries and joint ventures	150	11,924	-11,774	-98.7%
Intangibles	567	476	91	19.2%
Property, plant and equipment and investment property	2,824	1,248	1,576	126.2%
Investment properties	2,179	5,604	-3,425	-61.1%
Other assets	8,667	4,240	4,427	104.0%
Total assets	**412,357**	**256,962**	**155,395**	**60.5%**

Table 7 – Comparative breakdown of assets as of 31 December 2022 and 31 December 2021 (in RSD million)

The balance sheet as of 31 December 2022 provides an overview of the Bank's assets and liabilities after the realization of the agreement on the purchase of Sberbank of Serbia and the legal merger with Naša AIK Bank. Accordingly, there was a significant increase in the balance sheet amount and individual balance sheet items, which are mostly the result of the merger of two banks.

Simultaneously, the Bank actively worked on improving business, further digitalization and optimization of business processes.

The total balance sheet sum at the end of 2022 amounted to RSD 412 billion, which represents an increase of RSD 155 billion compared to the end of 2021, the result of the regulatory merger with Naša AIK Banka (1 December 2022).

In the assets structure, the most significant increase of 116 billion in absolute amount (i.e. 99.4%) was recorded in the position of loans from customers, of which RSD 98 billion was taken over by the portfolio of Naša AIK Banka.

An increase of RSD 11 billion (23.2%) compared to 2021 was achieved in the item Financial assets, whereby RSD 23.4 billion is the value of the acquired portfolio of securities of Naša AIK Banka. The balance of cash and balances with the central bank recorded a significant increase of RSD 42 billion (125%), of which RSD 25.5 billion relates to Naša AIK Banka.

The decrease of 61.1% in Investment property resulted from the successfully realized sale of a portion of property in the Bank's ownership that was intended for sale.

5.1.1 Financial Assets

The total position of financial assets at the end of 2022 recorded a significant increase compared to the end of 2021 primarily as a result of the merger with Naša AIK Banka.

Of the total amount of financial assets, placements related to dinar, euro treasury bonds and international bonds issued by the Ministry of Finance of the Republic of Serbia are at the level of RSD 49.9 billion, which represents an increase of RSD 18.0 billion compared to the end of 2021. In its portfolio, AIK Bank also has a corporate bond of SDPR in the total amount of RSD 4.6 billion.

5.1.2 Loans

Segment	31/12/2022			31/12/2021		
	Gross loans	Impairment	Net loans	Gross loans	Impairment	Net loans
Corporate	124,918	2,712	122,206	85,546	2,440	83,106
Public	27,259	391	26,868	12,049	147	11,902
SME	28,115	554	27,561	6,502	258	6,244
Retail	56,720	1,426	55,294	15,876	736	15,140
Financial institutions	31,692	216	31,476	35,746	22	35,724
Total loans	**268,704**	**5,299**	**263,405**	**155,719**	**3,603**	**152,116**

Table 8 – Comparative breakdown of loans per segments as of 31 December 2022 and 31 December 2021 (in RSD million)

As of 31 December 2022, the level of gross placements reached the level of RSD 269 billion, i.e., 264 billion of net loans, including 5 billion of impairment. This resulted in an increase in the net loan portfolio of RSD 111 billion, of which RSD 100 billion was the result of the merger with Naša AIK Banka.

In the segmental structure, the largest growth in net loans was recorded by the Retail and Corporate segments, which achieved the growth of RSD 40 billion each, the SME segment grew by RSD 21 billion, Public by RSD 15 billion, while in the Financial Institutions segment we had a drop of RSD 4 billion.

Currency	31/12/2022	31/12/2021	YoY change absolute / in %	
EUR	165,019	106,931	58,088	54.5%
USD	2,370	4,254	-1,884	-44.3%
CHF	805	114	691	>200%
RSD	94,333	40,752	53,581	131.5%
Other currencies	878	65	813	>200%
Total	**263,405**	**152,116**	**111,289**	**73.2%**

Table 9 – Comparative breakdown of loans per currency as of 31 December 2022 and 31 December 2021 (in RSD million)

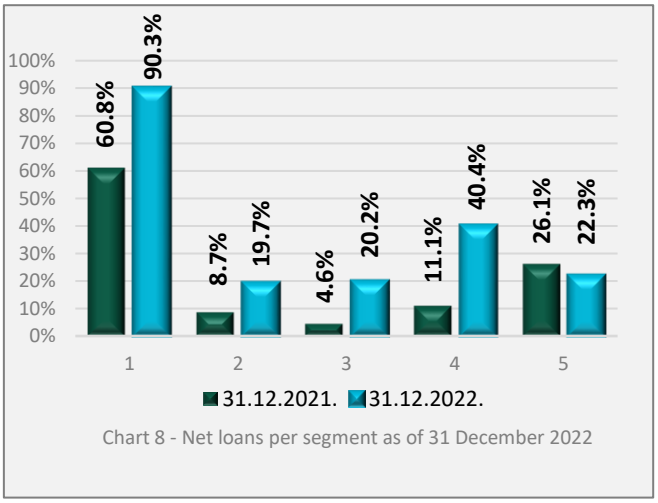


Chart 8 - Net loans per segment as of 31 December 2022

With respect to the currency structure, the largest increase in absolute amount at the end of 2022 was recorded by net loans in EUR, for RSD 58.1 billion, thus reaching a total level of RSD 165.0 billion. Loans in dinars reach a total amount of RSD 94.3 billion, which is RSD 54 billion more than the level recorded on 31 December 2021.

5.2 Classification of Balance Sheet and Off-balance Sheet Assets

Classification	31/12/2022	31/12/2021
A	132,651,286	69,669,476
B	158,728,751	90,044,261
V	71,089,897	50,419,181
G	12,532,345	6,196,541
D	6,660,999	3,628,472
Total	**381,663,278**	**219,957,931**

Table 10 – The Bank's exposure per classification categories as of 31 December 2022 and 31 December 2021 (in RSD thousand)

Segment	Gross exposure	Balance sheet	Off-balance sheet
Corporate	258,798,671	153,996,629	104,802,042
large	156,101,317	96,486,241	59,615,076
medium	80,063,837	39,001,745	41,062,092
small	22,633,517	18,508,643	4,124,874
Retail	65,278,993	59,580,299	5,698,694
Public sector	39,296,942	32,283,169	7,013,773
Financial sector	17,634,889	14,357,447	3,277,442
Acquired assets to be classified	653,783	653,749	34
Total	**381,663,278**	**260,871,293**	**120,791,985**

Table 11 – Breakdown of balance sheet assets and off-balance sheet items subject to classification per segment as of 31 December 2022 (in RSD thousand)

5.3 Liabilities and Equity

Item	31/12/2022	31/12/2021	YoY change absolute / in %	
Deposits and other liabilities due to banks and other financial organizations	16,797	17,801	-1,004	-5.6%
Deposits and other liabilities due to customers	309,534	181,670	127,864	70.4%
Provisions	1,310	546	764	139.8%
Other liabilities	7,442	1,891	5,551	293.6%
Equity	77,274	55,054	22,220	40.4%
Total liabilities	**412,357**	**256,962**	**155,395**	**60.5%**

Table 12 – Comparative overview of liabilities positions as of 31 December 2022 and 31 December 2021 (in RSD million)

In the structure of liabilities, the largest increase of RSD 127 billion in absolute amount (or 70.4%) was recorded in the position of deposits from customers, of which RSD 118 billion was taken over by the deposit portfolio of Naša AIK Banka.

5.3.1 Deposits

Segment	31/12/2022	31/12/2021	YoY change absolute / in %	
Corporate	92,139	43,026	49,113	114,0%
Public	22,000	15,570	6,430	41.3%
SME	32,488	12,461	20,027	160.7%
Retail	162,907	110,613	52,294	47.3%
Financial institutions	16,797	17,801	-1,004	-5,6%
Total deposits	**326,331**	**199,471**	**126,860**	**63.6%**

Table 13 – Comparative breakdown of deposits per segment as of 31 December 2022 and 31 December 2021 (in RSD million)

Following the trends in the segment structure of deposits, the most significant increases compared to the end of the previous year are present in the Retail and Corporate segments with RSD 52.3 billion and RSD 49.1 billion, respectively.

The increase in the SME segment amounts to RSD 20 billion, which is 160% compared to 2021, while a smaller increase of RSD 6.4 billion was achieved in the Public segment.

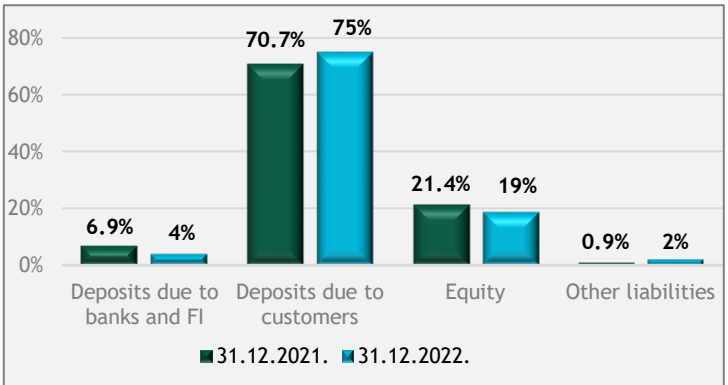


Chart 9 - Structure of liabilities as of 31 December 2021 and 31 December 2022

Currency	31/12/2022	31/12/2021	YoY change absolute / in %	
EUR	183,422	124,374	59,048	47.5%
USD	9,776	4,524	5,252	116.1%
CHF	7,608	3,128	4,480	143.2%
RSD	124,554	67,355	57,199	84.9%
Other currencies	971	90	881	>200%
Total	**326,331**	**199,471**	**126,860**	**63.6%**

Table 14 – Comparative breakdown of deposits per currency on 31 December 2022 and 31 December 2021 (*in RSD million*)

Compared to the end of the previous year, and observed by the currency structure of the deposit portfolio, the highest absolute growth was realized in EUR in the amount of RSD 59 billion (47.5%), while the increase in dinar deposits was recorded in the amount of RSD 57 billion (84.9%). Deposits in CHF currency achieved the highest relative growth of 143% (RSD 4.5 billion), while deposits in USD had a growth of 116%, i.e. RSD 5.2 billion in the absolute amount.

5.3.2 Equity

Capital calculation

Item description	31/12/2022	31/12/2021
Nominal value of the shares	19,762,595	19,762,595
Share premium	7,433,135	7,433,135
Reserves	11,468,813	14,620,255
Current year profit	26,132,960	5,944,174
Previous period retained ernings	12,476,746	7,293,440
Total equity	**77,274,249**	**55,053,599**

Table 15 – Breakdown of equity per year (in RSD thousand)

In 2022, the regulatory capital increased by RSD 19.9 billion, which mostly results from the inclusion of profits from previous years, i.e. part of the profits from the current year in the regulatory capital, as well as from the sale of shares in Gorenjska banka d.d., Kranj.

Item description	31/12/2022	31/12/2021
TIER 1	54,753,766	36,818,798
Common equity Tier 1 capital – CET 1	54,753,766	36,818,798
Additional Tier 1 Capital (AT1)	-	-
TIER 2	2,228,827	267,928
CAPITAL	**56,982,593**	**37,086,726**

Table 16 - Capital structure per year (in RSD thousand)

Capital Adequacy - Risk

The National Bank of Serbia Decision on the Capital Adequacy of Banks stipulates the Bank's obligation to perform its operations so as to ensure the coverage of its risk-weighted assets by capital in the amount of at least 8%.

The objective of the Bank's capital management is to ensure that at all times, the Bank has at its disposal a level and structure of internal capital that will ensure the Bank's compliance with all its legal obligations, maintenance of the trust of its shareholders and depositors in the security and stability of its operations, realization of the Bank's business and financial plans, which can support the expected growth of the Bank's loans and investments, future sources of funds and their deployment, as well as the realization of the dividend policy.

General regulatory indicators	Required	31/12/2022	31/12/2021
Capital adequacy	min. 8%	19.81%	20.37%
Exposure to one or a group of related entities	max. 25%	16.33%	30.02%
Sum of the Bank's large exposures	max. 400%	131.22%	235.06%
The Bank's investments (in non-FSI entities and capital expenditures)	max. 60%	9.06%	23.11%
Investment in a single non-FSI entity	max. 10%	0.26%	3.08%
Average liquidity ratio	min. 1	2.54	3.03
Liquid Assets Coverage Indicator	min. 100%	163%	197%
Foreign exchange ratio	max. 20%	1.13%	3.34%

Table 17 – General regulatory indicators per years and as of 31 December 2022

The Bank's strategic goal is to maintain its capital adequacy ratio at its targeted level of 17.35%, i.e. level representing an overall capital requirement according to the NBS Decision on the conducted supervisory evaluation process increased by 1 p.p.

The minimum capital adequacy ratio level is 16.35%, or 10.59% increased by the combined capital buffer according to the NBS Decision on the conducted supervisory evaluation process. As of 31 December 2022, the Bank calculated capital adequacy ratio in accordance with the NBS Decision on the Capital Adequacy of Banks.

