3 Banka a.d. Novi Sad

Financial Statements
Year Ended December 31, 2022 and
Independent Auditor's Report

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Deloitte d.o.o. Beograd
Terazije 8
11000 Belgrade
Republic of Serbia

Tax Identification Number: 100048772
Registration Number: 07770413

Tel: +381 (0)11 3812 100
Fax: +381 (0)11 3812 112
www.deloitte.com/rs

This is an English translation of the Report originally issued in the Serbian language (For management purposes only)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of 3 Banka a.d. Novi Sad

Opinion

We have audited the financial statements of 3 Banka a.d. Novi Sad (hereinafter: the "Bank"), which comprise the statement of financial position as at December 31, 2022, the statement of profit or loss, 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 at December 31, 2022 and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with the standards on auditing applicable in the Republic of Serbia. 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 Co*de) 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 Matter

The Bank's financial statements for the year ended December 31, 2021 were audited by another auditor, who expressed an unqualified opinion on April 15, 2022.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Bank's Annual Business Report other than the financial statements and the auditor's report thereon. Our opinion on the financial statements does not cover the other information.

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. With regard to the Annual Business Report, we have performed procedures prescribed by the Law on Accounting of the Republic of Serbia. Those procedures include verifying whether the Annual Business Report is formally prepared in accordance with the Law on Accounting of the Republic of Serbia.

Based on the procedures performed, to the extent we are able to assess this, we report that:

1. The information presented in the Bank's Annual Business Report for 2022 is consistent, in all material respects, with the accompanying financial statements for the year ended December 31, 2022.
2. The accompanying Annual Business Report for 2022 is prepared in accordance with the Law on Accounting of the Republic of Serbia.

Based on our knowledge and understanding of the Bank and its environment acquired during our audit, we have not determined that there is any material misstatement in the Annual Business Report.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of 3 Banka a.d. Novi Sad (Continued)

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 with the International Financial Reporting Standards, 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 standards of auditing applicable in Republic of Serbia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Standards of Auditing applicable in Serbia, we exercise professional judgment and maintain professional skepticism 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.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of 3 Banka a.d. Novi Sad (Continued)

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

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, April 18, 2023

Jelena Čvorović

Deloitte d.o.o. BEOGRAD IV

Jelena Čvorović
Certified Auditor
Deloitte d.o.o. Beograd

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

	Note	December 31, 2022	December 31, 2021
ASSETS			
Cash and balances held with the central bank	40(H), 20	3,445,787	2,255,148
Loans and receivables due from banks and other financial institutions	40(J), 21	2,270,500	1,750,783
Loans and receivables due from customers	40(J), 22	20,183,220	16,750,958
Intangible assets	40(L), 24	218,565	203,307
Property, plant and equipment	40(K), 23	670,787	542,969
Current tax assets	40(F)	-	46,381
Deferred tax assets	18(B)	21,208	27,305
Other assets	25	83,057	126,696
TOTAL ASSETS		**26,893,124**	**21,703,547**
LIABILITIES AND EQUITY			
Liabilities			
Deposits and other liabilities due to banks, other financial institutions and the central bank	40(N), 26	5,765,557	3,320,999
Deposits and other liabilities due to customers	40(N), 27	14,680,767	12,387,935
Subordinated liabilities	40(N), 28	1,186,884	1,185,456
Provisions	40(O), 29	68,839	91,072
Current tax liabilities		10,740	43,401
			0
Other liabilities	40(P), 30	515,471	421,372
Total liabilities		**22,228,258**	**17,450,235**
Equity			
Share capital and share issue premium	31	1,864,938	1,864,938
Retained earnings	31	495,038	436,624
Reserves	31	2,304,889	1,951,750
	31		-
Total equity		**4,664,866**	**4,253,312**
Total liabilities and equity		**26,893,124**	**21,703,547**

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

Novi Sad, April 18, 2023

Signed on behalf of the management of 3 BANK a.d. Novi Sad by:

Vladimir Vukotić
Executive Board Chairperson and CEO

3Banka a.d.Novi Sad

Zorica Sedlar
Executive Board Member and CFO

STATEMENT OF PROFIT OR LOSS
Year Ended December 31, 2022
(In thousands of RSD)

	Note	2022	2021
Interest income	40(C), 9	3,545,275	3,079,062
Interest expenses	40(C), 9	(627,890)	(609,228)
Net interest income		**2,917,385**	**2,469,834**
Fee and commission income	40(D), 10	70,659	50,021
Fee and commission expense	40(D), 10	(36,836)	(45,335)
Net fee and commission income		**33,823**	**4,686**
Net losses on changes in the fair value of financial instruments	40(G), 11	-	(63)
Net foreign exchange gains/(losses) and positive/(negative) currency clause effects	40(B), 12	60	(1,707)
Net losses on impairment of financial assets not measured at fair value through profit or loss	40(G), 14	(217,795)	(77,280)
Other operating income	40(B,G,K), 13	211	596
Total operating income, net		**2,733,684**	**2,396,066**
Salaries, salary compensations and other personnel expenses	15	(1,176,625)	(964,048)
Depreciation and amortization charge	40(L,K), 23, 24	(118,440)	(105,666)
Other income	16	19,888	10,774
Other expenses	17	(880,234)	(866,680)
Profit before taxes		**578,273**	**470,446**
Deferred tax benefits	40(F.ii), 18	6,629	12,356
Current income tax expense	40(F.i), 18	(89,864)	(82,415)
NET PROFIT FOR THE YEAR		**495,038**	**400,387**

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Executive Board Chairperson and CEO

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Zorica Sedlar
Executive Board Member and CFO

STATEMENT OF COMPREHENSIVE INCOME
Year Ended December 31, 2022
(In thousands of RSD)

	Note	2022	2021
Profit for the year		**495,038**	**400,387**
Other comprehensive income			
Components of other comprehensive income that will not subsequently be reclassified to profit or loss			-
Revaluation gain on property, plant and equipment		62,895	
Actuarial loss		(612)	
Tax arising on other comprehensive income		(9,434)	
Total positive other comprehensive income for the year, net of tax		**52,849**	**-**
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE YEAR		**547.887**	**400,387**

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3Banka a.d.Novi Sad

Zorica Sedlar
Executive Board Member and CFO

STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2022
(In thousands of RSD)

	Note	Share r capital	Share issue premium	Reserves from profit and other reserves	Revaluation reserves	Retained earnings	Total
Opening balance at January 1, 2021		**1,783,080**	**81,858**	**1,640,879**	**105,527**	**241,581**	**3,852,925**
Profit for the year	31	-	-	-	-	400,387	400,387
Other comprehensive income for the year	31	-	-	-	-	-	-
Total comprehensive income for the year		-	-	-	-	400,387	400,387
Transfer of profit to reserves	31	-	-	205,344	-	(205,344)	-
Closing balance at December 31, 2021		**1,783,080**	**81,858**	**1,846,223**	**105,527**	**436,624**	**4,253,312**
Opening balance at January 1, 2022		**1,783,080**	**81,858**	**1,846,223**	**105,527**	**436,624**	**4,253,312**
Profit for the year	31	-	-	-	-	495,038	495,038
Other comprehensive income for the year		-	-	-	52,849	-	52,849
Total comprehensive income for the year	31	-	-	-	52,849	495,038	547,887
Transfer of profit to reserves	31	-	-	300,290	-	(436,624)	(136,333)
Closing balance at December 31, 2022		**1,783,080**	**81,858**	**2,146,513**	**158,376**	**495,038**	**4,664,866**

Notes on the following pages form
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Novi Sad, April 18, 2023

Signed on behalf of the management of 3 BANK a.d. Novi Sad by:

Vladimir Vukotić
Executive Board Chairperson and CEO

3Banka a.d.Novi Sad

Zorica Sedlar
Executive Board Member and CFO

STATEMENT OF CASH FLOWS
Year Ended December 31, 2022
(In thousands of RSD)