According to this Decision, the Bank calculates the capital requirements for the following risks

- credit risk – using the standardized approach;
- credit valuation adjustment risk (CVA risk) – using the standardized approach;
- market risks (foreign exchange risk and price risk) – using the standardized approach;
- operational risk – using the basic indicator approach (BIA).

Item description	31/12/2022	31/12/2021
Capital	**56,982,593**	**37,086,726**
Capital requirements	**23,008,596**	**14,564,189**
Credit risk	19,660,504	11,747,186
Market risks	381,316	828,381
Operational risk	2,964,655	1,987,144
Credit valuation adjustment (CVA)	2,121	1,478
Capital adequacy ratio	**19.81%**	**20.37%**

Table 18 – Calculation of capital adequacy as of 31 December 2022 and 31 December 2021 (in RSD thousand)

Details on Shares Issued

Issue description	Ordinary shares with voting rights	Priority convertible shares	Priority cumulative shares without voting rights
ISIN	RSAIKBE79302	RSAIKBE15363	RSAIKBE36633
CFI code	ESVUFR	EFNNFR	EPNNCR
Ticker	AIKB	AIKBPC	AIKBPB
Currency	RSD	RSD	RSD
Single share par value	2,090.44	2,090.44	2,090.44
Total shares issued	8,285,377	40,989	1,127,431
Nominal value of the shares	17,320,083,495.88	85,685,045.16	2,356,826,859.64
Total par value of shares	**=19,762,595,400.68**		
CFI description	ORDINARY SHARES, EACH SHARE CARRIES ONE VOTE, RIGHT TO GOVERNANCE, DIVIDEND AND OTHER RIGHTS AS PER THE LEGISLATION AND THE BANKS' INTERNAL ACTS, REGISTERED WITH THE CENTRAL DEPOSITORY	SHARES WITHOUT VOTING RIGHTS, PRIORITY RIGHT TO A DIVIDEND COMPARED TO GOVERNING SHARES, RETURN AT A PRE-DEFINED RATE AS PER THE DECISION ON THE ISSUE OF SHARES AND OTHER RIGHTS AS PER THE BANKS' INTERNAL BYLAWS, REGISTERED WITH THE CENTRAL DEPOSITORY	NON-VOTING SHARES, PRIORITY RIGHT TO A DIVIDEND COMPARED TO GOVERNING SHARES, CUMULATIVE SHARE IN THE DIVIDEND AND RETURN AT A PREDEFINED RATE AS PER THE DECISION ON THE ISSUE OF SHARES AND OTHER RIGHTS AS PER THE BANKS' INTERNAL BYLAWS, REGISTERED WITH THE CENTRAL DEPOSITORY
Statistical breakdown of ownership:	Central Securities Depository and Clearing House: www.crhov.rs		

Table 19 - Breakdown of shares outstanding as of 31 December 2022

Ownership structure of ordinary shares

Name	Number of shares	Percentage
BDD M&V INVESTMENTS AD BEOGRAD	8,258,377	100.00%

Table 20 – Ownership of shareholders as of 31 December 2022; Central Securities Depository and Clearing House, www.crhov.rs

In 2022, there was no redemption of own shares.

5.4 Income Statement

Item	2022	2021	YoY change absolute / in %	
Interest income	9,784	7,742	2,042	26.4%
Interest expense	-2,424	-1,636	-788	48.1%
Net interest income	**7,360**	**6,106**	**1,254**	**20.5%**
Fee income	2,948	2,351	597	25.4%
Fee expense	-1,087	-670	-417	62.3%
Net fee income	**1,861**	**1,681**	**180**	**10.7%**
Net income from foreign exchange differences	98	-120	218	-181.8%
Total operating income	**9,319**	**7,667**	**1,652**	**21,6%**
Operating expenses	-2,379	-1,797	-582	32,4%
Other expenses	-3,331	-2,662	-669	25,1%
Other income	26,423	2,675	23,748	>200%
Operating result	**30,032**	**5,883**	**24,149**	>200%
Net gains from reversal of impairment	405	643	-238	-37.0%
Profit before tax	**30,437**	**6,526**	**23,911**	**>200%**

Table 21 – The Bank's Profit and Loss Statement as of 31 December 2022 and 31 December 2021 (*in RSD million*)

In 2022, the Bank achieved a high level of profitability with RSD 30.4 billion in pre-tax profits.

Net interest income in 2022 reached a total of RSD 7.4 billion, which is for RSD 1.3 billion higher than in the previous year. The total amount of interest income is at the level of RSD 9.8 billion, which is for RSD 2 billion higher than the income of the previous year. From the point of view of business segments, all segments recorded an increase in interest income, with the largest increase of RSD 643 million recorded by the Public segment (93.2%) as a result of a significant increase in the volume of loans. The Corporate segment recorded revenue growth of RSD 429 billion (9.6%), Financial institutions - RSD 362 billion (31%), the Residential segment - RSD 360 billion (32%), while the SME segment achieved the growth of RSD 248 billion (82%).

The increase in interest income and expenses is the result of the increase in market interest rates, the increase in the level of loan and deposit portfolio, but also the optimization and diversification of deposit sources of financing.

In 2022, net fee income increased by RSD 180 million compared to the previous year and reached the amount of RSD 1.8 billion. In the fee income, income from payment transaction fees is predominant, accounting for 35.1% of total fee income, followed by income from payment card fees, accounting for 34.2%. The largest absolute growth in income from fees comes from exchange rate differences, which had an increase of RSD 273 million (accounting for 14.4%), while Fees from guarantees had an increase of 35 million (with a 10.1% share).

Fee income additionally continues the growth trend as a result of higher level of customer activity and continued intensification of activities on the development of products that generate non-interest income.

Total operating costs in 2022 amount to RSD 2.4 billion, which represents an increase of 582 billion compared to the previous year. The accompanying costs of performing business activities had an increase compared to the previous year due to the continuation of the digitization process and the comprehensive expansion of business, as well as the result of the growth of the business network after the merger with Naša AIK Bank.

Net gains from impairment of financial assets and credit risk-weighted off-balance sheet items in the amount of RSD 0.4 billion has a positive impact on the income statement in 2022, including both the effects of additional impairment allowance and the positive effects of debt collection.

Items	2022	2021	YoY change absolute / in %	
Interest income	**9,784**	**7,742**	**2,042**	**26.4%**
Corporate	4,885	4,456	429	9.6%
Public	1,332	689	643	93.2%
SME	552	304	248	81.7%
Retail	1,478	1,118	360	32.2%
Financial institutions	1,537	1,175	362	30.9%
Interest expenses	**-2,424**	**-1,636**	**-788**	**48.1%**
Corporate	-620	-288	-332	114.3%
Public	-436	-211	-225	106.5%
SME	-69	-36	-33	92.7%
Retail	-763	-782	19	-2.4%
Financial institutions	-536	-319	-217	68.1%
Net interest income	**7,360**	**6,106**	**1,254**	**20,5%**

Table 22 – Breakdown of interest income and expenses per segment as of 31 December 2022 and 31 December 2021 (in RSD million)

Fee and commission income	2022	2021	YoY change absolute / in %	
Payment transaction fees	1,034	957	77	8.0%
Fees on issued guarantees	303	264	39	14.8%
Fees per payment cards	1,008	794	214	27.0%
Fees per cheques	10	10	-	0.0%
Fees per cash payments	9	9	-	0.0%
Foreign exchange gains/losses	425	152	273	179.6%
Other fees and commissions	159	165	-6	-3.6%
Total fee and commission income	**2,948**	**2,351**	**597**	**25.4%**

Table 23 – Breakdown of fee and commission income as of 31 December 2022 and 31 December 2021 (in RSD million)

Item	2022	2021	YoY change absolute / in %	
Salaries, salary compensations and other personal expenses	-1,806	-1,322	-484	36,6%
Depreciation	-573	-475	-98	20,6%
Rental costs and other costs relating to leased business premises	-718	-522	-196	37,5%
Insurance costs	-622	-596	-26	4,4%
Costs incurred in performance of the Bank's business activity	-687	-474	-213	45,0%
Intellectual services	-364	-319	-45	14,2%
Marketing costs	-134	-140	6	-4,7%
Taxes and fees payable	-87	-44	-43	94,9%
Other net expenses	-719	-567	-152	27,0%
Total operating expenses	**-5,710**	**-4,459**	**-1,251**	**28,1%**

Table 24 – Breakdown of operating and other expenses as of 31 December 2022 and 31 December 2021 (in RSD million)

6. Risk Management and Non-performing Loans

6.1 Risk Management System

The risk management process implies continued risk identification, measurement, i.e. assessment, undertaking risk mitigation measures, risk monitoring and control, i.e. establishing the risk exposure limit system, as well as reporting on risks in line with the Bank's internal acts and the decisions of the regulators. An adequate risk management system is one of the key elements in ensuring the stability of the Bank's operations.

Risk monitoring and control are primarily based on establishing the procedures and limit system. The established limits reflect the Bank's business strategy and market environment, as well as the risk level that the Bank is willing to accept. The Bank permanently monitors and measures the capacity of the acceptable risk exposure level, taking into account the total exposure to all types of risks.

The Bank continuously monitors all changes in the law and bylaw regulations and international standards, and undertakes measures for the timely harmonization of its operations with the current regulations.
The Risk Management System is defined in the following Bank's acts:

- Risk management strategy,
- Capital management strategy and plan,
- Risk management policy,
- Individual risk management procedures,
- Methodologies by which the Bank defines in detail the methods and approaches used in the individual risk management system and
- Other acts of the Bank.

The risk management strategy defines the risk management principles for the purpose of ensuring an adequate assessment of all the risks the Bank is exposed or may be exposed to in its operations, and the adequate capital necessary for supporting the realization of the Bank's strategic goals, in line with the Bank's Business Policy and Strategy.

The Risk Management Strategy defines:

- All the risks the Bank is exposed or may be exposed to in its operations,
- Long-term goals in risk management, as established by the Bank's Business Policy and Strategy, as well as risk inclination and tolerance determined in line with those goals;
- Basic principles of risk assumption and management;

- Basic principles of the process of internal capital adequacy assessment;
- Obligatory regular reporting to the Bank's bodies and the National Bank of Serbia about risk management;
- The criteria for establishing the Bank's bad assets, the basic principles of managing such assets, as well as the highest acceptable level of the Bank's bad assets.

In the Risk Management Policy, the Bank determines: the basic principles of risk management, and in particular defines the organization of the risk management process, the basis for the Bank's risk profile assessment, i.e. individual risk identification, measurement, mitigation and monitoring, the internal risk management control system, the establishment of the individual risk limit system, as well as acting in the event of exceeding the defined limits, the manner and methodology for implementing the internal capital adequacy assessment process, the framework and frequency of the stress testing of individual types of risks, acting in case of unfavourable stress test results, as well as the obligation of regular internal and external reporting on risk management.

In the risk management procedures, the Bank further defines the process or risk identification, measurement, i.e. assessment, as well as the procedure of risk mitigation, monitoring and control, reporting about the risks the Bank is exposed to, as well as the competencies and responsibilities of the Bank's organizational parts in the risk management system.

In addition, in a separate procedure, the Bank defines activities, rules for the employees' actions, authorities and responsibilities in relation to:

- management of placements in arrears from the corporate, public and financial sectors, retail segment and the small client segment; and
- non-performing placements of the Bank to corporate customers related to restructuring of their placements, i.e. to all non-performing customers (corporate and retail) related to enforced collection.

Through individual methodologies, the Bank prescribes in detail the methods and approaches applied for measuring individual risk exposure.

For the purpose of adequate risk management, the Bank has formed an adequate organizational structure that suits the scope, type and complexity of the operations it performs and with the aim of preventing conflicts of interest, it has separated the risk-taking function (front office) from the risk management function (middle office) and supporting activities (back office). This organizational structure enables the achievement of the established goals and principles of risk management in practice.

The Bank has established a comprehensive and reliable risk management system that is fully integrated into all the Bank's business activities and ensures that the Bank's risk profile is in line with the Bank's defined risk appetite.

The risk management process includes the following participants:

The Bank's Assembly - adopts the Bank's Business Policy and Strategy that define the Bank's business goals for the period of at least three years, adopts the Bank's financial statement and decides on the use and distribution of the realized profit i.e. covering losses. In addition, the Assembly decides on increasing capital i.e. capital investments in other entities in the financial sector or other corporate customers, as well as regarding the amount of investments in fixed assets and investment property.

Board of Directors – is competent and responsible for establishing a unique risk management system and control over that system, adopting the Risk Management Strategy and Policy, the Capital Management Strategy and Plan, and the Methodology for Internal Capital Requirements Assessment, establishing the internal control system, adopting the Liquidity Contingency Plan and the Bank Recovery Plan. Furthermore, the Board of Directors controls the work of the Executive Board.

The Committee for Monitoring the Bank's Operations is competent and responsible for adopting the proposed Bank's Strategy and Policy

in relation to risk management and implementing the internal control system submitted to the Board of Directors for consideration and adoption. In addition, this Committee is in charge of analysing and controlling the application and adequate implementation of the adopted Risk Management Strategy and Policies and Internal Control System Policies. At least once a month, the Board of Directors reports on its activities and established irregularities, and proposes ways to eliminate them.

Executive Board – is competent and responsible for implementing the Bank's Business Policy and Strategy according to the three-year strategic plan, the Risk Management Strategy and Policy, the Capital Management Strategy and Plan, the Internal Control System Policy, the adoption and analysis of the efficiency of individual risk management procedures that further define the process of risk identification, measurement (assessment), mitigating, monitoring and control, as well as reporting on the risks the Bank is exposed to. The Bank's Executive Board regularly reports to the Board of Directors about the efficiency of the adopted Policy and risk management procedures.

The Asset and Liability Committee monitors the Bank's risk exposure arising from the structure of its balance sheet liabilities, receivables and off-balance sheet items and proposes measures for managing market risks, interest risk and liquidity risk.

The Risk Committee is responsible for monitoring the Bank's exposure to credit risk, liquidity risk, interest risk, market risks, operational risk, country risk, investment risk and other risks, and it proposes measures for managing those risks to the Bank's Executive Board.

The Client Monitoring Committee is responsible for monitoring the placement quality at the level of individual clients and observing the increased credit risk, i.e. for monitoring the receivables from clients in arrears and clients with a probability of increased credit risk. The Client Monitoring Committee meets at least once a month and more frequently if necessary.

The Bank's credit committees decide on loan requirements/placements within the frameworks determined in the Bank's acts and analyses the Bank's exposure to credit risk (including foreign exchange risk, concentration risk and country risk), interest rate and market risks. The Bank's Board of Directors makes the Decision on forming credit committees and appointing the members of the following credit committees:

- Corporate and Finance Sector Credit Committee
- Retail and SME Credit Committee.

The credit risk management divisions (the Corporate, Public and Finance Sector Credit Risk Management Division and the Retail and SME Sector Credit Risk Management Division) identify, measure i.e. assess and manage the credit risk of performing clients in the corporate segment, public and financial sector, i.e. the segment of retail and small and medium enterprises. The task of these divisions is to prepare proposals and give their expert opinions and "votes" to the specific loan proposals.

The Monitoring Sector performs the ongoing control and monitoring of performing loans and receivables from clients within the corporate, public and finance sectors, retail and small clients, as well as the control and monitoring of collaterals and circumstances following loan disbursement, the validity of insurance policies, the validity of appraisals of properties assigned under mortgage liens, authenticity of information related to the collaterals securitizing the Bank's receivables that are entered into the Bank's information system etc.

The Risk Control Sector proposes the risk management strategy, policy, procedures and methodologies for adoption. This Sector is responsible for implementing and maintaining risk-related methodologies and procedures from the aspect of ensuring the independent risk control process. This Sector also ensures the complete inclusion of risks in the measurement and reporting system of the risks that the Bank is exposed to in its operations. The Risk Control Sector comprises two divisions: Credit Risk Controlling and Market, Liquidity and Operational Risk Controlling.

The Workout Sector - in order to implement the strategy for addressing NPLs, which is an integral part of the Bank's risk management strategy, the

Bank set up this Sector within its organization as a separate organizational unit for NPL management so that it is functionally and organizationally separated from the organizational units whose scope of activity includes risk-taking. The main function of the Sector is to manage the collection of non-performing customers – corporate and retail, entrepreneurs and registered agricultural estates, and to manage the early collection of natural persons' placements in arrears.

The Accounting and Reporting Sector is in charge of maintaining books of accounts, the preparation and issue of the financial statements and reporting to the NBS and other external users.

The Planning, Analysis and Control Sector provides appropriate support for all participants in the process of planning available internal capital, as well as in preparing the Bank's Financial Plan, which is taken as the basis for planning available internal capital.

The Treasury Sector is responsible for managing assets and liquidity, as well as the Bank's assets and liabilities. Moreover, it participates in the liquidity risk management, interest position and foreign currency position of the Bank. The operations of this Sector are organized through the work of two units: Trading, Sales and Financial Institutions Relations and Asset/Liability and Liquidity Management.

The Operations Sector which through its operations performs a support function, through the management of the Bank's operations in the areas of business support, payment operations, credit and deposit administration.

The Internal Audit Sector is responsible for the continued monitoring of the implementation of risk management policies and procedures, as well as for the regular assessment of the adequacy, reliability and effectiveness of the internal control system and the compliance function of the Bank. The Internal Audit Sector reports to the Board of Directors and the Audit Committee about its findings and proposals.

The Compliance Sector is obligated to identify and monitor compliance risks in the Bank's operations, as well as to manage those risks that particularly relate to the risk of money laundering and terrorist financing, the risk of sanctions by the regulator, the risk of financial losses and reputation risk. The basic function of the Compliance Sector is the implementation of the ongoing, adequate and efficient control of the Bank's compliance in a manner that enables indicating existing and potential compliance risks and the management of such risks in order to achieve the highest standards in the Bank's operations.

6.2 Liquidity Risk

In its operations, the Bank pays particular attention to liquidity maintenance as it believes that appropriate liquidity is one of the prerequisites of financial stability and development. The experiences of the banking sectors in the country and the region demonstrate that under circumstances of compromised liquidity, client trust in the Bank deteriorates and reputation risk increases, which compromises profitability.

Liquidity risk is the possibility of adverse effects on the financial result and equity of the Bank, due to the inability of the Bank to settle due liabilities, due to the withdrawal of existing sources of financing, i.e. the impossibility of obtaining new sources of financing (liquidity risk of sources of funds) and the difficulty of converting assets into liquid assets due to disruptions in the market (market liquidity risk).

In its operations, the Bank respects the basic principles of liquidity management, achieving a sufficient level of funds to cover short-term liabilities, i.e. respects the principle of solvency, forming an optimal structure of own and borrowed funds and forming a sufficient level of liquidity reserves.

The Bank maintains a stable liquidity position and a sufficient and adequate level of liquidity reserves. Liquidity reserves are mostly in the form of cash and liquid debt government securities, which can be redeemed in a relatively short period of time.

The Bank manages its assets and liabilities to ensure that it fulfils all its obligations and that its clients may at all times have their assets at their disposal in accordance with the contractual terms.

The Bank adequately manages the liquidity risk of funding sources, considering the diversification of the deposit base. At the same time, the Bank has a sufficient level of liquid assets, where the market liquidity risk is within the expected limits.

The Bank monitors liquidity on an ongoing basis through daily calculation of the liquidity ratio, rigid liquidity ratio and internal liquidity ratios. Moreover, in the process of liquidity risk measurement, the Bank uses GAP analysis by grouping balance-sheet and off-balance sheet items per time buckets according to the contractually defined maturity dates, i.e. the expected time for generating cash flows.
The Bank also defines internal limits relating to cumulative GAP values per time buckets under regular conditions and stress conditions. Stress tests are conducted on a monthly basis and compliance with the defined internal limits for liquidity GAP in stress conditions is checked.

The Bank harmonizes its operations with the regulatory liquidity ratio, narrower liquidity ratio, as well as the liquid asset coverage ratio.

Range	Liquidity ratio	Narrow liquidity ratio	Liquidity coverage ratio
As of 31 December 2022	3.42	2.83	163%
Average for the year	2.54	2.28	152%
Maximum	3.70	3.36	204%
Minimum	1.77	1.69	123%

Table 25 - Movements of the liquidity ratios in 2022

During 2022, the Bank maintained regulatory liquidity ratios at a higher level above the regulatory defined minimums.

6.3 Market Risks

The Bank identifies its exposure to the foreign exchange risk through open positions in a certain currency and in total for all currencies it uses in its business operations. The Bank assesses foreign exchange risk exposure using the regulatory limits (foreign exchange risk ratio) and internally defined methods.

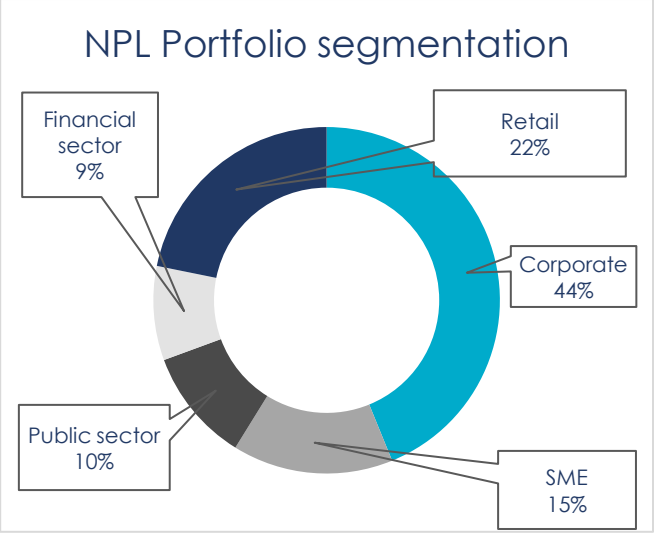
The Bank's foreign exchange risk ratio was below the regulatory maximum of 20% through whole 2022 and as of 31 December 2022 it amounts to 1.13%.

As of April 2018, the Bank was exposed to the price risk per items in the trading book, when the first equity investments were purchased. As of 31 December 2022, the Bank had bank and corporate shares with a total market value of RSD 2.4 billion in its trading book. The basic principles of price risk management entail the maintenance of this risk level according to the internally defined limits for the Bank's trading book level, daily monitoring of the changes in the market conditions that may give rise to the increased exposure of the Bank to the trading book risks, and definition of measures to reduce risk exposure. The objective of active risk management is to decrease the equity price risks to an acceptable level, which can be controlled and which enables the Bank to maximize its profit while minimizing the risks.

6.4 Non-performing Loans

For the purpose of the timely identification of possible problems, in 2022 the Bank continued its intensive monitoring of the balances and trends of the non-performing loans (NPLs). NPL monitoring is vital to credit risk monitoring as NPLs represent one of the basic indicators of the quality deterioration of the Bank's loan portfolio.

The most significant share in the NPL amount refers to the corporate customer segment (59%). The share of the retail segment in the Bank's total NPLs amounts to 22%. The NPL percentage in the public sector is 10%, while in the financial sector it amounts to 9%.



During 2022, the Bank continued to monitor receivables, both from individual clients and at the level of the entire portfolio, which resulted in maintaining NPLs at a stable level in absolute amounts. The NPL indicator decreased compared to the end of 2021.

NPL Coverage

When comparing the total amount of allowance for impairment to the amount of the provisions for non-performing loans and receivables (according to the NBS methodology), the following may be concluded:

- The Bank's rate of coverage of gross NPL with allowances for impairment (in accordance with IFRSs) equalled to 94%.

Activities undertaken in 2022

Throughout 2022, the Bank intensively worked on improving the processes of risk identification, assessment, monitoring and control, which resulted in the decrease in the Bank's NPL indicator from 4% at the end of 2021 to the level of 2.16% as of 31 December 2022.

7. Marketing and Public Relations

7.1 Marketing Strategy for 2022

The Bank's marketing strategy for 2022 was largely focused on the implementation of the integration process, but also continuous improvement of services, digitalization of processes, promotion of good business results, commitment to clients, as well as to the local community. The essential strategic goal was to position AIK Bank as a strong and stable regional financial institution, which strives for long-term sustainable development, both on the local market and in the region.

The marketing campaigns were aimed at strengthening AIK Bank's position on the market after the integration, with the aim of bringing the end users closer to the benefits and opportunities arising from this process. The primary target group, above all, were the clients of AIK Banka and Naša AIK Banka, on whom the integration had a direct effect, primarily in terms of expanding the portfolio and improving the user experience.

The Bank's communication directions in 2022:

- **Integration and expansion of business** – successful implementation of the integration process (internally - towards employees and externally - towards partners, clients and media) and at the same time additional positioning on

regional markets and the market of the European Union, as well as the continuation of the formation of an even stronger and more dynamic financial institution, expanding business network and improvement of the range of banking products and services.

- **Modern, innovative and digital** – Thanks to services such as mBanking, eBanking, online on-boarding, availability of services and services 24/7, AIK Bank is one of the leaders in digital banking. At the same time, cooperation with brand ambassadors (Jovan Memedović), who promote and share the values of AIK Bank, strengthened the image of the company as stable, safe, modern, but above all responsible.
- **Customer oriented** – all available offers tailored to the customer
- **Recognized as one of the strongest financial institutions in the country** – The "Manager of the Year" award for Jelena Galić, the Charperson of the Executive Board in the selection of the Serbian Association of Managers, as well as the presence of the leader of AIK Bank in the leading domestic and respectable foreign media speaks of the good image of the Bank and the expertise of the leading people as recognized communicators in the public.