	2022	2021
OPERATING ACTIVITIES		
Cash inflows from operating activities	**3,766,643**	**3,325,719**
Interest receipts	3,588,960	3,196,727
Fee and commission receipts	68,730	43,907
Receipts of other operating income	108,953	85,085
Cash outflows from operating activities	**(2,847,070)**	**(2,432,193)**
Interest payments	(593,891)	(619,770)
Fee and commission payments	(55,243)	(50,775)
Payments to, and on behalf of employees	(1,086,020)	(849,770)
Taxes, contributions and other duties paid	(232,934)	(179,623)
Payments for other operating expenses	(878,982)	(732,255)
Net cash inflows from operating activities prior to increases/decreases in financial assets and financial liabilities	**919,573**	**893,526**
Increase in financial assets and decrease in financial liabilities	**2,334,260**	**659,942**
Decrease in liabilities under derivatives designated as hedging instruments and changes in the fair value of hedged items	2,334,260	445,227
Increase in loans and receivables due from banks, other financial institutions, the central bank and customers	4,620,158	-
Decrease in financial assets and increase in financial liabilities	-	-
Decrease in loans and receivables due from banks, other financial institutions, the central bank and customers	-	(214,715)
Net cash (used in)/generated by operating activities before income tax	**(1,366,325)**	**1,553,468**
Income tax paid	(192,083)	(82,924)
Dividend paid	(114,485)	-
NET CASH (USED IN)/GENERATED BY OPERATING ACTIVITIES	**(1,672,893)**	**1,470,544**
INVESTING ACTIVITIES		
Cash inflows from investing activities	-	-
Proceeds from sales of intangible assets, property, plant and equipment	-	-
Cash outflows from investing activities	**(112,363)**	**(81,474)**
Cash used for the purchases of intangible assets, property, plant and equipment	(112,363)	(81,474)
NET CASH USED IN INVESTING ACTIVITIES	**(112,363)**	**(81,474)**
FINANCING ACTIVITIES		
Cash inflows from financing activities	**3,367,932**	**587,942**
Capital increase - recapitalization	-	-
Inflows from borrowings	3,367,932	587,942
Inflows from subordinated liabilities	-	-
Cash outflows from financing activities	**(990,064)**	**(2,186,649)**
Cash used in the repayment of borrowings	(959,247)	(2,161,390)
Other outflows from financing activities (Note 23)	(30,817)	(25,259)
NET CASH GENERATED BY/(USED IN) FINANCING ACTIVITIES	**2,377,868**	**(1,598,707)**
TOTAL CASH INFLOWS	**9,468,835**	**4,573,603**
TOTAL CASH OUTFLOWS	**(8,876,223)**	**(4,783,240)**
NET CASH INCREASE/(DECREASE)	**592,612**	**(209,637)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**2,349,226**	**2,558,878**
Foreign exchange losses	(2,590)	(15)
CASH AND CASH EQUIVALENTS, END OF YEAR(Note 20)	**2,939,248**	**2,349,226**

Notes on the following pages form
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Novi Sad, April 18, 2023

Signed on behalf of the management of 3 BANK a.d. Novi Sad by:

Vladimir Vukotić
Executive Board Chairperson and CEO

3Banka a.d. Novi Sad

Zorica Sedlar
Executive Board Member and CFO

1. THE BANK'S CORPORATE INFORMATION

3 BANK a.d. Novi Sad (hereinafter: the "Bank") was established on May 27, 2002 under the name of Opportunity International štedionica a.d. Novi Sad (Opportunity Savings Bank, Novi Sad). The Bank received its operating license issued from the National Bank of Yugoslavia on June 28, 2002 and was duly registered with the Commercial Court on July 2, 2002.

In accordance with the Law on Banks (Official Gazette of RS nos. 107/2005, 91/2010 and 14/2015) and its Articles of Incorporation dated December 4, 2006, which were executed by Opportunity Transformation Investments Inc., European Bank for Reconstruction and Development, Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. and Oikocredit Ecumenical Development Cooperative Society U.A., Opportunity International štedionica a.d. Novi Sad was transformed to the Bank. The Bank duly registered its legal name changed to Opportunity Bank a.d. Novi Sad, as well as changes to the business activities with the Serbian Business Registers Agency under Decision no. BD 24798/2007 dated April 20, 2007. The Bank officially commenced its operations as from February 7, when it was issued the required operating license by the National Bank of Serbia.

On November 22, 2021, the Bank changed its name to 3 BANK a.d. Novi Sad. This change was registered with the with the Serbian Business Registers Agency under Decision no. BD 94731/2021 dated November 19, 2021 under Article 15, para. 1 of the Law on Registration Procedure with the Serbian Business Registers Agency (Official Gazette of RS nos. 99/2011, 83/2014, and 31/2019).

In accordance with the Law on Banks, Articles of Incorporation and the Statute, the Bank is registered to perform the following activities:

- credit operations (extending and obtaining loans in the country and abroad);
- depositary operations (receiving and placing deposits);
- payment transactions;
- foreign exchange and currency exchange operations;
- issuance of guarantees, and other forms of sureties; and
- other operations the Bank is authorized to perform under the law.

As of December 31, 2022 and 2021, the Bank performed its operations in its headquarters in Novi Sad and branches in Novi Sad, Belgrade, Niš, Kragujevac and Jagodina, as well as outlets in Požarevac, Pančevo, Šabac, Valjevo, Loznica, Obrenovac, Stara Pazova, Zrenjanin, Sremska Mitrovica, Bačka Palanka, Sombor, Kraljevo, Užice, Prijepolje, Kruševac, Topola, Ivanjica, Leskovac, Pirot, Vranje, Subotica, Čačak, Zaječar, Aleksinac, Kikinda, Velika Plana, Novi Pazar, Prokuplje, Smederevo, Paraćin, Vrbas, Mladenovac and Bajina Bašta.

As of December 31, 2022, the Bank had 623 employees (December 31, 2021: 503 employees).

The Bank's corporate ID number is 08761132, and its tax identification number (fiscal code) is 101643574.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

The accompanying Bank's financial statements for 2022 have been prepared on a going concern basis, assuming that the Bank will continue to operate in the foreseeable future.

Considering the forms and scale of disruptions that may be expected in the banking secotr and in the markets with the Bank's clients as active participants (Note 37), the management believes that the amount of the Bank's liquidity buffer and the current capital adequacy ratios will ensure the Bank's continued operation as a going concern both during and after the crisis.

The Bank's financial statements for 2022 have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). These are also compliant with regulations of the National Bank of Serbia governing the financial reporting of banks.

3. FUNCTIONAL AND PRESENTATION CURRENCY

The Bank's financial statements are stated Serbian dinars (RSD), dinar being the Bank's functional currency and the official presentation currency in the Republic of Serbia. All the reported amounts are stated in thousands of dinars (RSD '000) unless it is otherwise specified. All the transactions carried out in currencies other than the Bank's functional currency are treated as foreign currency transactions,

4. USE OF ESTIMATES

Preparation of the financial statements in accordance with IFRS requires the Bank's management to make the best possible estimates and reasonable assumptions that affect implementation of the Bank's policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

The estimates used and the underlying assumptions are based on the going concern concept, assuming that the Bank will continue to operate in the foreseeable future. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

A. Estimation Rules

There are no financial assets and liabilities measured at fair value through Profit and loss or at fair value through other comprehensive income.

B. Estimation Uncertainties

Information on the assumption and estimation uncertainties that give rise to a significant risk of possible material adjustments of the reported amounts in 2021 and 2022 is presented in the following Notes to the financial statements:

- Note 6.A: *impairment of financial assets*: definition of the inputs for the ECL measurement model, including forward-looking information;
- Note 18: recognition of deferred tax assets (availability of future taxable profits);
- Note 29: *provisions*: key assumptions on the probability and amount of the required outflows of resources;
- Note 40.G: *impairment of financial assets:* key assumptions used in assessing recoverable cash flows;
- Notes 40.K and 40.L: estimated useful lives of property, plant and equipment items and intangible assets.

5. SUMMARY OF CHANGES IN THE ACCOUNTING POLICIES

Summary of the amended and revised IFRS and the relating interpretations adopted by the Bank for the first time for annual periods beginning on or after January 1, 2022:

Adoption of the following International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and the relating interpretations (IFRIC) and amendments and revisions to the existing standards mandatory applicable for the financial year beginning on January 1, 2022 has led to no significant changes in the Bank's accounting policies nor has it had any material effect on the presented Bank's financial statements:

- **Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" – *Onerous Contracts — Cost of Fulfilling a Contract,*** effective for annual periods beginning on or after January 1, 2022, specify which costs an entity shall include in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
- **Annual Improvements 2018-2020** make minor amendments to IFRS 1, IFRS 9, and IAS 41 are effective for annual periods beginning on or after January 1, 2022. Amendments to IFRS 16 eliminate the illustrative example of the leasehold improvement compensation in order to remove potential for confusion regarding lease incentives.
- **Amendments to IAS 16 "Property, Plant and Equipment" – *Proceeds before Intended Use***, effective for annual periods beginning on or after January 1, 2022, clarify the accounting treatment of the net proceeds from the sales of assets produced during the preparation of the assets for their intended use.
- **Amendments to IFRS 3 "Business Combinations" – *Reference to the Conceptual Framework*** are effective for annual periods beginning on or after January 1, 2022.

A. Comparative Information

The accounting policies and estimates regarding recognition and measurement of assets and liabilities used in preparation of these financial statements are consistent with the accounting policies and estimates used in preparation of the Bank's financial statements for 2021.

6. SUMMARY OF FINANCIAL RISKS

This Note provides an overview of the Bank's exposures to financial risks and outlines the Bank's capital management. More details on the financial risk management framework implemented by the Bank are presented in Note 40.

A. Credit Risk

Note 37.B provides the credit risk definition and a detailed description of the Bank's credit risk management framework.

i. Loan Portfolio Analysis

The following tables provide information on the quality of the Bank's financial assets measured at amortized cost. The amounts presented are gross exposure amounts unless it is specified otherwise. Off-balance sheet items – liabilities per guarantees issued shown in the tables represent commitments or guaranteed amounts which the Bank may have to pay out. Explanations of the terms Stage 1, Stage 2 and Stage 3 are provided in Section III of this Note. The bank manages its credit risk exposure by taking the following monitoring and control measures: regular assessment by applying the internally defined credit ratings and diversification of the industry/segment risk in order to avoid credit risk concentration in any type of business. The Bank obtains collaterals in the form of mortgage lines instituted over property, deposits and pledge liens in order to reduce credit risk exposure and mitigate the risk.

	Stage 1	Stage 2	Stage 3	Total 2022
Loans and receivables due from customers				
Corporate customers and entrepreneurs				
Rating 1	196,538	43,658	-	240,196
Rating 2	339,294	76,186	-	415,480
Rating 3	662,305	158,016	-	820,321
Rating 4	859,711	292,041	-	1,151,752
Rating 5	902,193	377,879	-	1,280,072
Rating 6	837,084	424,293	-	1,261,377
Rating 7	606,784	340,489	-	947,273
Rating 8	297,691	260,111	-	557,802
Rating 9	126,095	236,204	-	362,299
Default	-	-	297,651	297,651
Gross carrying value	4,827,695	2,208,877	297,651	7,334,223
Impairment allowance	(41,221)	(49,689)	(116,528)	(207,438)
Net carrying value	**4,786,474**	**2,159,188**	**181,123**	**7,126,785**
Retail customers – pensioners and employed				
Rating 1	76,416	7,447	-	83,863
Rating 2	248,380	13,236	-	261,616
Rating 3	392,877	29,554	-	422,431
Rating 4	622,747	61,048	-	683,795
Rating 5	940,561	76,401	-	1,016,962
Rating 6	1,002,778	179,436	-	1,182,214
Rating 7	875,445	190,123	-	1,065,568
Rating 8	532,137	145,494	-	677,631
Rating 9	40,808	67,172	-	107,980
Default	-	-	97,328	97,328
Gross carrying value	4,732,149	769,911	97,328	5,599,388
Impairment allowance	(63,264)	(35,990)	(36,184)	(135,438)
Net carrying value	**4,668,885**	**733,921**	**61,144**	**5,463,950**
Agricultural estates				
Rating 1	522,111	31,413	-	553,524
Rating 2	654,667	92,822	-	747,489
Rating 3	1,094,407	163,444	-	1,257,851
Rating 4	901,482	180,172	-	1,081,654
Rating 5	1,056,590	128,141	-	1,184,731
Rating 6	783,515	97,046	-	880,561
Rating 7	457,287	112,513	-	569,800
Rating 8	299,980	240,428	-	540,408
Rating 9	116,185	561,462	-	677,647
Default	-	-	279,774	279,774
Gross carrying value	5,886,224	1,607,441	279,774	7,773,439
Impairment allowance	(25,263)	(55,446)	(100,245)	(180,954)
Net carrying value	**5,860,961**	**1,551,995**	**179,529**	**7,592,485**
Total loans and receivables due from customers				
Gross carrying value	15,446,068	4,586,229	674,753	20,707,050
Impairment allowance	(129,748)	(141,125)	(252,957)	(523,830)
Net carrying value	**15,316,320**	**4,445,104**	**421,796**	**20,183,220**

	Stage 1	Stage 2	Stage 3	Total 2022
Loans and receivables due from banks and other financial institutions				
Rating 1	2,106,848	-	-	2,106,848
Rating 2	-	-	-	-
Rating 3	1,753	-	-	1,753
Rating 4	1,670	-	-	1,670
Rating 5	4,097	-	-	4,097
Rating 6	405	164,658	-	165,063
Rating 7	462	-	-	462
Rating 8	289	-	-	289
Rating 9	-	-	-	-
Default	-	-	15	15
Gross carrying value	2,115,524	164,658	15	2,280,197
Impairment allowance	(215)	(9,477)	(5)	(9,697)
Net carrying value	**2,115,309**	**155,181**	**10**	**2,270,500**
Other assets				
Rating 1	2,951	5,571	-	8,522
Rating 2	249	50	-	299
Rating 3	410	81	-	491
Rating 4	660	131	-	791
Rating 5	845	181	-	1,026
Rating 6	2,655	265	-	2,920
Rating 7	3,611	415	-	4,026
Rating 8	17,811	538	-	18,349
Rating 9	47,627	997	-	48,624
Default	-	-	26,046	26,046
Gross carrying value	76,819	8,229	26,046	111,094
Impairment allowance	(4,088)	(120)	(24,393)	(28,601)
Net carrying value	**72,731**	**8,109**	**1,653**	**82,493**
Off-balance sheet items				
Rating 1	-	-	-	-
Rating 2	700	500	-	1,200
Rating 3	729	-	-	729
Rating 4	380	301	-	681
Rating 5	499	49	-	548
Rating 6	697	31	-	728
Rating 7	592	0	-	592
Rating 8	-	151	-	151
Rating 9	-	-	-	-
Default	-	-	-	-
Total	3,597	1,032	-	4,629
Impairment allowance	(12)	(4)	-	(16)
Net carrying value	**3,585**	**1,028**	**-**	**4,613**
Total gross carrying value	**17,642,008**	**4,760,148**	**700,814**	**23,102,970**
Total impairment allowance	(134,063)	(150,726)	(277,355)	(562,144)
Total net carrying value	**17,507,945**	**4,609,422**	**423,459**	**22,540,826**

As of December 31, 2022, the Bank had no POCI assets.

	12-month PD	Stage 1	Stage 2	Stage 3	Total 2021
Loans and receivables due from customers					
Corporate customers and entrepreneurs					
Maturing within 0 – 5 days	2.47	3,459,755	1,601,319	39,319	5,100,393
Maturing within 6 – 90 days	23.78	42,903	199,596	20,378	262,877
Maturing after 90 days	100.00	-	-	119,045	119,045
Gross carrying value		3,502,658	1,800,915	178,742	5,482,315
Impairment allowance		(34,199)	(44,931)	(86,022)	(165,152)
Net carrying value		**3,468,459**	**1,755,984**	**92,720**	**5,317,163**
Retail customers – pensioners and employed					
Maturing within 0 – 5 days	1.22	3,971,683	826,801	-	4,798,484
Maturing within 6 – 90 days	19.60	29,766	60,338	-	90,104
Maturing after 90 days	100.00	-	-	59,669	59,669
Gross carrying value		4,001,449	887,139	59,669	4,948,257
Impairment allowance		(28,342)	(21,057)	(30,288)	(79,687)
Net carrying value		**3,973,107**	**866,082**	**29,381**	**4,868,570**
Agricultural estates					
Maturing within 0 – 5 days	1.77	5,066,475	1,194,391	10,988	6,271,854
Maturing within 6 – 90 days	17.35	73,131	180,189	3,266	256,586
Maturing after 90 days	100.00	-	-	168,653	168,653
Gross carrying value		5,139,606	1,374,580	182,907	6,697,093
Impairment allowance		(21,433)	(16,564)	(93,871)	(131,868)
Net carrying value		**5,118,173**	**1,358,016**	**89,036**	**6,565,225**
Total loans and receivables due from customers					
Gross carrying value		12,643,713	4,062,634	421,318	17,127,665
Impairment allowance		(83,974)	(82,552)	(210,181)	(376,707)
Net carrying value		**12,559,739**	**3,980,082**	**211,137**	**16,750,958**
Loans and receivables due from banks and other financial institutions					
Maturing within 0 – 5 days	0.48-2.47	1,603,419	158,069	-	1,761,488
Maturing within 6 – 90 days		-	-	-	-
Maturing after 90 days	100.00	-	-	48	48
Gross carrying value		1,603,419	158,069	48	1,761,536
Impairment allowance		(316)	(10,416)	(21)	(10,753)
Net carrying value		**1,603,103**	**147,653**	**27**	**1,750,783**
Other assets					
Maturing within 0 – 5 days	1.77-2.47	86,653	2,159	17	88,829
Maturing within 6 – 90 days	17.35-23.78	188	399	6	593
Maturing after 90 days	100.00	-	-	47,677	47,677
Gross carrying value		86,841	2,558	47,700	137,099
Impairment allowance		(878)	(64)	(26,225)	(27,167)
Net carrying value		**85,963**	**2,494**	**21,475**	**109,932**
Off-balance sheet items					
Maturing within 0 – 5 days	2.47	4,993	927	-	5,920
Maturing within 6 – 90 days	23.78	65	-	-	65
Maturing after 90 days		-	-	-	-
Total		5,058	927	-	5,985
Impairment allowance		(32)	(3)	-	(35)
Net carrying value		**5,026**	**924**	**-**	**5,950**
Total gross carrying value		**14,339,031**	**4,224,188**	**469,066**	**19,032,285**
Total impairment allowance		(85,200)	(93,035)	(236,427)	(414,662)
Total net carrying value		**14,253,831**	**4,131,153**	**232,639**	**18,617,623**

As of December 31, 2021, the Bank had no POCI assets.