Achieving the stated goals implies:

- Raising public awareness of the strength of AIK Banka (so-called brand awareness), through integrated communication of traditional and digital media.
- Targeted communication clearly differentiated according to the target groups the Bank addresses.
- Continuous PR campaign as well as interviews of AIK Bank's leaders in the most important media (offline/online) on the topic of integration, digital services, but also CSR activation in order to strengthen the position and image of AIK Bank and its representatives as safe, reliable, innovative partners of the Serbian economy.
- Participation in the most important business gatherings and active work in business associations.
- Work on improving the Bank's website in order to raise the standard of user experience (user-friendly site).
- Monitoring the needs of clients and trends in the industry, as well as promoting the Bank as one of the leading banking groups in the region, whose financial and business indicators are significantly above the average of the domestic and regional banking market.
- Active communication of CSR activities and sponsorships, as well as Bank services that support responsible and sustainable operations.

7.2 Marketing Plan for 2022

The marketing plan for 2022 included the activities defined by the marketing strategy:

- Strengthening the recognition of the Bank's brand as a domestic, modern and stable financial institution;
- Realisation of strategic marketing campaigns, visually integrated and implemented with an adequate selection of communication channels;
- The presence of the Bank at all events intended for the business public, with the aim of positioning the Bank as a domestic and stable financial partner of the state, as well as of the real sector and the population.
- Creation of promotional materials with the aim of supporting sales sectors and achieving better sales results.
- Special focus on existing clients with a focus on the benefits of the integration that marked the year 2022.

7.3 Realization of the Bank's Marketing Plan for 2022

Strategic marketing campaigns implemented until 31 December 2022:

Implementing the integration process

1. "Family Support" program in the country and region
2. Affirmation of children and youth
3. Term savings in euros - a campaign that promotes attractive interest rates

Integration process - AIK Banka successfully took over Sberbank Serbia, which continued operations under the new name "Naša AIK Banka". In this way, AIK Bank once again confirmed its commitment to further growth, strengthening stability and responsible business operations. The legal merger took place at the end of 2022, and the two banks continue to operate under the commong name of AIK Banka. Rounding off this process expanded the Bank's business network, and provided clients with an improved range of banking products, as well as an even better user experience.

"Family Support" Program - As part of our socially responsible activities aimed at children, young people and parents, we continued to support the reconstruction of maternity hospitals in the region.

With a donation amounting to EUR 100,000, AIK Bank, together with MK Group, supported the Hospital for Gynecology and Obstetrics KBC "Dr. Dragiša Mišović, and the funds are intended for the purchase of a state-of-the-art laparoscopic column. The maternity ward of the "Sestre milosrdnice " Clinical Hospital Center in Zagreb was also supported with the same sum, and the donation was used for the purchase of the most modern ultrasound machine that will improve the health care of pregnant women and women in labor. The "Family Support" program also supported the renovation of the postpartum rooms at the University Medical Center Ljubljana.

Affirmation of children and youth – in 2022, we continued to support the campaign "Be someone's superhero. Invaluable", and the realization of the Superhero.rs platform focused on the work of the organization dedicated to children suffering from cancer NURDOR. At the same time, through ten years of support to the organisation of the Children's Village of Serbia, we supported the work of their special program - the Center for Family Support in Niš.

AIK Bank marked its support for younger generations on the path of career development by sponsoring a competition for high school students organized by the Student Union of Mathematicians "SUMA", which aims to test knowledge of computer science and mathematics and develop the team spirit of the participants, as well as introduce high school students to the Faculty of Mathematics.

Savings in Euros campaign – The Bank's traditional campaign aimed at collecting sources of financing from the domestic market, i.e., collecting deposits of retail customers. Thanks to the ambassador of AIK Bank, who represents the personification of stability, responsibility, but also the domestic brand, the Bank promotes a savings service tailored to each customer, in accordance with their financial habits and wishes. All potential clients are given the opportunity to save their money simply, smartly and responsibly, but also to earn long-term income, with an attractive interest rate and flexible repayment terms. The opportunity to save is also available online. The target group addressed by the Bank in the campaign are individuals of an older age (over 50 years old) who save more, but also the younger population, which sees the benefits of the savings service to a favorable business opportunity, but is also more willing to use online services.

Media presence

First of all, thanks to the integration process, the extraordinary interest of the media in the activities of our financial institution is noticeable. Faithful, completely objective transmission of information, while emphasizing all the benefits of the largest business transaction of AIK Bank in 2022, marked the media reporting in the year behind us. When one adds to that the affirmative view of AIK Bank's involvement through numerous donations to health institutions, families and children, as well as reports on the prestigious award for the Manager of the Year presented to the president of the Executive Board of AIK Bank, Jelena Galić, the overall media image was extremely positive.

Media crises were completely absent, and thanks to media appearances in prestigious regional and national media, such as Bloomberg Adria, Forbes Middle East, TV N1, as well as participation in conferences with great media coverage, such as the Kopaonik Business Forum, AIK Bank's management imposed itself on the public with its expertise thus affecting a favorable media image and an even more favorable reputation of the Bank.

Integration

The business activity that fully marked the year 2022 was the integration process, which was completed in less than nine months. After the successful legal merger at the end of the year, AIK Banka and Naša AIK Banka continued to operate under one name - AIK Banka, and provided their clients with an expanded business network, an improved range of banking products, as well as an even better user experience.

Sponsorships and donations

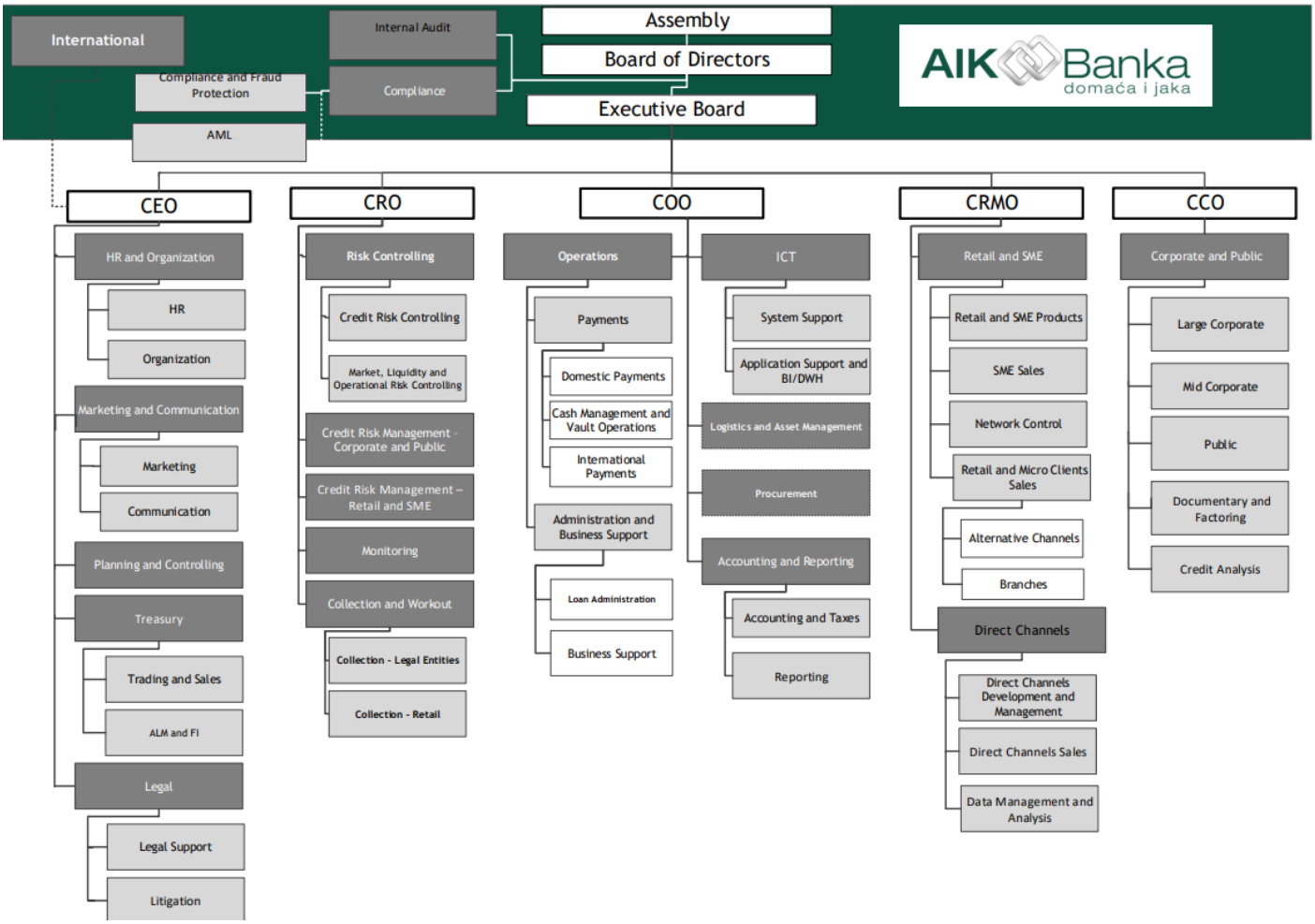
The essence of our CSR strategy is family support. Guided by this, we strive to always and everywhere provide support for parenting and true family values, with a special focus on children, their needs, education and healthy upbringing. As part of the regional project "Family Support" and in 2022, we tried to improve conditions in maternity hospitals such as those in Zagreb, Ljubljana, Prijedor, Gradiška, Sarajevo and Belgrade, to support young parents in the first days of their most important role in life. AIK Bank also financially supported the Institute of Oncology and Radiology of Serbia with funds intended for the procurement of drugs necessary for the treatment of patients at the Institute, thereby once again showing its strong will to support healthcare institutions in the country.

As a ten-year supporter of SOS Children's Village Serbia, in the past year we helped the work of their special program - the Center for Family Support in Nis. Cooperation with the humanitarian organization NURDOR continued, through the support of the superhero.rs platform, which collects funds for the operation of the organization, which has been successfully helping children with cancer in the treatment process for years. And in the past year, we offered our resources at the service of affirming young talents. Relying on the "Dobar Glas" Foundation, we supported young musicians, and thanks to the Student Union of Mathematicians "SUMA" we sponsored a competition for high school students - mathematicians and computer scientists and their association with the Faculty of Mathematics, which showed faith in the potential of younger generations.

8. Organizational and HR Structure

8.1 Organization of the Bank

The Bank's organizational model ensures the efficient management and implementation of the internal control system, in line with the requirements of dynamic and modern business, within the banking sector standards.



Picture 1 - Organizational chart of the Bank as of 31 December 2022

8.2 Employees

The Bank's Human resource policy in the previous period, supported by a more efficient business model, led to the rational allocation of employees. The participation of employees with a higher education degree increased slightly compared to the previous period. The development of business activities, as well as the acquisition of Sberbank Serbia, has affected the increase in the number of employees in 2022.

Interval	31/12/2022	% share
up to Degree III	3	0.3%
Degree IV	204	18.8%
Degree V	4	0.4%
Degree VI	209	19.3%
Degree VII	664	61.3%
TOTAL	**1,084**	**100%**

Table 26 – Breakdown of the number of employees by professional qualifications as of 31 December 2022



Chart 12: Movements of the headcount per year

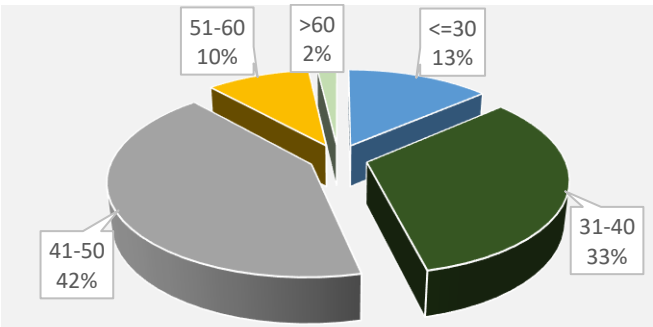


Chart13: Age structure of employees as of 31 December 2022

8.3 Bank Governance

8.3.1 Assembly

First name and surname	Position
Dragana Samouković	President of the Bank's Shareholder Assembly

Table 27 – President of the Bank's Shareholder Assembly as of 31 December 2022

The Bank's Shareholder Assembly consists of the Bank's shareholders.

The Bank's shareholders may participate directly in the work of the Assembly or through authorized attorneys.

The Bank's Assembly:

1) adopts the Bank's Business Policy and Strategy, which define the Bank's business goals for the period of at least three years;
2) enacts the Bank's Statute and adopts amendments and supplements to the Articles of Association and the Statute of the Bank;
3) adopts the Bank's financial statements and decides on the use and distribution of the realized profit i.e. covering losses;

4) decides on increasing the capital i.e. capital investments in other entities in the financial sector or other corporate customers, as well as about the amount of investments in fixed assets and investment property;

5) appoints and relieves of duty the Chairperson and the members of the Bank's Board of Directors and defines their remuneration;

6) decides on status changes and the discontinuation of the Bank's operations;

7) appoints and resolves of duty the Bank's external auditors; and

8) enacts its own Rules of Procedure and decides on other matters in accordance with the effective legislation and the Bank's Statute.

The Shareholder Assembly's sessions may be regular or extraordinary. Regular sessions of the Assembly are held at least annually, no later than four months from the end of the fiscal year.

The Bank's Assembly sessions held in 2022

During 2022, 6 regular sessions of the Assembly were held: 28 March, 8 September, 14 and 21 October, 4 November and 23 December 2022.