The table below presents the days-past-due status of loans and receivables where the average arrears reference is 30 days as the indicator of the increase in credit risk:

	Stage 1	Stage 2	Stage 3	Total 2022
Loans and receivables due from customers				
Corporate customers and entrepreneurs				
Not past due	4,711,700	1,901,531	37,961	6,651,192
Up to 30 days past due	115,995	237,080	25,536	378,611
Over 30 days past due	0	70,266	234,154	304,420
Gross carrying value	4,827,695	2,208,877	297,651	7,334,223
Impairment allowance	(41,221)	(49,689)	(116,528)	(207,438)
Net carrying value	**4,786,474**	**2,159,188**	**181,123**	**7,126,785**
Retail customers – pensioners and employed				
Not past due	4,678,326	676,420	5,145	5,359,891
Up to 30 days past due	53,823	60,548	3,674	118,045
Over 30 days past due	0	32,943	88,509	121,452
Gross carrying value	4,732,149	769,911	97,328	5,599,388
Impairment allowance	(63,264)	(35,990)	(36,184)	(135,438)
Net carrying value	**4,668,885**	**733,921**	**61,144**	**5,463,950**
Agricultural estates				
Not past due	5,808,964	1,243,575	27,109	7,079,648
Up to 30 days past due	76,716	259,185	10,974	346,875
Over 30 days past due	544	104,681	241,691	346,916
Gross carrying value	5,886,224	1,607,441	279,774	7,773,439
Impairment allowance	(25,263)	(55,446)	(100,245)	(180,954)
Net carrying value	**5,860,961**	**1,551,995**	**179,529**	**7,592,485**
Total loans and receivables due from customers				
Gross carrying value	15,446,068	4,586,229	674,753	20,707,050
Impairment allowance	(129,748)	(141,125)	(252,957)	(523,830)
Net carrying value	**15,316,320**	**4,445,104**	**421,796**	**20,183,220**
Loans and receivables due from banks and other financial institutions				
Not past due	2,115,409	164,658	-	2,280,067
Up to 30 days past due	115	-	-	115
Over 30 days past due	0	-	15	15
Gross carrying value	2,115,524	164,658	15	2,280,197
Impairment allowance	(215)	(9,477)	(5)	(9,697)
Net carrying value	**2,115,309**	**155,181**	**10**	**2,270,500**
Other assets				
Not past due	76,472	7,742	69	84,283
Up to 30 days past due	347	156	53	556
Over 30 days past due	0	331	25,924	26,255
Gross carrying value	76,819	8,229	26,046	111,094
Impairment allowance	(4,088)	(120)	(24,393)	(28,601)
Net carrying value	**72,731**	**8,109**	**1,653**	**82,493**
Off-balance sheet items				
Not past due	3,597	1,032	-	4,629
Up to 30 days past due	-	-	-	-
Over 30 days past due	-	-	-	-
Total	3,597	1,032	-	4,629
Impairment allowance	(12)	(4)	-	(16)
Net carrying value	**3,585**	**1,028**	**-**	**4,613**
Total gross carrying value	**17,642,008**	**4,760,148**	**700,814**	**23,102,970**
Total impairment allowance	(134,063)	(150,726)	(277,355)	(562,144)
Total net carrying value	**17,507,945**	**4,609,422**	**423,459**	**22,540,826**

As of December 31, 2022, the Bank had no loans and receivables carries at fair value through profit or loss (FVtPL) or debt instruments classified as measured at FVtOCI.

	Stage 1	Stage 2	Stage 3	Total 2021
Loans and receivables due from customers				
Corporate customers and entrepreneurs				
Not past due	3,378,400	1,506,810	35,692	4,920,902
Up to 30 days past due	124,258	216,513	12,685	353,456
Over 30 days past due	-	77,592	130,365	207,957
Gross carrying value	3,502,658	1,800,915	178,742	5,482,315
Impairment allowance	(34,199)	(44,931)	(86,022)	(165,152)
Net carrying value	**3,468,459**	**1,755,984**	**92,720**	**5,317,163**
Retail customers – pensioners and employed				
Not past due	3,957,110	818,406	-	4,775,516
Up to 30 days past due	44,339	47,913	-	92,252
Over 30 days past due	-	20,820	59,669	80,489
Gross carrying value	4,001,449	887,139	59,669	4,948,257
Impairment allowance	(28,342)	(21,057)	(30,288)	(79,687)
Net carrying value	**3,973,107**	**866,082**	**29,381**	**4,868,570**
Agricultural estates				
Not past due	5,025,026	1,148,886	9,587	6,183,499
Up to 30 days past due	114,580	151,557	2,930	269,067
Over 30 days past due	-	74,137	170,390	244,527
Gross carrying value	5,139,606	1,374,580	182,907	6,697,093
Impairment allowance	(21,433)	(16,564)	(93,871)	(131,868)
Net carrying value	**5,118,173**	**1,358,016**	**89,036**	**6,565,225**
Total loans and receivables due from customers				
Gross carrying value	12,643,713	4,062,634	421,318	17,127,665
Impairment allowance	(83,974)	(82,552)	(210,181)	(376,707)
Net carrying value	**12,559,739**	**3,980,082**	**211,137**	**16,750,958**
Loans and receivables due from banks and other financial institutions				
Not past due	1,603,419	158,069	-	1,761,488
Up to 30 days past due	-	-	-	-
Over 30 days past due	-	-	48	48
Gross carrying value	1,603,419	158,069	48	1,761,536
Impairment allowance	(316)	(10,416)	(21)	(10,753)
Net carrying value	**1,603,103**	**147,653**	**27**	**1,750,783**
Other assets				
Not past due	86,544	2,108	17	88,669
Up to 30 days past due	297	152	1	450
Over 30 days past due	-	298	47,682	47,980
Gross carrying value	86,841	2,558	47,700	137,099
Impairment allowance	(878)	(64)	(26,225)	(27,167)
Net carrying value	**85,963**	**2,494**	**21,475**	**109,932**
Off-balance sheet items				
Not past due	4,993	927	-	5,920
Up to 30 days past due	65	-	-	65
Over 30 days past due	-	-	-	-
Total	5,058	927	-	5,985
Impairment allowance	(32)	(3)	-	(35)
Net carrying value	**5,026**	**924**	**-**	**5,950**
Total gross carrying value	**14,339,031**	**4,224,188**	**469,066**	**19,032,285**
Total impairment allowance	(85,200)	(93,035)	(236,427)	(414,662)
Total net carrying value	**14,253,831**	**4,131,153**	**232,639**	**18,617,623**

As of December 31, 2021, the Bank had no loans and receivables carries at fair value through profit or loss (FVtPL) or debt instruments classified as measured at FVtOCI.

For certain exposures the Bank obtains collateral or other types of credit protection instruments. Collateral activation (sales) is performed when a borrower fails to settle the liabilities due to the Bank.

The types of collateral the Bank accepts from its clients to secure loans and receivables are as follows:

- one or more guarantors signing bills of exchange or salary/pension garnishment;
- blank bills of exchange issued by sole entrepreneurs or corporate borrowers;
- pledge liens instituted over movable property;
- mortgage liens instituted over property;
- unearmarked cash deposits; and
- an insurance policy endorsed in favor of the Bank.

Fair value assessment is based on the value of the collateral appraised at the time of loan approval. Following the appraisal at the time of loan approval, property valuation is performed by a certified appraiser regularly, at least once every three years or more frequently as appropriate in the circumstances volatility of collateral market values.

Collaterals securing non-performing loans and receivables (financial assets classified to Stage 3) are appraised on an annual basis.

The Bank does not obtain collaterals to secure loans and receivables due from banks, except for securities held within reverse repo transactions and securities pledged as collaterals.

The fair value assessment of collaterals used in the calculation of impairment of the Bank's financial assets as of December 31, 2022 and 2021 is presented in the table below:

	Stage 1	**Stage 2**	**Stage 3**	**Total 2022**
Property	32,566	38,624	32,963	104,153
Cash deposits	3,577	86	-	3,663
Total	**36,143**	**38,710**	**32,963**	**107,816**

	Stage 1	**Stage 2**	**Stage 3**	**Total 2021**
Property	85,314	48,567	46,073	179,954
Cash deposits	10,530	28	-	10,558
Total	**95,844**	**48,595**	**46,073**	**190,512**

The presented collateral value is limited to the gross exposure per financial instrument whenever the collateral value exceeds the amount of the borrower's liability outstanding toward the Bank.

Improvements in collection of loans secured with mortgages assigned over property are reviewed at regular meetings of the Non-Performing Asset Committee.

The table below presents a breakdown of credit exposures per loans and receivables due from customers secured with mortgages according to the LTV ratio ranges, where the LTV ratio is calculated as the gross amount of the loan relative to the appraised value of the collateral.

2022	Gross exposure	Impairment allowance	Net exposure	Impairment allowance w/o collateral	Net exposure w/o collateral
<50%	96,634	(18,852)	77,782	(19,733)	76,901
51%-70%	10,493	(2,656)	7,837	(2,714)	7,779
71%-90%	1,895	(13)	1,882	(16)	1,879

2021	Gross exposure	Impairment allowance	Net exposure	Impairment allowance w/o collateral	Net exposure w/o collateral
<50%	99,911	(12,826)	87,085	(13,441)	86,470
51%-70%	57,273	(12,869)	44,404	(13,067)	44,206
71%-90%	18,303	(2,448)	15,855	(2,478)	15,825
90%-100%	12,793	(86)	12,707	(137)	12,656
>100%	8,482	(71)	8,411	(95)	8,387

iii. Impairment Allowance – Expected Credit Losses (ECL)

The Bank's accounting policies for impairment assessment are presented in Note 40 (G)(*VII*).

Significant increase in credit risk

When determining whether there has been a significant increase credit risk of an individual financial instrument since its initial measurement, the Bank considers quantitative and qualitative information and analyses based on the historical data and expert estimates that include forward-looking information.

The Bank periodically assesses whether there has been a significant increase in credit risk compared to the date of the asset's initial recognition and calculates an adequate amount of impairment based on the expected credit losses.

A significant increase in the credit risk for the exposures to retail clients, entrepreneurs and corporate clients is determined based on the past-due status of 30 days and qualitative factors (days past due recorded by the Credit Bureau, status with the Serbian Business Registers Agency, balance of accounts under enforced collection, the "watch" list criteria that indicate a significant credit risk increases such as collateral foreclosure, bad history, loan rescheduling, transfer to the Collection Unit, etc.).

By developing a new internal rating system per customer segment, the Bank has enabled significant increase in credit risk measurement by means of relative deterioration of the borrower's default risk per instrument for the entire lifetime of the instrument (lifetime PD movements). A relative change in the probability of default (PD) is calculated by comparing the lifetime PD assigned to a financial asset as of the reporting date with the adjusted lifetime PD assigned to a financial asset upon initial recognition. If this ratio exceeds 200%, there has been a significant increase in credit risk since initial recognition. Moreover, if at the reporting date the absolute value of the 12-month PD exceeds 20%, there has been a significant increase in credit risk.

In order to include the Covid-19 pandemic circumstances in credit risk assessment, from the pandemic onset, through direct communication with clients the Bank sought to understand expected and potential problems in loan collection. The Bank's staff made calls and interviews with agro and business segment clients (corporate and entrepreneurs). By considering customer responses based on the qualitative criteria for determining significant credit risk increases, the Bank identified industries and business activities that have been severely affected by the pandemic and its impact (restaurants and hospitality industry, preparation and serving of beverages, transport of passengers in land traffic, apparel retail sales, sales of goods on stalls and greenmarkets, etc).

A significant increase in credit risk of exposures to countries and financial institutions is determined as a decline by two rating categories on the rating scales of renowned external rating agencies.

Credit risk stages

The Bank determines the credit risk stage for each exposure based on various information that is predictive of the risk of default using the historical experience in credit risk assessment. The Bank uses the credit risk assessment to identify a significant credit risk increase in line with IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default.

Each exposure is allocated to a certain credit risk stage on initial recognition, based on the available information on the borrower. Exposures will thereafter be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk stage.

The Bank has defined parameters the identification of which will reflect an increase in the risk of default. In identifying a significant increase in credit risk at a financial instrument level, the Bank takes care that the moment of default risk increase is identified before the moment of default.

Credit risk assessment is a primary input into the determination of the term structure of PD for exposures.

In 2021, , the Bank performed a statistical analysis of the impact of macroeconomic parameters on the default rate. The analysis was done separately for each business line (agro, business and retail segments).

In 2022, the Bank performed a statistical analysis of the impact of macroeconomic parameters applying a new customer segmentation:

- Registered agricultural estates,
- Corporate customers and sole entrepreneurs having submitted their financial statements not more than two years old;
- Sole entrepreneurs not having submitted their financial statements for the past two years, i.e., those subject to lump sum taxation;
- Pensioners within the retail customer segment – individuals; and
- Employees within the retail customer segment – individuals.

This analysis includes identification and calibration of correlations between changes in default rates and changes in the key macroeconomic factors, as well as in-depth analysis of the impact of certain other factors on the risk of default.

All financial assets for which calculations of the allowance for impairment are performed are allocated to one of the stages 1, 2 or 3, depending on the quality of the instrument, in the following way:

- Stage 1 - financial assets with low credit risk,
- Stage 2 - financial assets where a significant increase in credit risk has been identified, and
- Stage 3 - financial assets where objective evidence of impairment has been identified.

The Bank assesses for each reporting period whether there has been a significant increase in credit risk for all financial assets. If the impairment for financial assets is measured at an amount equal to the lifetime ECL from the previous reporting period, but on the current reporting date the Bank determines that the criteria for such measurement are no longer met, the Bank will assess impairment allowance in the amount equal to the twelve-month ECL as of the current reporting date.

In each reporting period, i.e., at the moment of estimating expected credit losses for the purposes of calculating the allowance for impairment, in accordance with its internally adopted Methodology, the Bank assesses for all financial assets individually (at the level of a single loan facility) whether there has been a significant increase in credit risk.

In identifying a significant increase in credit risk at the level of a single financial asset, the Bank takes care that the moment credit risk increase identification has been identified before the moment of default.

For its analysis, the Bank identified a set of criteria that are used for assessment purposes and will use a comparison with the situation at the moment of the initial recognition of financial assets in accordance

with IFRS 9 and the internal methodology. The identification of one or more of these indicators may indicate that there has been a significant increase in credit risk.

All financial assets are allocated to one of the stages, Stage 1, 2 or 3, depending on the credit risk and changes in the credit risk and based on available information about the client. Each exposure is subject to an ongoing monitoring, which may result in transition to another stage. Normally, monitoring is carried out based on the following data:

- Corporate exposures: information obtained as a result of periodic analyses of financial statements, information obtained from the Credit Bureau, actual and expected significant changes in the political, business, regulatory and technological environment of the borrower, information on the history of borrowing and fulfilment of liabilities toward the Bank, status of days past due, utilization of approved limits, rescheduling of other liabilities;
- Retail exposures: information obtained from the Credit Bureau, information on the history of borrowing and the fulfilment of liabilities toward the Bank, the status of days past due, refinancing and rescheduling, changes in the financial and economic environment.

Definition of default

The default status is identified based on the criteria prescribed by the Bank's Default identification Methodology aligned with the National Bank of Serbia's Guidelines for Default Status Identification. Among other mandatory criteria, the Bank considers whether a borrower is over 90 days past due in repayment of the amount exceeding the relevant materiality threshold, whether the Bank has ceased to record interest, fee and commission income on its profit or loss per receivables from a borrower due to deterioration in the credit quality of the receivables from such a borrower, whether the receivables past due have already been restructured due to the borrower's financial difficulties, whether such restructuring has resulted in a reduced amount of the receivables, whether a bankruptcy or a similar procedure has been instigated over the borrower, and other circumstances that may be indicative of a remote probability that the liabilities toward the Bank will be settled.

Moreover, the Bank has identified the list of indicators that it will monitor to identify default, for materially significant assets:

- debtor's financial situation indicates significant difficulties in operations (transaction account blocked for more than 90 consecutive days within the last 6 months);
- significant decrease in debtor's operating income (a more than 50% decrease observed in the last two sets of financial statements);
- significant debtor's capital decrease (a more than 50% decrease observed in the last two sets of financial statements);
- debt service coverage ratio (a negative cash flows to total expenses ratio, calculated based on the data from the last financial statements);
- evidence of the debtor failing to orderly discharge interest and / or principal repayment liabilities;
- client (debtor) deletion from the business company register;
- the Bank has substantially changed the conditions for loan repayment due to client's financial difficulties in the last two years;
- the client has not submitted the last financial statements to the Business Registers Agency; and
- information that indicates debtor's business problems and may affect the inability to service debt, in addition to the aforesaid events.

Forward-looking information

In accordance with IFRS 9, the Bank includes forward-looking information in its credit risk assessments.

The Bank has identified and documented key credit risk and credit loss drivers for each portfolio of financial instruments and, considering the analysis of historical data, it estimates the relations between macroeconomic variables and credit risk and credit losses.

In 2021, the Bank attempted to describe the dependance between default rates and macroeconomic parameters at first by using linear regression models and then by using the error correction model (ECM). As neither of these models met even minimum standards of statistical acceptability and

representativeness using available data, the Bank used TTC PDs in the calculation of expected credit losses. Based on the performed backtesting analysis, it was determined that by using these PD values the Bank did not underestimate its credit risk exposure for 2021.

In 2022, the Bank developed macroeconomic models for the segment of corporate clients and entrepreneurs maintaining double-entry bookkeeping, entrepreneurs subject to lump-sum taxation and employed individuals that meet all the required statistical criteria and may be used as such in calculation of the PD parameter for impairment allowance assessment under IFRS 9. In the loan portfolios of agricultural estates and pensioners no dependence between the default rates and macroeconomic parameters, so that the Bank uses PiT (Point in Time) PD for impairment allowance calculation purposes.