8.3.2 Board of Directors

First name and surname	Date of birth	Position
Vladimir Sekulić	10 September 1973	President of the Board of Directors
Nikola Litvinenko	29 June 1959	Member of the Board of Directors
Vladimir Poznanić	6 July 1948	Member of the Board of Directors
Jovan Purar	18 January 1959	Member of the Board of Directors
Miroslav Bojić	4 April 1957	Member of the Board of Directors

Table 28 - Board of Directors as of 31 December 2022

Generally on the work of the Board of Directors

The Bank's Board of Directors consists of at least five members, including the Chairperson, one-third of whom are persons independent of the Bank.

Members of the Bank's Board of Directors must be persons with an impeccable professional reputation and appropriate qualifications as prescribed by the National Bank of Serbia. At least three members of the Bank's Board of Directors must have adequate experience in finance. At least one member of the Bank's Board of Directors must be fluent in the Serbian language and reside in the territory of the Republic of Serbia.

The Chairperson and other members of Board of Directors are appointed by the Bank's shareholder Assembly for a period of four years, which may be extended until the newly elected Chairperson and member/s take over duties, upon the previously obtained approval of NBS, and after the expiration of a four-year term, and for a maximum of three months.

Along with the request for prior consent to the appointment of members of the Bank's Board of Directors, documents and information proving the professional reputation and qualifications of the person proposed as a member of the Board of Directors of the Bank are submitted.

Members of the Bank's Board of Directors may be reappointed, i.e., re-elected. Candidates for the Board of Directors are proposed by the current Board of Directors.

The Bank's Shareholder Assembly enacts a decision on dismissal of duty of the Board of Directors members and Chairperson.

Competences of the Board of Directors

The Bank's Board of Directors:

1. calls the Bank's Assembly meetings;
2. prepares proposals and draft decisions and is responsible for the implementation of the decisions made;
3. approves the Bank's proposed Business Policies and Strategy and submits them to the Assembly for adoption;
4. adopts the Bank's Risk Management Strategy and Policies, as well as the Capital Management Strategy;
5. defines the Bank's Standard Terms of Business and related amendments and supplements;
6. appoints and dismisses of duty Chairperson and members of the Bank's Executive Board;
7. appoints and dismisses of duty members of the Audit Committee, Credit Committees, Asset and Liability Committee and the Manager of the Bank's organizational unit in charge of the control of the Bank's regulatory compliance and Internal Audit;
8. defines the limit amounts up to which the Executive Board may decide on loan approval and the Bank's borrowings and decides on loan approval and the Bank's borrowings exceeding that limit;
9. grants prior consent of the Bank's exposure to each individual entity or a group of related entities in excess of 10% of the Bank's equity, and for increase of such exposures above 20% of the Bank's equity;
10. supervise the work of the Bank's Executive Board;
11. adopts the Internal Audit's Plan and Program and its methodology;
12. sets up the internal control system in the Bank and oversees its effectiveness;
13. considers reports on the external and internal audits and audit results and the reports on the activities of the Internal Audit, and approves of the annual report on the risk management adequacy and internal controls of the Bank;
14. adopts the quarterly and annual reports of the Bank's Executive Board on the Bank's business operations, including quarterly reports on risk management, and submits to the Assembly the approved financial reports for final adoption;
15. enacts its own Rules of Procedure and those for the Audit Committee, Credit Committees and ALCO;
16. adopts the Bank's Disaster Recovery Plan;
17. informs the National Bank of Serbia and other competent authorities about irregularities identified in the Bank's operations;
18. defines the Bank's internal organization and organizational structure that enable the segregation of authority, duties and responsibilities of the employed management personnel and other persons holding governing positions within the Bank in such a way that conflicts of interest are prevented and transparent and documented decision-making and implementing processes are ensured;
19. defines the Bank's policy on employee salaries and other benefits; and
20. performs other tasks in accordance with the Bank's Statute.

8.3.3 The Bank's Executive Board

First and last name	Date of birth	Position
Jelena Galić	12 March 1972	Chairperson of the Executive Board
Dejan Vasić	11 June 1983	Member of the Executive Board
Vesna Tomašević	25 October 1970	Member of the Executive Board
Milan Mirkov	3 October 1972	Member of the Executive Board
Aleksandra Vunjak	9 January 1976	Member of the Executive Board

Table 29 - Executive Board as of 31 December 2022

8.3.4 Other committees

Asset and Liability Committee (ALCO)

First and last name	Bank position	Function in the Committee
Jelena Galić	Chairperson of the Executive Board	Member of ALCO /Deputy Chairperson of ALCO
Dejan Vasić	Member of the Executive Board	Chairperson of ALCO
Vesna Tomašević	Member of the Executive Board	Member of ALCO
Milan Mirkov	Member of the Executive Board	Member of ALCO
Aleksandra Vunjak	Member of the Executive Board	Member of ALCO
Periša Ivanović	Assistant in the Executive Board for Retail and SME	Member of ALCO
Maja Grubor	Assistant in the Executive Board for Risk Management	Member of ALCO
Bojan Topalović	Director of the Treasury Sector	Member of ALCO
Nikola Ristić	Director of the Risk Controlling Sector	Member of ALCO
Aleksandar Dabić	Head of the Planning, Analysis and Supervision Department	Member of ALCO
Zorica Bošković	Director of the Retail and SME Division	Member of ALCO
Mateja Dičić	Director of the Corporate and Public Sector Division	Member of ALCO

Table 30 - ALCO as of 31 December 2022

The Committee for Monitoring the Bank's Operations (Audit Committee)

First and last name	Position
Vladimir Sekulić	Member
Vladimir Poznanić	Chairman
Nikola Litvinenko	Member

Table 31 – the Audit Committee as of 31 December 2022

The Bank's Audit Committee comprises at least three members, one as the Committee's Chairperson and the other two are members.

At least two members of the Audit Committee are members of the Bank's Board of Directors with adequate experience in finance, and at least one member of the Audit Committee must be a person independent of the Bank.

The Bank's Audit Committee assists the Bank's Board of Directors in overseeing the work of the Bank's Executive Board and employees. The Bank's Audit Committee is obligated to:

- Analyse the Bank's annual and other financial statements submitted to the Board of Directors for consideration and adoption;
- Analyse and adopt proposed strategies and policies of the Bank on risk management, capital management and the internal control system submitted to the Board of Directors for consideration and adoption;
- Analyse and monitors the adequate implementation of the adopted risk management strategies and policies, capital management strategy and internal control system;
- Report at least monthly to the Board of Directors on its activities and any identified irregularities, propose the way of irregularity elimination, i.e., the way of improving the Bank's risk management strategies and policies, capital management strategy and internal control system;
- At the proposal of the Bank's Board of Directors, Executive Board or external auditor, consider and review the Bank's investments and activities;
- Propose an external auditor to the Bank's Board of Directors and Assembly;
- Consider and analyse the Bank's annual financial statements together with the external auditor and
- Propose to the Bank's Board of Directors to include in the agenda of the Assembly Meeting certain matters related to external and internal audits.

When the Audit Committee assesses that the Bank is conducting its business contrary to the applicable law, other regulations, its Statute or other act of the Bank, or when it identifies other irregularities in the Bank's operations, it proposes to the Bank's Board of Directors measures for the mitigate such irregularities and schedule an extraordinary Bank's Assembly meeting in case the identified irregularities may have severe effects on the Bank's operations.

Bank's Audit Committee meetings are held when necessary and appropriate, at least once a month. At least quarterly, these sessions are held at the Bank's Head Office.

Credit committees

Corporate and Finance Sector Credit Committee

First and last name	Bank position	Function in the Committee
Mateja Dičić	Director of the Corporate and Public Sector Division	Credit Committee Chairperson
Lidija Sklopić	Advisor to the Director of the Corporate and Public Sector Division	Credit Committee member / Deputy Chairperson of the Credit Committee
Svetlana Bašić	Head of the Corporate, Public and Finance Sector Credit Risk Management Department	Credit Committee member
Dražen Babić	Head of the Public Sector Department	Deputy member responsible for customer service
Tijana Ilić	Head of the Large Corporate Department	Deputy member responsible for customer service
Goran Ilić	Advisor to the Head of the Corporate, Public and Finance Sector Credit Risk Management Department	Deputy member in charge of risk management

Table 32 – Corporate and Public Sector Credit Committee as of 31 December 2022

Retail and SME Credit Committee

First and last name	Bank position	Function in the Committee
Zorica Bošković	Director of the Retail and SME Division	Chairperson of the Credit Committee
Biljana Janev	Manager of the SME Sales Department	Credit Committee member / Deputy Chairperson of the Credit Committee
Saša Jovanović	Head of the Retail and SME Credit Risk Management Department	Credit Committee member
Dragana Milivojević	Expert for Retail and SME Credit Risk Management	Deputy member in charge of risk management
Miodrag Stojanović	Manager of the Retail and Micro Segment Sales Department	Deputy member responsible for customer service

Table 33 – The Retail and SME Sector Credit Committee as of 31 December 2022

Members of the Credit Committees are appointed for indefinite period of time, until decisions on their dismissal or appointment of the new members are made.

Credit Committee meetings may be regular or extraordinary. Regular Credit Committee meetings are held at least on a weekly basis.

The Rules of Procedure of the Bank's Credit Committees define in greater detail the rights and obligations of the Credit Committee members, the organization of Committee meetings, decision-making process, taking minutes of the meetings, contents of the minutes, signing-off on decisions, maintaining records on decisions made by the Credit Committees, etc.

8.4 Transactions with management personnel and the Bank's related entities

In the normal course of business, the Bank enters into transactions with its shareholders and other related entities under common market conditions. More detailed information on the related entity transactions is provided in the Bank's Notes on the Financial Statements.

The table below shows the related entity transactions (balances of receivables and liabilities, and income and expenses) with the related entity as of the balance sheet date (31 December 2022):

Description	Balance sheet gross exposure	Off-balance exposure	Total	Liabilities
Employees (related entities)	32,170	22,241	54,411	-346,310
Other retail customers	61,168	13,075	74,243	-159,268
Corporate customers	9,457,185	107,747	9,564,932	-14,263,994
Total	**9,550,523**	**143,063**	**9,693,586**	**-14,769,572**

Table 34 – Business transactions with the Bank's related entities as of 31 December 2022 (in thousand RSD)

8.5 Retail business network

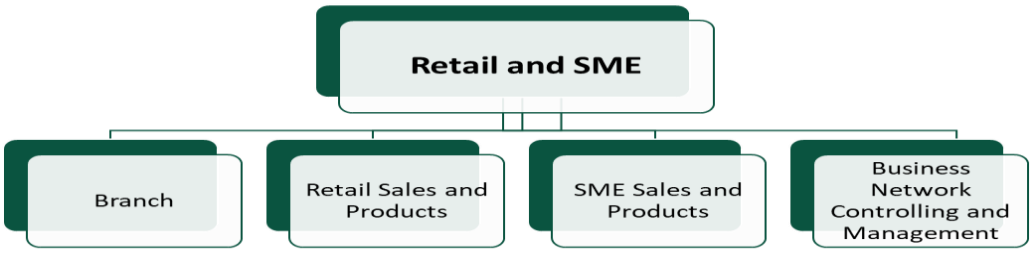


Image 2 - Schematic overview of the Bank's operations outside the head office as of 31 December 2022

The Bank operates through its Head Office and organizational units outside of the Head Office.

The organizational units within which the Bank operates are branches and counters. As of 31 December 2022, AIK Bank's business network comprised 61 branches, which are divided into four regions - Belgrade, Vojvodina, East and West.