The Bank incorporated Covid 19 effects through significant risk indicators for all clients belonging to the industries that were assessed as high-risk industries.

Modified financial assets

Renegotiating or modifying contractual cash flows of a financial asset may lead to derecognition of an existing financial asset in accordance with IFRS 9. When modification of a financial asset results in derecognition of an existing financial asset and subsequent recognition of a modified financial asset, the modified asset will be considered as a "new" financial asset for the purposes of this standard, in accordance with the accounting policy in Note 40 G (IV).

In such situations, the Bank performs a quantitative and qualitative assessment and estimates whether there is a significant difference between the cash flows of the original financial asset and the cash flows of a modified or replaced financial asset. If there is a significant difference in cash flows, contractual rights from the original financial asset are considered as expired and a new asset issued under new terms needs to be recognized.

In 2021, the Bank estimated asset modification losses due to the moratoria imposed by the National Bank of Serbia in the amount of RSD 12,976 thousand, and the total losses of RSD 12,504 thousand on loan rescheduling effects for other reasons.
In 2022, the Bank estimated asset modification losses from regular loan restructuring as amounting to RSD 307 thousand.

In addition, in 2021 and 2022, the Bank had no credit-impaired financial assets with significantly modified contractual terms so that the original assets would be derecognized and new assets recognized instead (POCI). For the impairment allowance calculation purposes, such assets would remain classified to Stage 3 over their entire life cycle and lifetime ECL would be calculated.

Measurement of expected credit losses (ECL)

The general approach used by the Bank in calculating lifetime expected credit losses can be represented by the following formula:

$$\boldsymbol{ECL} = \sum_{\boldsymbol{t=1}}^{\boldsymbol{T}} (\boldsymbol{EAD_t} * \boldsymbol{MPD_t} * \boldsymbol{LGD_t} * \boldsymbol{DF_t})$$

- ECL Expected credit loss
- EAD Exposure at default
- MPD Marginal probability of default
- LGD Loss given default
- DF EIR based discount factor.

Thus, the calculated lifetime ECLs represent losses recognized by the Bank for calculating impairment allowance of assets in Stage 2, while 12-month ECL amounts are recognized as impairment allowance of assets in Stage 1.

The key parameters for calculating expected credit losses are the following variables:

- probability of default (PD),
- loss given default (LGD), and
- exposure at default (EAD).

These parameters are based on internally developed statistical methods and models and other historical data that uses regulatory models and is adjusted to reflect forward-looking information.

The Bank performs separate calculations of average PDs for each of its five above listed customer segments for the observed historical periods.

In 2021, the Bank grouped debtors within each segment (agro, business and retail segment) by days past due into the following buckets: 0-5 days past due, 6-90 days past due and over 90 days past due, where the default status clients are.

Based on a series of migration matrices, the Bank calculated the average PDs TTC that reflected all internal and external factors that were dominant in the observed period. For the purposes of analysis, historical figures from 2012 to March 2020 were observed.

As from 2022, in addition to the new customer segmentation, the Bank has in place 9 non-default internal rating categories and one default category. Migration matrices were calculated based on the available data (2014 – 2021), which were in turn used as the basis for calculating appropriate TTC matrices, which will subsequently be subject to forward-looking adjustments.

The Bank performs separate calculations of the LGDsecured and LGDunsecured parameters, depending on whether there is collateral provided for an individual asset or not.

In order to calculate unsecured LGDs, the Bank monitors the collection of assets in default and identifies default drivers. For this purpose, each receivable entry into default is considered separately. All collections in respect thereof are identified chronologically.

For the purpose of calculating the LGD secured parameter, or the expected loss rate after collateral activation, the Bank takes into account all internally available mortgages where there is an estimate of probable collectability.

EAD – represents exposures at the time of default, i.e., the current gross carrying value of a financial asset in accordance with IFRS 9 at the moment of default, taking into account the profile of contracted cash flows as well as possible additional withdrawals from approved facilities before the moment of default. For instruments with contractual cash flows and contractually defined maturity, the Bank considers as relevant the contractual cash flows according to the repayment schedule. For financial assets without defined cash flows or maturities, they are determined based on historical experience.

Impairment allowance calculation for Stage 3 exposures is performed for all exposures with identified default.

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

In accordance with IFRS 9, expected credit losses represent the probability of a weighted estimate of credit losses, and accordingly, the Bank recognizes multiple existing collection scenarios within individual assessment of the expected future cash flows.

The applied scenarios take into account the following:

- collateral activation (separately in-court and out-of-court),

- restructuring and rescheduling,
- bankruptcy,
- sale of receivables,
- settlement, and
- anything else considered as relevant.

When determining the probability of certain scenarios, the Bank is guided by the history of realization and collection of non-performing loans and receivables, as well as the specifics of the individual financial assets. Accordingly, appropriate weightings are allocated to the scenarios, which must total 100% for the sum of all scenarios.

In its internal methodology the Bank has defined the materiality thresholds (in accordance with segments – lines of business), based on which it will determine which exposures will be estimated through the expected cash flows assessment.

For exposures below the materiality threshold the Bank uses collective assessment approach, which implies grouping of the remaining financial assets in Stage 3 by segment. Due to the current lack of sufficient credit history, as well as collateral (property under mortgage) realization history, the Bank calculates the amount of impairment allowance for exposures in Stage 3 according to the following simplified model:

$$ECL = EAD \cdot LGD_{unsecured} \cdot (1 - p)$$

where EAD is the sum of all exposures from Stage 3 at the moment of calculation and *p* reflects the assumption of two possible collection scenarios:

- With 90% probability and using the effective interest rate over 5 years, the Bank will collect its receivables from all remaining collaterals, while the remaining portion of outstanding receivables (1-$LGD_{unsecured}$) will be collected not using collateral.
- With 10% probability the Bank will collect 5% of its total Stage 3 receivables.

Write-off policy

The Bank writes off financial assets (and calculates any relating impairment allowance thereof) when it is determined that the loans are uncollectible and completely impaired in accordance with the Decision on the Accounting Write-off of Bank Balance Sheet Assets ("Official Gazette of RS", No. 77/2017) and its loan portfolio risk management policy, after considering information such as the occurrence of significant changes in debtor's financial position resulting in debtor's inability to settle liabilities to the Bank or insufficiency of the proceeds from collateral sale for the entire exposure coverage.

The Bank writes off financial assets at each month-end, or at each quarter-end at the latest. Each write-off proposal is assessed individually at the Risk Management Committee meeting. Written-off financial assets can still be the subject of collection.

Movements on the impairment allowance during 2022 and 2021 are presented in the tables below:

	Stage 1	Stage 2	Stage 3	Total 2022
Movements of the impairment allowance for loans and receivables due from agricultural estates				
Balance as of January 1	**21,433**	**16,564**	**93,871**	**131,868**
Transfer to Stage 1	11,684	(11,000)	(684)	-
Transfer to Stage 2	(30,093)	60,014	(29,921)	-
Transfer to Stage 3	(42)	(19,343)	19,385	-
Net change in impairment allowance for the current period	713	13,298	72,055	86,066
Increase due to origination and acquisition	28,477	-	-	28,477
Derecognition of financial assets	(6,871)	(4,044)	(8,285)	(19,200)
Write-off	(2)	(9)	(53,403)	(53,414)
Interest income on impaired assets	-	-	7,351	7,351
Foreign exchange effects	(36)	(34)	(124)	(194)
Balance as of December 31	**25,263**	**55,446**	**100,245**	**180,954**

	Stage 1	Stage 2	Stage 3	Total 2021
Movements of the impairment allowance for loans and receivables due from agricultural estates				
Balance as of January 1	24,855	11,914	73,999	110,768
Transfer to Stage 1	15,501	(9,524)	(5,977)	-
Transfer to Stage 2	(28,300)	103,383	(75,083)	-
Transfer to Stage 3	(209)	(12,118)	12,327	-
Net change in impairment allowance for the current period	(2,644)	(74,856)	100,877	23,377
Increase due to origination and acquisition	18,032	-	-	18,032
Derecognition of financial assets	(5,780)	(2,188)	(8,779)	(16,747)
Write-off	(30)	(52)	(8,675)	(8,757)
Interest income on impaired assets	-	-	5,178	5,178
Foreign exchange effects	8	5	4	17
Balance as of December 31	**21,433**	**16,564**	**93,871**	**131,868**

	Stage 1	Stage 2	Stage 3	Total 2022
Movements of the impairment allowance for loans and receivables due from retail customers – pensioners and employed individuals				
Balance as of January 1	**28,342**	**21,057**	**30,288**	**79,687**
Transfer to Stage 1	13,631	(13,286)	(345)	-
Transfer to Stage 2	(27,537)	32,273	(4,736)	-
Transfer to Stage 3	(227)	(20,898)	21,125	-
Net change in impairment allowance for the current period	32,454	27,494	30,475	90,423
Increase due to origination and acquisition	31,837	-	-	31,837
Derecognition of financial assets	(15,236)	(10,647)	(2,988)	(28,871)
Write-off	-	(2)	(39,186)	(39,188)
Interest income on impaired assets	-	-	1,551	1,551
Foreign exchange effects	-	(1)	-	(1)
Balance as of December 31	**63,264**	**35,990**	**36,184**	**135,438**