Branch	Location	Address
Belgrade branch – Novi Beograd 1 Grawe	Belgrade	Bul. Mihaila Pupina 115đ
Belgrade branch – Novi Beograd 2	Belgrade	Bul. Mihaila Pupina 165g
Belgrade branch – Novi Beograd 3	Belgrade	Otona Župančića 1
Belgrade branch – Novi Beograd 4	Belgrade	Jurija Gagarina 32
Belgrade branch – Vračar 1	Belgrade	Kralja Milana 11
Belgrade branch – Vračar 2	Belgrade	Kralja Milana 64
Belgrade branch – Vračar 3	Belgrade	Petrogradska 1
Belgrade branch – Čukarica	Belgrade	Požeška 66
Belgrade branch – Voždovac	Belgrade	Vojvode Stepe 21
Belgrade branch – Voždovac 2	Belgrade	Ustanička 264
Belgrade branch – Zemun	Belgrade	Glavna 37
Belgrade branch – Stari grad 1	Belgrade	Makedonska 19
Belgrade branch – Stari grad 2	Belgrade	Dečanska 4
Belgrade branch – Stari grad 3	Belgrade	Cara Dušana 84-86
Belgrade branch – Rakovica	Belgrade	Borska 44
Belgrade branch – Rakovica	Belgrade	Patrijarha Joankija 28b
Belgrade branch – Palilula	Belgrade	Starine Novaka 25
Belgrade branch – Zvezdara	Belgrade	Bulevar kralja Aleksandra 334
Branch Novi Sad	Vojvodina	Bul. Mihajla Pupina 2
Branch Novi Sad	Vojvodina	Bulevar oslobođenja 68b
Branch Novi Sad	Vojvodina	Futoška 1a
Branch Novi Sad	Vojvodina	Teodora Pavlovića 36
Branch Pančevo	Vojvodina	Karađorđeva 2b
Branch Sombor	Vojvodina	Kralja Petra 1
Branch Subotica	Vojvodina	Korzo 6
Branch Šabac	Vojvodina	V. Jovanovića 22
Branch Zrenjanin	Vojvodina	Kralja Aleksandra I Karađorđevića 8

Branch	Location	Address
Branch Zrenjanin	Vojvodina	Ive Lole Ribara 7a
Branch Inđija	Vojvodina	Novosadska 2
Branch Ruma	Vojvodina	Glavna 192
Branch Vrbas	Vojvodina	Maršala Tita 80
Branch Vršac	Vojvodina	Dvorska 2
Branch Sremska Mitrovica	Vojvodina	Kralja Petra Prvog 9
Branch Stara Pazova	Vojvodina	Kralja Petra I Karađorđevića 1
Branch Kikinda	Vojvodina	Braće Tatić 2
Branch Niš 1	East	Nikole Pašića 42
Branch Niš 2	East	Bulevar Nemanjića 25
Branch Niš 3	East	Voždova 2
Branch Niš 3	East	Bulevar Zorana Đinđića 4
Branch Požarevac	East	Trg Radomira Vujovića 12
Branch Leskovac	East	Bulevar oslobođenja bb
Branch Smederevo	East	Kralja Petra I 11
Branch Bor	East	Đorđa Vajferta 21
Branch Negotin	East	JNA 2
Branch Pirot	East	Slavonska 1
Branch Prokuplje	East	Topličkih junaka 1
Branch Vranje	East	Kralja Stefana Prvovenčanog 169
Branch Zaječar	East	Pana Đukića bb
Branch Čačak	West	Kuželjeva 2
Branch Lazarevac	West	Dimitrija Tucovića 7
Branch Obrenovac	West	Vuka Karadžića 73
Branch Jagodina	West	Kneginje Milice 73
Branch Kragujevac	West	Trg Radomira Putnika 3
Branch Užice	West	Dimitrija Tucovića 42
Branch Kruševac	West	Gazimestanska bb
Branch Valjevo	West	Vojvode Mišića 22
Branch Gornji Milanovac	West	Kneza Aleksandra Karađorđevića 13
Branch Kraljevo	West	Miloša Velikog 58
Branch Novi Pazar	West	Stevana Nemanje bb
Branch Paraćin	West	Kralja Petra I 30
Branch Prijepolje	West	Sandžačkih Brigada 19

Table 35 – List of the branches as of 31 December 2022

8.5.1 Activities realized in 2022

In 2022, AIK Bank continued its digital transformation, which includes the opening of additional self-service Zones 24/7 within the branches of the business network. The Bank was the first on the domestic market to offer citizens the E2E ON LINE process for a refinancing loan and thus positioned itself as the number 1 digital bank in Serbia. The Bank is transforming the business of the business network with the aim that the branch represents a combination of the traditional concept of banking and digitalization, i.e. modern-functioning Bank. The Bank's strategy is to provide a unique customer experience in all sales and service channels. It strives for a unified ecosystem, i.e. the same range of products and services, on the ON LINE channel and in the branch of the Bank's business network. Apart from 61 branches, the Bank has five digital spots.

Point of sale	Address
DS Merkator Belgrade	Bulevar Umetnosti 4
DS Roda Novi Beograd	Djordja Stanojevica 35
DS TC Galerija	Vudroa Vilsona 12
DS Merkator Novi Sad	Bulevar Oslobodjenja 102
DS TC Stadion Belgrade	Zaplanjska 32
DS TC West	Omladinskih brigade 86
TOTAL	**1084**

The Bank continuously monitors market trends and, in this regard, improves and adjusts the offer to individuals, i.e. small and medium enterprises. In business with small and medium enterprises, the focus is on further diversification of the portfolio and its quality.

The primary pillars of the strategy in retail and small and medium-sized enterprises are organic growth, the quality of services provided in the business network, the quality of the portfolio, compliance with the law, regulatory decisions and internal acts of the Bank.

In the process of branch transformation, the Bank strives to meet the needs and expectations of its customers, improve efficiency, maintain a personalized customer service model and optimize operating costs.

In order to achieve optimal geographical positioning and increase the profitability of the network, the Bank continuously analyses the justification of operations at existing locations, the need for reallocation of certain branches, as well as the merger of individual organizational units.

In determining the level of equipment of organizational units, the Bank's security standards are taken into account, as well as standards in terms of technical and technological equipment, including 24/7 service through up-to-date services.

9. Information system development (ICT)

The Bank's information system is a very important element of the Bank's functioning. With its basic activities of collecting, processing, archiving and presenting data, the information system enables the efficient execution of business transactions and creates preconditions for quality decision-making, planning and governance of the Bank.

It should be mentioned that one of the most important activities in 2022 was the integration of former Naša AIK Banka a.d. Belgrade. Since both banks used the main Aseba bApo banking application, it was decided that the existing system of AIK Banka a.d. Belgrade would d be the target system after the merger would in order to fulfil functional needs, support customer services and the perspective of developing the main banking application in accordance with the Bank's development strategy, products and services that will be developed in the future.

In 2022, the main banking application at the AIK Bank was adapted and developed by adding licences and functionalities necessary for supporting both existing customer agreements of former Naša AIK Banka and a new product catalogue created for the needs of AIK Banka a.d. Belgrade. Supporting application systems (integrated with the main banking application) were also upgraded in order to achieve a higher degree of end-to-end automation and provide support to the envisaged higher number of customers.

In 2022, a data centre consolidation project was initiated across the group that AIK Banka a.d. Belgrade belongs to, in order for all entities to use uniform infrastructure and services. In this way, all entities, including the Bank, receive more quality services in a 24/7 mode, with a higher performance information system that provides the possibility of easy expansion and configuration of the environment in accordance with current and future needs.

Additionally, since one of the primary goals of the banking group in the foreseeable future is to increase the security level, the outsourcing of the Security Operation Centre (SOC) services and the management of other security tools to the vendor that can provide the said service as best as possible began in 2022.

In 2022, the Bank continued improving its information system by implementing several projects that entail the continuing upgrade of the system, with the aim of improving the quality of services and available information, the digitization of business processes, the development of digital services and meeting other business needs of the Bank, as well as regulatory requirements.

We should mention a few major projects:

- The implementation of the new Halcom platform for mobile and electronic banking for small and medium enterprises has been completed. The migration of customers from the existing solution to the new one is in progress.
- The implementation of ApplePay and Google Pay, mobile wallets that will be able to be used by users of the IOS and Android operating systems, has begun.
- The implementation of one of the largest global international platforms for independent payments - new to our market, has begun.
- Improvement and redesign of the e/mBanking solution for retail customers to a new platform have commenced.
- Improvement of existing and development of new customer channels have commenced.

10. Non-financial reporting

Pursuant to its Directive 2014/95/EU, the EU prescribed mandatory non-financial reporting by companies within the EU. The same Directive was incorporated into the Serbian legislation (the Law on Accounting, Article 37) in 2021.

Non-financial reporting represents the interest of all stakeholders in greater transparency and accountability of legal entities in the Republic of Serbia. Notwithstanding this legal obligation, AIK Bank has had an internal obligation as a part of its business practice for over 40 years to report to the public about its activities regarding non-financial and corporate social responsibility segment by issuing public statements and Annual Reports.

One of the Bank's basic starting points is the Statement of Our Values, which consistently indicates the Bank's business purpose which summarises the business and human character of AIK Bank and defines the entire philosophy of Bank's business operations using five pillars – customer commitment – **Our way**; innovations in products and services – **Our inspiration**; business excellence and flexibility – **Our measure**; awareness and social responsibility – **Our tomorrow;** and trust based on partnership, teamwork and competitive spirit – **Our strength**.

The Bank's mission (*WE BUILD PARTNERSHIP BY SUPPORTING PEOPLE IN CREATING THEIR FUTURES*) and vision (*WE STRIVE TO MAKE A DIFFERENCE AND BECOME YOUR FIRST CHOICE AT ANY TIME AND ANY PLACE*), as well as social responsibility, business excellence and commitment to all interest groups are based on the key business postulate and relationship with employees, customers and performance.

In this way, AIK Bank lays the foundations of its sustainable operations since it starts from a mixture of public interest and social responsibility in all its products/services/operations/activities, which implies that no product/service/activity is valid or valuable unless it is in general interest, where all contracting parties are satisfied and the general public benefits from it. We regard this as the greatest contribution to each individual and the society in general.

Through non-financial reporting and corporate social responsibility, AIK Bank supports the development of different segments of the society by conducting a wide variety of activities, whose primary objective is to protect the environment, regardless of whether they are aimed at the well-being of their owners, employees and customers or, more generally, at the social community by supporting numerous humanitarian, educational, cultural, healthcare and sports institutions across the region in which it operates – including many neighbouring countries. The Bank always takes into account specific regional characteristics and local society needs.

The Bank's vision is to be one of the best banks in Serbia, and more broadly in the region, which looks after the security and satisfaction of its customers and provides the highest quality products and services, taking into account the well-being of its employees, owners and community. The bank's goal is to achieve this vision through non-financial reporting and bring it closer to all interest groups.

The Bank is set to accomplish its mission through business, financial, environmental and social responsibility segments, i.e. it strives to encourage and help its customers, employees and social community to create values in joint effort.



Image 3 - Values of AIK Bank

AIK Bank's efforts in this segment are accompanied by a commitment to transparent and open communication with the media, as intermediaries of the general public – where the Bank has been especially recognized in recent years outside the region given the fact that it received numerous awards – including the most innovative bank in the region. This is evidenced by our numerous campaigns aimed at the digitalization and innovation that the Bank offers to its customers based on the highest global standards.

Our commitment to the development and implementation of new technologies is a message to all interest groups that AIK Bank is an innovative, fast, flexible and modern bank – that saves everybody's time and money through its products and services that are available 24/7 in numerous distribution channels and which, among other things, promote positive social and economic values, integration, inclusion and collectiveness of all individuals in society, regardless of age, gender, ethnic, religious or political affiliation, sexual orientation or marital status.

Implementation of the non-financial reporting obligation

As already mentioned, pursuant to Directive 2014/95/EU, which became a part of the Serbian legislation (through the Law on Accounting) at the end of 2021, all legal entities with more than 500 employees are required to comply with non-financial reporting.

Therefore, the non-financial report of AIK Bank is an integral part of the Annual Report and it is prepared in accordance with the Global Reporting Initiative (GRI standard: core option) guidelines. The report includes, as a minimum, business, social and environmental responsibilities of AIK Bank.

10.1 Corporate sustainability strategy – pillars and guidelines

In 2022, AIK Bank began with more intensive integration of sustainability into banking operations, by taking over another bank (Sberbank - Naša AIK Bank, Serbia) into its business system. The effects of the Covid-19 pandemic over the last few years only increased interest and placed emphasis on a new environment, in which the entire financial and real world around the globe will operate in the coming period. It has become quite obvious that the entire banking world, accompanied by digitalization, demographic and climate change, inflation, macroeconomic risks and the challenges resulting from the war in Ukraine, will now operate in a completely new environment that will be affected by numerous ESG risks and sustainable development.

10.1.1 Four sustainability pillars

In implementing sustainability elements, AIK Bank is particularly focused on local communities and the real sector. The Bank is aware of the impact of its operations on the social community and responds to social needs and expectations in a balanced, relevant and transparent manner. In doing so, the Bank has a special approach to each of the regions in which it has branches. Given that the Bank has made certain acquisitions of banks in the region over the last three years - the concept of sustainability is already being projected more broadly both locally and into future key markets in which the Bank will operate from 2022 – as a banking group.

The four pillars on which AIK Bank bases its business system sustainability originate from Bank's environmental, social, business and financial performance.



Image 4 – Four sustainability pillars of AIK Bank

Having prioritised sustainability, AIK Bank initiated a strategic initiative, which begins with raising awareness and enhancing initiative and implementation of sustainability elements in its new business model. The goal of these strategic guidelines is to raise awareness and develop culture across the entire organization that should maintain environmental, social, business and financial performances of the Bank in the future, taking into account external and internal SGE risks and opportunities for further smooth operations, and actively contribute to reducing any systemic risks pertaining to the financial stability of the country (region) in which the Bank operates.

Pillar 1 – Environmental sustainability

The man and nature have been fighting a common battle for millions of years - helping each other to survive. AIK Bank, starting from its basic business premises, strives to participate as much as possible in environmental protection and take its share of responsibility, so that future generations have the equal right to life.

From products we offer, and the clients we serve, to employees and shareholders, we ensure that everybody bears their share of burden – in order for water, air, land, forests and climate to have a partner in AIK Bank that cares about them. In other words, we subject our operations and goals to the overall well-being of the human environment, thinking of future generations. The contribution to the environmental sustainability is immeasurable. Thus, AIK Bank is turning more to green finance – granting loans to all relevant customers, whose mission is to protect the environment and reduce emissions of greenhouse gases.

Pillar 2 – Social sustainability

AIK Bank is a member of a wider community and as such, together with other stakeholders, participates in the creation of the social product, its distribution, exchange and consumption. As a bank and financial institution, it has a specific role in supporting the real sector in offering and providing the best possible results.

The Bank is aware of its role and influence on the community and all other primary borrowers (state, retail and corporate customers), financial intermediaries, financial markets and financial infrastructure. In this regard, the Bank recognises corporate social responsibility (CSR) as one of its pillars of sustainability (CSR) as part of its ethical responsibility to support children, families, youth, education, science, healthcare and care for people, preservation of cultural heritage, sports and improvement of physical education.

Pillar 3 Business sustainability

Above all, sustainable business for AIK Bank implies the obligation to treat all interest groups in an ethical, efficient and transparent manner. Our goal is to improve sustainable business by adhering to the relevant EU regulations and the UN Finance Environment Initiative, striving to include as many principles as possible in our own business goals.

We tend to make our business operations public and our customers aware in each transaction and obligation, along with the right to protect the users of financial services. Our goal is to act responsibly towards the state and take seriously our legal obligations by settling our liabilities on time, to prevent our customers from engaging in money laundering and terrorism financing by strengthening financial culture and awareness.

Pillar 4 Financial sustainability

Financial sustainability integrates environmental criteria, social criteria (economic redistribution) and ESG risk management criteria – (environmental, social and governance) into Bank's day-to-day financing and investment activities – for the purpose of lasting benefits for our clients and the wider community.

Financial sustainability also involves active management of all types of risks (micro and macro level) with the aim of acting responsibly towards regulators and supervisors, on the one hand, and customers and the community, on the other hand, trying to act procyclically in times of crisis and stress – enabling the real sector to access financial resources in a sustainable manner. On the other hand, the Bank is a mediator in terms of the application of all monetary, macroprudential and fiscal policy measures of the Government – aimed at the support, relaxation, employment and development of the real sector.

10.2 Vision and mission of AIK Bank

Starting from the vision and mission of AIK Bank, as well as from the built-in values and strategic focus, we can easily conclude that the AIK Bank is a partner in creating a better and different future that belongs to people, i.e. the society and environment.

Everything we do is based on our commitment to our clients and our responsibility to be innovative and to excel in what we do in order to live up to the expectations and trust of the society and environment. We are focused on the human as an individual, to whom we offer support and solutions as partners to cope with all business and financial needs wherever and whenever, the man as a social element who takes care of his environment and creates his future on his own. We take our responsibility for the environment, society, business and finances very seriously and, as a partner, we fully understand we can effectively contribute if we perform banking operations in compliance with the UN sustainable development goals (UN-SDG).

VISION

Our endeavour is to make a difference and always be your first choice.

MISSION

We build partnerships by supporting people in creating their future.

AIK BANK'S VALUES

TRUST	EXCELLENCE	INNOVATION	RESPONSIBILITY	CUSTOMER COMMITMENT
Employees – COOPERATION We are building a culture of open communication by working together to achieve goals, create new values and ideas	**Employees** We are building and nurturing an environment for employee development and creating conditions for achieving excellence	**Employees** We create an environment for encouraging and using potentials for further improvement and exchange of ideas	**Employees** Giving personal example, we inspire collegiality and solidarity, promote quality, check the performance of activities in a timely manner and with mutual respect	**Employees** We build long-term cooperation with our customers by providing efficient, simple and tailor-made solutions and creating quality user experience
Customers – TRUST We listen to and understand our customers, which helps us build long-lasting cooperation and achieve common goals	**Customers** We actively influence the environment both internally (bank processes) and externally (client's business model, economic parameters, perception of the business environment) in order to be our best version together with our clients	**Customers** We think creatively and continuously create solutions (on the go) that guide our clients to the best user experience	**Customers** We make right decisions and create successful and loyal clients	**Customers** We build trust with customers by showing that we are available, that we know, understand and support them

TRUST	EXCELLENCE	INNOVATION	RESPONSIBILITY	CUSTOMER COMMITMENT
Shareholder – COOPERATION We openly communicate key information in order to achieve goals and create new values through teamwork	**Shareholder** We proactively and professionally perform our daily activities within set deadlines in order to meet objectives	**Shareholder** We add value through innovative solutions	**Shareholder** We accept challenges and find solutions to ensure the sustainability of our business	**Shareholder** By being accessible and knowledgeable, we meet customers' needs, build long-lasting trust and become a recognised partner that provides guidance to continuous strengthening of cooperation
Community – COOPERATION We have built our reputation by actively participating and recognising our community's needs	**Community** We listen, understand and actively participate in projects that benefit the community	**Community** We improve everyday life by developing new solutions that contribute to the quality of life	**Community** We provide support to the local community and care for all of us by giving personal example	**Community** We build long-term trust and cooperation with our clients that are the most important part of our community

OUR STRATEGIC FOCUS

- ✓ **Personalisation and customer satisfaction**
  The bank exists to serve its customers, which represent the basic definition of our business. We endeavour to be ultimately committed and accountable to our clients through personalization and efficient data management, so that we can offer them personalized solutions at all times and respond to their specific requirements and needs in the best possible manner. In this way, we build a long-term and mutually beneficial partnership.

- ✓ **Qualified employees and their satisfaction**
  No organization could exist without employees' satisfaction. Satisfied employees are a prerequisite for Bank's satisfied customers. Our employees are our biggest capital. Improving employees' knowledge and skills is a continuous process at all management levels.

- ✓ **Satisfaction of shareholders**
  A large number of satisfied clients supported by Bank's trained and motivated employees are a guarantee of stable and sustainable development and business of each bank.
  Each shareholder is aware of these preconditions - which lead to the required financial result and the achievement of environmental, social and business performances. Only banks with low CIR and high ROE can progress given the new digital ecosystem, M&A, new business models and necessary investments.

- ✓ **Digitalisation and innovations**
  The bank is a dynamic business system which always has to respond to broader trends in the society and the real economy. Digitalisation and innovation are a business oath to withstand the pressure of the competition and to respond to the demands of new generations that follow the technological development of the fourth industrial revolution. By changing ourselves, we also change the world we live in. We consciously accept all new challenges and enter a new ecosystem. We strive to be leaders in this field, not only followers.

- ✓ **Regional presence**
  The bank is recognized as a regional banking group. Its goal is to further strengthen its presence in the region and confirm the status of a systemically important bank. Our presence should include, above all, the acknowledgement of excellence and business efficiency on the one hand, and on the other hand, pushing cultural and social boundaries – by connecting in the best possible way millions of people and companies operating in the region - for the purpose of overall economic progress and the improvement of living standards of all people.

10.3 AIK Bank's commitment to UN sustainable development goals

Sustainable development goals

The Sustainable Development Goals (SDGs), also known as the Global Goals, were adopted by the United Nations in 2015. There are 17 SDGs in total and by fulfilling these goals, every legal entity should ensure a sustainable and better life for every individual, contributing to peace and prosperity for all. Social prosperity and care for each individual are the basic premises on which AIK Bank operates. The Bank supports all 17 SDGs.

Starting from the fact that we are a financial institution and have a specific impact on the overall social community, we believe that AIK Bank can directly contribute to the achievement of the following five goals with its business operations and influence:

1. Good health and well-being (SDG 3)
2. Quality education (SDG 4)
3. Gender equality (SDG 5)
4. Decent work and economic growth (SDG 8)
5. Reduced inequalities (SDG 10)

The following image shows the UN's sustainable development goals.



Image 5 – UN Sustainability Development Goals

Analysis of stakeholders and material topics

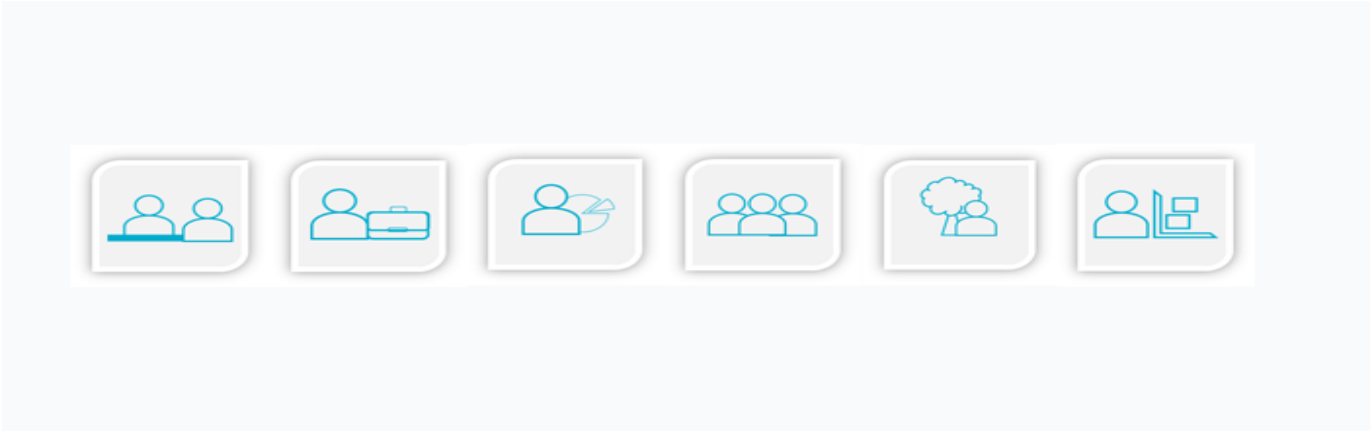


Image 6 – AIK Bank interest groups

An analysis of material topics is the first step towards the preparation of a non-financial report, which provides the Bank with a better insight into topics that its shareholders consider relevant and influential. Many years of practice and decisions of the Board of Directors regarding strategic directions - Business Strategy, Risk Management Strategy and Capital Management Strategy – have resulted in the emergence of several important topics that the Bank addresses in its practice, and thus in this Non-Financial Report.

In order to make the information as clear as possible, each topic in the report is classified under a certain part of an interest group.

Bank's interest groups are as follows:

- ✓ customers,
- ✓ employees,
- ✓ shareholders
- ✓ society,
- ✓ environment and
- ✓ suppliers.

Employees, customers and shareholders are first in line of interest groups. For years, AIK Bank has been strategically focused in its ordinary course of business on the fact that the satisfaction of employees and customers and financial performance guarantee business success of any legal entity - in this case our Bank. In addition, innovation has a special purpose as a guiding idea, a challenge, a motive and as a necessity.

Customers

Business responsibility (SDG8)

Business responsibility, particularly in relation to clients, is fundamental for AIK Bank's operations, which is reflected in innovative and 'tailor-made' products and services for different customer segments in response to their current and future needs and life circumstances.
Moreover, AIK Bank establishes and implements basic principles, policies and guidelines governing the prevention of corruption, conflict of interest management, and the system for resolving reported irregularities and whistle-blower protection.

Customer satisfaction (SDG 8)

The main purpose of Bank's operations is to serve its customers. Business needs of our clients are the basic definition of our business. It is our goal to be aware of our customers' needs, regularly communicate with them and exceed their expectations in the best possible way. A high level of loyalty of our clients is the measure of our success.

In order to provide the conditions prescribed by this SDG, the Bank pays special attention to encouraging entrepreneurs and to innovations with regard to products, services, processes and the application of new technologies. Monitoring the efficiency and satisfaction of customers is ensured in all branches and other channels. Clients are given the opportunity to express their opinion and give observations regarding the Bank's operations on tablets in the business network or on the web site. In this way, customer satisfaction is a guarantee of economic growth and sustainable development to which the Bank itself contributes. This is also a confirmation that the Bank can deal with the most vulnerable societal segments through the placement of basic and free of charge products and services. Moreover, its goal is to pass on its customers the culture of financial business that indicates the harmfulness of corrupt practices, money laundering and terrorist financing. By participating in certain campaigns, either independently or as a part of the Association of Serbian Banks, AIK Bank takes part in the inclusion of many social segments, the improvement of financial culture and the provision of access to financial resources and services for all.

The right to the protection of personal data

The protection of personal data is a fundamental right of every citizen, which is extremely important in the banking sector. AIK Bank is constantly working on the improvement of its ICT systems, their cyber security and technological education of its employees - to ensure the highest standards of personal data protection. In order to protect the information and communication system from various security threats, the Bank is constantly trying to maintain and improve the compliance with the PCI / DSS standards and the national regulatory authority.

Employees

Diversity and equality (SDG 5, 10)

Gender equality is a global problem that prevents any peaceful and stable development and progress of the humanity. AIK Bank works hard and applies a teamwork approach to combat any gender inequality or other inequalities in the workplace.

Education and development of competences

Continuous professional development of employees is one of the Bank's key principles. Professional development, acquiring new skills and competences in accordance with trends and the market and constant personal development are the underlying preconditions for the career path of all employees. Our employees are our biggest capital. Collectiveness is the foundation of our business and the future we build. Talented, educated and ambitious people with a competitive spirit show their individual skills and knowledge through teamwork. Each individual achieves more in a team than alone. We compete with each other and we know we can always do better.