	Stage 1	Stage 2	Stage 3	Total 2021
Movements of the impairment allowance for loans and receivables due from retail customers – pensioners and employed individuals				
Balance as of January 1	28,391	22,423	23,717	74,531
Transfer to Stage 1	6,918	(5,671)	(1,247)	-
Transfer to Stage 2	(13,343)	24,966	(11,623)	-
Transfer to Stage 3	(83)	(13,197)	13,280	-
Net change in impairment allowance for the current period	(2,259)	745	34,363	32,849
Increase due to origination and acquisition	19,776	-	-	19,776
Derecognition of financial assets	(10,876)	(5,131)	(1,873)	(17,880)
Write-off	(182)	(3,078)	(28,151)	(31,411)
Interest income on impaired assets	-	-	1,822	1,822
Foreign exchange effects	-	-	-	-
Balance as of December 31	**28,342**	**21,057**	**30,288**	**79,687**

	Stage 1	Stage 2	Stage 3	Total 2022
Movements of the impairment allowance for loans and receivables due from corporate customers and entrepreneurs				
Balance as of January 1	**34,199**	**44,931**	**86,022**	**165,152**
Transfer to Stage 1	8,532	(4,561)	(3,971)	-
Transfer to Stage 2	(31,685)	56,753	(25,068)	-
Transfer to Stage 3	(520)	(21,564)	22,084	-
Net change in impairment allowance for the current period	(9,817)	(17,325)	62,001	34,859
Increase due to origination and acquisition	47,783	-	-	47,783
Derecognition of financial assets	(7,208)	(8,468)	(4,988)	(20,664)
Write-off	-	(1)	(26,808)	(26,809)
Interest income on impaired assets	-	-	7,449	7,449
Foreign exchange effects	(63)	(76)	(193)	(332)
Balance as of December 31	**41,221**	**49,689**	**116,528**	**207,438**

	Stage 1	Stage 2	Stage 3	Total 2021
Movements of the impairment allowance for loans and receivables due from corporate customers and entrepreneurs				
Balance as of January 1	24,024	31,670	66,914	122,608
Transfer to Stage 1	9,670	(6,384)	(3,286)	-
Transfer to Stage 2	(29,581)	75,246	(45,665)	-
Transfer to Stage 3	(76)	(15,741)	15,817	-
Net change in impairment allowance for the current period	454	(36,114)	57,874	22,214
Increase due to origination and acquisition	34,290	-	-	34,290
Derecognition of financial assets	(4,589)	(3,753)	(2,949)	(11,291)
Write-off	(1)	(3)	(7,125)	(7,129)
Interest income on impaired assets	-	-	4,440	4,440
Foreign exchange effects	8	10	2	20
Balance as of December 31	**34,199**	**44,931**	**86,022**	**165,152**

	Stage 1	Stage 2	Stage 3	Total 2022
Movements of the impairment allowance for loans and receivables due from banks and other financial institutions				
Balance as of January 1	**316**	**10,416**	**21**	**10,753**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net change in impairment allowance for the current period	(160)	(913)	(16)	(1,089)
Increase due to origination and acquisition	280	-	-	280
Derecognition of financial assets	(195)	-	-	(195)
Foreign exchange effects	(26)	(26)	-	(52)
Balance as of December 31	**215**	**9,477**	**5**	**9,697**

	Stage 1	Stage 2	Stage 3	Total 2021
Movements of the impairment allowance for loans and receivables due from banks and other financial institutions				
Balance as of January 1	**384**	**10,005**	**-**	**10,389**
Transfer to Stage 1	3	(3)	-	-
Transfer to Stage 2	-	144	(144)	-
Transfer to Stage 3	-	(35)	35	-
Net change in impairment allowance for the current period	(109)	305	130	326
Increase due to origination and acquisition	167	-	-	167
Derecognition of financial assets	(129)	-	-	(129)
Foreign exchange effects	-	-	-	-
Balance as of December 31	**316**	**10,416**	**21**	**10,753**

	Stage 1	Stage 2	Stage 3	Total 2022
Movements of the impairment allowance for other assets				
Balance as of January 1	**878**	**64**	**26,225**	**27,167**
Transfer to Stage 1	73	(32)	(41)	-
Transfer to Stage 2	(290)	337	(47)	-
Transfer to Stage 3	(2)	(191)	193	-
Net change in impairment allowance for the current period	3,181	240	(945)	2,476
Increase due to origination and acquisition	707	-	-	707
Derecognition of financial assets	(416)	(154)	(472)	(1,042)
Write-off	(44)	(142)	(483)	(669)
Foreign exchange effects	1	(1)	(38)	(38)
Balance as of December 31	**4,088**	**121**	**24,392**	**28,601**

	Stage 1	Stage 2	Stage 3	Total 2021
Movements of the impairment allowance for other assets				
Balance as of January 1	654	31	16,535	17,220
Transfer to Stage 1	173	(114)	(59)	-
Transfer to Stage 2	(265)	333	(68)	-
Transfer to Stage 3	(1)	(715)	716	-
Net change in impairment allowance for the current period	8	570	9,212	9,790
Increase due to origination and acquisition	798	-	-	798
Derecognition of financial assets	(473)	(14)	(83)	(570)
Write-off	(17)	(27)	(28)	(72)
Foreign exchange effects	1	-	-	1
Balance as of December 31	**878**	**64**	**26,225**	**27,167**

	Stage 1	Stage 2	Stage 3	Total 2022
Movements of the impairment allowance for off-balance sheet items				
Balance as of January 1	**32**	**3**	**-**	**35**
Transfer to Stage 1	86	(9)	(77)	-
Transfer to Stage 2	(22)	22	-	-
Transfer to Stage 3	(1)	-	1	-
Net change in impairment allowance for the current period	(120)	(10)	76	(564)
Increase due to origination and acquisition	40	-	-	40
Derecognition of financial assets	(3)	(2)	-	(5)
Balance as of December 31	**12**	**4**	**-**	**16**

	Stage 1	Stage 2	Stage 3	Total 2021
Movements of the impairment allowance for off-balance sheet items				
Balance as of January 1	**25**	**3**	**-**	**28**
Transfer to Stage 1	20	(3)	(17)	-
Transfer to Stage 2	(74)	163	(89)	-
Transfer to Stage 3	-	(16)	16	-
Net change in impairment allowance for the current period	(3)	(89)	90	(2)
Increase due to origination and acquisition	74	-	-	74
Derecognition of financial assets	(10)	(55)	-	(65)
Balance as of December 31	**32**	**3**	**-**	**35**

iv. Credit Risk Concentration

The Bank monitors credit risk concentrations per industry. A breakdown of the Bank's exposure to credit risk by industry is provided in the following tables:
The Bank is oriented toward retail clients and entrepreneurs and accordingly, there are no significant individual exposures.

	Loans and receivables due from customers	Loans and receivables due from banks and other financial institutions	Other assets	Off-balance sheet items	Total 2022
Corporate customers					
Trade	230,904	-	3,266	311	234,481
Manufacturing industry	168,959	-	1,014	-	169,973
Agriculture	10,607	-	151	-	10,758
Construction industry	52,569	-	979	201	53,749
Transport and storage, hotel and restaurant services, information and communications	247,528	-	12,959	541	261,028
Other	200,738	-	9,943	200	210,881
Total	**911,305**	**-**	**28,312**	**1,253**	**940,870**
Retail customers					
Private individuals	5,599,388	-	33,406	-	5,632,794
Agricultural estates	7,773,439	-	112	-	7,773,551
Entrepreneurs		-			
Trade	1,606,771	-	1,107	145	1,608,023
Manufacturing industry	1,204,261	-	779	858	1,205,898
Agriculture	62,059	-	56	0	62,115
Construction industry	554,412	-	348	417	555,177
Transport and storage, hotel and restaurant services, information and communications	1,792,602	-	1,383	1,427	1,795,412
Other	1,202,771	-	9,337	529	1,212,637
Total	**19,795,703**	**-**	**46,528**	**3,376**	**19,845,607**
Public sector	42	-	20,112	-	20,154
Non-resident legal entities	-	164,658	510	-	165,168
Non-resident banks	-	23,395	-	-	23,395
FSI entities	-	2,092,144	15,632	-	2,107,776
Impairment allowance	**(523,830)**	**(9,697)**	**(28,601)**	**(16)**	**(562,144)**
Balance as of December 31	**20,183,220**	**2,270,500**	**82,493**	**4,613**	**22,540,826**