Work-life balance and employees' health (SDG 3, 5)

The health and well-being of all people, but primarily of its employees, is one of the sustainable development goals that AIK Bank deems extremely important. This goal is the cornerstone of the fulfilment of all other goals. That is why AIK Bank provides a number of benefits to its employees. AIK Bank has been implementing a family support program for four years now, which is aimed at helping its employees, through various forms of assistance, to become parents and raise children.

Shareholders

Shareholders

The world of finance operates on the basis of capital. Capital in banks is comprised of own funds based on which banks lend third-party funds and operate using leverage and assuming numerous operational risks. Capital also serves as a cushion against loss and, in that regard and taking into account the example of one bank and the entire banking sector, it requires that each bank monitor its regulatory, internal and economic capital in accordance with the BCBS regulations and the regulations of national central banks. The goal of any business is to generate profit and reduce risks, so that shareholders and other investors could regard one bank as an efficient company that brings desired return to its shareholders. In that regard, starting from the highest standards of corporate governance, AIK Bank has become a systemically important bank in the Republic of Serbia, which presents its performance results and increases its capital and the number of clients year in year out through its governing bodies, openly and transparently, in relation to its environment.

Financial performance

Financial performance and generation of a newly created value are a natural result of employees and clients' satisfaction for shareholders. In that regard, AIK Bank endeavours to ensure that profit and profitability, as measures of employees' efficiency and customer service, are macro- and micro-prudentially harmonised with all interests of the social community, raised to the highest possible level, given the fact that profitability is the first business sustainability buffer. Taking into consideration the impact of the systemic and idiosyncratic risks of banking institutions on the broader social community, the Bank strives to observe the instructions of regulators and supervisors as much as possible, in order to be socially responsible in the best possible way as a systemically important bank.

Role of capital

The role of capital is to be a cushion against unexpected losses. In modern banking, by observing the RAPM concept, all bank performances are monitored in relation to risk and capital. In that regard, we monitor economic capital, where equity and profit are risk adjusted. Capital has quantitative and qualitative dimensions, which through the calculation of regulatory, internal and economic capital, represent specific risk-bearing capacity.

The capital adequacy ratio also indicates the amount of the Bank's RWA and 'PD'. On the other hand, each capital owner has their own required rate of return, which is represented through COE. One of the primary management tasks is to achieve an ROE to be greater than the COE – in order for the bank's market value to be above its carrying value.

Society

Social banking (SDG 8, 10)

Income, geographical, gender inequalities and unequal distribution of resources by age - the theme of inequality is reflected in all aspects of life.

As far as AIK Bank is concerned, this sustainable development goal can be achieved through greater digitalisation that enables equal opportunities and availability of funds for all. In addition, financial culture and financial literacy, which ensures that everyone has an equal starting point in terms of financial knowledge, is one of the ways in which good foundations can be laid for progress towards meeting this goal.

Financial literacy (SDG 4, 10)

Quality education and employment of young talents are one of the strategic goals that AIK Bank has been tackling for years. Hence, the Bank has signed an agreement with the Belgrade Banking Academy for the cooperation in providing education and training to students who want to work in the Bank, as well as to some of our employees, primarily sales advisors for small and medium enterprises - entrepreneurs.

Acquiring quality education is one of the fundamental rights of every individual, and knowledge is one of the main social drivers. There is an increasing number of young people from the Belgrade Banking Academy who are being employed by the Bank, who are making progress and taking leading positions. There are also more and more workshops, where Bank's employees improve their technological knowledge given that we live in the time of the fourth technological revolution, new technologies and new knowledge that are much needed in the digital transformation.



Image 7 – AIK Bank-CSR

Conscience and social responsibility

We are aware that the Bank operates using clients' funds. It is their personal property entrusted to us. As a responsible Bank, we are aware of it and therefore we do not take any risky operations. Each of our placements has to be covered by an appropriate amount of Bank's capital. While performing daily banking operations, we constantly think about the overall benefit to the society.

AIK Bank is one of the leaders in the region in terms of social responsibility, sponsorship and donations to various corporate and retail customers dealing with:

1. family; children - SOS Children's Villages; particularly women and positive affirmation for female entrepreneurship; In 2022, AIK Banka donated numerous maternity hospitals and gynaecology and obstetrics departments in hospitals in Slovenia, Bosnia and Herzegovina, Montenegro and Serbia. Substantial funds were provided for the purchase of necessary instruments and devices in the gynaecology and obstetrics departments – for the purpose of protecting women's health and childbirth;
2. healthcare; combat against Covid-19; artificial insemination; fight against cancer in children;
3. youth education, assistance to schools and faculties; assistance to scientific centres; support to competition in the country and abroad; and
4. sports and strengthening the competitive spirit; basketball; cycling.

All these are socially responsible activities that contribute to healthier development and improvement of the society as a whole. All activities are covered and supported by the media.

Environment

Effective environmental impact management (SDG 13)

We are all aware of the fact that we live in the time of serious climate change and environmental catastrophes that are the result, among other things, of humanity's carelessness for its environment. The quality of air, land, water and other things necessary for the healthy and sustainable development of humanity, in general, is increasingly being disputed. These are problems that affect both the individual and the economy on a global scale. There is no country that is not exposed to these risks. Nowadays, there is no company that is not focused on sustainable business and care for the environment.

As a responsible institution and one of the leaders on the banking market, AIK Bank has taken a decisive position that this is one of the priorities, which is raised to the highest possible strategic level – and thus the overall business on the supply side (products and services for consumers) and on the demand side (customers/consumers) are put under the magnifying impact glass of ecology and the environment.

Suppliers

Responsible supplier selection (SDG 10,13)

AIK Bank has a large number of suppliers from various economic areas. The Bank chooses its suppliers, whether it is ITC equipment, water or paper, by taking care of its business sustainability and increasing the human's environment protection standard. Sustainable and socially responsible business is taken into account when choosing suppliers, which is why companies that operate in accordance with global standards - care about the centres environmental impact – are selected.

Goals promoted by the Bank

In addition to the goals that the Bank can directly influence, there are a number of goals that the Bank wants to promote in order for them to become a part of an integrated system of sustainable development. The Bank is committed to supporting financial products and services that tend and contribute to environmental and social prosperity.

A breakdown of sustainable economic activities promoted by the Bank, but not limited to them, provides a benchmark for internal evaluation processes and helps to achieve adequate environmental and social goals. A list of goals will continue to evolve over time reflecting changing community expectations, shareholders' feedback and regulatory requirements.

AIK Bank strongly supports the transition to a generally sustainable climate economy and is committed to making a positive contribution to a financial system that supports sustainable growth. Thus, reports of the most competent global institutions in charge of climate change supervision as well as recommendations of the most competent banking institutions have been observed for the last few years in order to contribute to economic growth through banking activities, while reducing environmental pressure and observing social and managerial aspects.

AIK Bank contributes to these efforts in various manners, from the transition to digitalization, to reducing paper use and gas emissions. In that regard, we are facing a period of ultimate engagement in the promotion of sustainable economic activities that will significantly affect and contribute to the overall prosperity. On our part, it will involve recognizing economic activities and sectors that do not adversely affect the environment and society. A certain number of clients who will adhere to sustainable development will be rewarded with a lower cost of banking products. On the other hand, all sustainable and supported activities will be transparently presented in documents and contracts, as well as on the Bank's web site. As a result, in 2022 the Bank concluded a certain number of credit facilities with supranational financial institutions, whose purpose is lending to clients that operate within green programs.

The Bank's intention is to place a special emphasis on the promotion of the following goals:

SDG 7: Affordable and clean energy
SDG 11: Sustainable cities and communities
SDG 12: Responsible consumption and production



Image 8 – Sustainable economic values that will be promoted by AIK Bank

Therefore, special attention will be paid to raising awareness and improving culture in order to recognize across all society levels the interest in advocating for:

- ✓ renewable energy
- ✓ energy efficiency
- ✓ sustainable transport
- ✓ recycling and pollution's prevention

We have to make an effort and a significant contribution altogether to reducing greenhouse gas emissions through the production of renewable energy sources, energy and heat efficiency, smart management systems, including the use of advanced technical and technological solutions - the Internet of things; sustainable mobility and innovative transportation methods; development of technology and infrastructure needed for bigger and more efficient penetration of renewable energy sources; renewable materials from sustainable sources; and processes and infrastructure that facilitate the recycling of natural resources and waste.

- ✓ Sustainable agricultural and food production
- ✓ Sustainable forestry
- ✓ Sustainable aquaculture and fisheries
- ✓ Sustainable water management

Taking into consideration that our economy largely relies on agriculture and that a part of our credit policy is focused on lending to agriculture, we will promote responsible and sustainable sources and activities of forest management; reduction in methane or other greenhouse gas emissions through support to sustainable livestock management; development of low-carbon agricultural technologies that improve productivity and efficiency; sustainable management of living natural resources and land use; development of technologies that enable maximum use of waste, recycling and separation of materials; and improvement of the management and distribution of drinking water, sewage, wastewater management and water treatment.

- ✓ Circular economy
- ✓ Economic and social inclusion
- ✓ Favourable population and new infrastructure
- ✓ Healthcare and education

A special emphasis in terms of the promotion and introduction of sustainability practices will be put on the transition to a circular economy by supporting increased durability, sustainability and reuse of products, as well as reducing resource use through material design and smart material selection; process and product innovation and support for the development of shared business models; achieving reductions in greenhouse gas emissions through supply chain improvements; the use of ICT solutions (digitalization) for the purpose of collecting, transferring, storing and using data in order to reduce greenhouse gas emissions more efficiently; support to educational and healthcare institutions and programmes.

10.4 ESG risk management

Effective risk and capital management at all levels is crucial for AIK Bank while maintaining long-term profitable operations. ESG risks do not represent a new risk category, but an aggravating factor to those risks that are already managed through the established risk management framework. BCBC also addresses these risks, with a possibility of calculating capital requirements for these types of risks as well.

All banks across the world are exposed to climate change through macroeconomic and microeconomic transmission channels that stem from two separate types of climate risk factors.

Firstly, they may be exposed to costs and financial losses due to deteriorating physical risk factors. Secondly, when companies tend to reduce carbon dioxide emissions, which account for a majority of greenhouse gas emissions, these efforts produce transition risks. They are caused by changes in government policies, technological development or the confidence of investors and customers in relation to certain markets and projects.

The effects of climate risk factors on the Bank's operations are monitored through traditional risk categories (credit risk, market risk, liquidity risk, operational risk, reputational risk). BCBC also addresses these risks, with a possibility of calculating

separate capital requirements for these types of risks as well.

According to reports and recommendations of BIS, BCBS, IFC, FSB, AIK Bank addresses ESG risks and establishes a risk management system at three levels:

- 1. Strategic level: in the form of the transformational one that deals with the highest level of assessments, decisions, regulations and practices in relation to the management of these risks;
- 2. Portfolio level: in the form of the transitional one that addresses risks at the portfolio level in order to be better formatted for the risk management process, and their reporting; and
- 3. Customer and transactional level: in the form of the transactional one that takes into account customer's perception and suitability of managing identified risks of this type.

As a part of this risk management system, particularly with regard to identifying, measuring and assessing the type of risk that the Bank is faced with, and observing the regulations of the National Bank of Serbia and its own practice, AIK Bank is particularly concerned with environmental risks, social (sociological) risks and management risks – in an effort to make each of these risks be appropriately treated, recognised, quantified, stressed and charged with a capital requirement. A special emphasis is placed on the presence of these types of risks in the lending and loan approval processes.

Establishing an environmental and social management system

AIK Bank has started establishing a contracting system that imposes contractual obligations related to the implementation of sustainability requirements. These requirements should be essential contractual elements that provide guidance on how to identify environmental and social risks and impacts. They are designed to help to avoid, mitigate and manage risks and impacts as a way of doing business in a sustainable way, including the engagement of stakeholders and the obligation of disclosing customer data related to contractual, transaction or project activities. It means that AIK Bank has to develop an ESMS - Environmental and Social Management System as one of the most important steps – both formally and substantively – and integrate it into sustainable banking operation.

Bank's Lending Policy

AIK Bank's Lending Policy is one of the most important documents in which, together with the Corporate Risk Management Methodology and the Retail and SME Risk Management Methodology, the Bank defines all types of clients, activities, loans, placements and risks at the balance sheet and off-balance sheet level, and their impact on Bank's capital. All these documents specify the lending process with regard to all its phases, organization, the roles and responsibilities of participants in the lending process, as well as the supervision and reporting of lending activities undertaken by the Bank. Since the largest portion of income is generated from the loan portfolio, the obligations and tasks of all participants are raised to the highest possible ethical and professional level.

In the Lending Policy, a special chapter is dedicated to the description and consideration of economic activities including categories such as prohibited, restricted and normal activities.

Within the Lending Policy and Risk Management Methodology, prohibited activities, sectors and entities with whom the Bank neither concludes loan agreements nor enters into any kind of contractual relations are presented in particular.

Ana Medojevic

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