	Loans and receivables due from customers	Loans and receivables due from banks and other financial institutions	Other assets	Off-balance sheet items	Total 2021
Corporate customers					
Trade	164,181	-	5,831	41	170,053
Manufacturing industry	116,170	-	1,370	-	117,540
Agriculture	7,342	-	174	-	7,516
Construction industry	31,057	-	1,256	200	32,513
Transport and storage, hotel and restaurant services, information and communications	164,844	-	26,335	237	191,416
Other	113,325	-	14,501	65	127,891
Total	**596,919**	**-**	**49,467**	**543**	**646,929**
Retail customers					
Private individuals	4,948,257	-	52,908	-	5,001,165
Agricultural estates	6,697,093	-	81	-	6,697,174
Entrepreneurs		-			
Trade	1,299,737	-	1,093	498	1,301,328
Manufacturing industry	989,713	-	734	996	991,443
Agriculture	52,516	-	59	-	52,575
Construction industry	381,619	-	318	650	382,587
Transport and storage, hotel and restaurant services, information and communications	1,266,859	-	1,204	2,834	1,270,897
Other	894,909	-	7,121	464	902,494
Total	**16,530,703**	**-**	**63,518**	**5,442**	**16,599,663**
Public sector	43	-	11,147	-	11,190
Non-resident legal entities	-	158,069	378	-	158,447
Non-resident banks	-	68,025	-	-	68,025
FSI entities	-	1,535,442	12,589	-	1,548,031
Impairment allowance	**(376,707)**	**(10,753)**	**(27,167)**	**(35)**	**(414,662)**
Balance as of December 31	**16,750,958**	**1,750,783**	**109,932**	**5,950**	**18,617,623**

The Bank did not extend loans to customers outside of the Republic of Serbia in both 2022 and 2021. Within receivables from financial institutions, the amount of RSD 165 million as of December 31, 2022 (December 31, 2021: RSD 158 million) refers to loans approved to a non-resident entity based in the Netherlands, whose business activity is investing in SMEs in Serbia (SEAF Serbia Impact Fund B.V.)

v. Offsetting of Financial Assets and Liabilities

Financial assets and liabilities are offset, and the net amount is presented in the statement of financial position when, and only when, the Bank has a legally enforceable right to offset the recognized amounts and it intends either to collect and settle its financial assets and liabilities on a net basis or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by IFRS, as well as gains and losses from a group of similar transactions.

As of December 31, 2022, the Bank had no effective master netting agreement or financial assets and liabilities that could be subject to the netting (offsetting) provisions.

B. Liquidity Risk

Note 37.C provides the liquidity risk definition and details of the Bank's liquidity risk management

i. Liquidity risk exposure

The Bank continuously monitors its exposure to liquidity risk and its compliance with the externally and internally set limits. The Bank calculates liquidity ratios on a daily basis and reports those ratios to the National Bank of Serbia in a prescribed manner and within prescribed deadlines. The Bank monitors internal liquidity indicators through internal reports on RSD and foreign exchange liquidity, which are submitted to the Bank's management on a daily basis.

The National Bank of Serbia prescribed the minimum value of the liquidity ratio, which represents the sum of the first and the second rank financial assets relative to the sum of liabilities for demand deposits without the agreed maturities and liabilities with agreed maturities within the ensuing month. First-rank liquid assets comprise vault cash, current account balances, assets on the current accounts held with investment ranked banks and deposits held with the National Bank of Serbia. Second rank liquid receivables comprise other receivables maturing within a month from the date of liquidity ratio calculation.

The prescribed minimum values of the liquidity ratio are:
- 1.0 for the average of liquidity ratio for all days of the month,
- 0.9 for longer than three consecutive working days, and
- 0.8 when calculated for a single working day.

The Bank's ratio of liquid assets and current liabilities as of the reporting date and during the reporting period:

In %	**2022**	**2021**
On 31 December	4.82	3.60
Average for the period	3.33	4.26
Maximum for the period	5.17	6.60
Minimum for the period	2.40	2.51

The National Bank of Serbia prescribed the minimum value of the quick liquidity ratio, which represents the sum of the liquid first and the second rank financial assets relative to the sum of liabilities for demand deposits without the agreed maturities and liabilities with agreed maturities within the ensuing month. The definition of the first-rank liquid assets is the same as for the above liquidity ratio. The prescribed minimum values of the quick liquidity ratio are as follows:
- 0.7 for the average liquidity ratio for all the days in a calendar month;
- 0.6 for more than 3 consecutive working days; and
- 0.5 for a single working day.

The Bank's quick liquidity ratio as of the reporting date and during the reporting period:

In %	**2022**	**2021**
On 31 December	4.26	3.10
Average for the period	2.27	3.78
Maximum for the period	4.58	5.88
Minimum for the period	1.94	2.30

The Bank pays special attention to the liquidity measures defined by the regulations of the National Bank of Serbia. The liquidity coverage ratio (LCR) is monitored on a monthly basis as a ratio of the Bank's liquidity buffer and net outflow of liquidity over a period of 30 calendar days. The Bank's goal is to maintain a high level of quality liquid assets that can withstand the stress scenario for a period of 30 days, i.e. to cover net outflows of liquid assets. The internal limit of liquidity asset coverage ratio is included in the internal risk management system and equals 135%, which is above the level prescribed by the regulator.

ii. Maturity Analysis of Financial Assets and Liabilities

For liquidity risk management, liquidity gaps are calculated, whereby the data used for analysis of the Bank's statement of financial position also provides the basis for establishing indicators of structure and of concentration used to determine the level of liquidity risk. The following table shows the remaining contractual maturities of financial assets and financial liabilities.

The following table shows the breakdown of the Bank's financial assets and liabilities per maturity buckets in accordance with their remaining maturities as of December 31, 2022, calculated based on undiscounted cash flows that also include the expected interest. Contractual cash flows are modified for expected early loan repayments and early term deposit withdrawals. Assumptions applied to items without contractual maturities were based on internal models for when cash flows will be generated. Potential outflows for issued guaranties and other commitments are reported.

	Within 1 month	1 to 3 months	3 months to 1 year	1-5 years	After 5 years	Total cash flow	Carrying value
As of December 31, 2022							
Assets							
Cash and balances held with the central bank	4,355,389	-	-	-	-	4,355,389	3,445,787
Loans and receivables due from banks and other financial institutions	2,181,058	1,157	4,942	151,342	-	2,338,499	2,270,500
Loans and receivables due from customers	1,342,099	2,596,990	9,626,255	10,419,283	299,170	24,283,797	20,183,220
Other assets	5,106	15,074	2,370	871	307	23,728	83,057
Total assets	**7,883,652**	**2,613,221**	**9,633,566**	**10,571,496**	**299,478**	**31,001,413**	**25,982,564**
Liabilities							
Deposits and other liabilities due to banks, other financial institutions and central bank	286,053	-	940,982	3,432,051	158,151	4,817,237	5,765,557
Deposits and other liabilities due to customers	1,286,118	1,432,950	7,651,146	5,152,182	125,971	15,648,367	14,680,767
Subordinated liabilities	-	436,196	789,453	694,414	510,831	2,430,894	1,186,884
Provisions	16	7,237	21,712	33,046	6,828	68,839	68,839
Other liabilities	98,841	-	14,888	-	-	113,729	515,471
Total liabilities	**1,671,028**	**1,876,383**	**9,418,181**	**9,311,694**	**801,781**	**23,079,066**	**22,217,518**
Net liquidity gap as of December 31, 2022	**6,212,624**	**736,838**	**215,385**	**1,259,802**	**(502,303)**	**7,922,347**	
Cumulative liquidity gap	**6,212,624**	**6,949,462**	**7,164,847**	**8,424,649**	**7,922,346**		

The following table shows the breakdown of the Bank's financial assets and liabilities per maturity bucket according to their remaining maturity as at December 31, 2021:

	Within 1 month	1 to 3 months	3 months to 1 year	1-5 years	After 5 years	Total cash flow	Carrying value
As of December 31, 2021							
Assets							
Cash and balances held with the central bank	2,443,884	-	-	-	-	2,443,884	**2,255,148**
Loans and receivables due from banks and other financial institutions	1,724,191	1,028	2,907	142,861	-	1,870,987	**1,750,783**
Loans and receivables due from customers	1,154,015	2,320,957	7,936,885	8,107,581	472,009	19,991,448	**16,750,958**
Other assets	71,381	22,460	7,161	9	4	101,015	**126,696**
Total assets	**5,393,471**	**2,344,445**	**7,946,953**	**8,250,451**	**472,013**	**24,407,334**	**20,883,585**
Liabilities							
Deposits and other liabilities due to banks, other financial institutions and central bank	214,461	14,103	733,766	2,203,912	173,522	3,339,764	**3,320,999**
Deposits and other liabilities due to customers	1,467,697	1,780,459	4,313,792	4,833,419	536,895	12,932,262	**12,387,935**
Subordinated liabilities	-	313,994	206,800	502,557	533,127	1,556,478	**1,185,456**
Provisions	-	-	58,618	21,647	10,807	91,072	**91,072**
Other liabilities	12,871	300,698	1,303	-	-	314,872	**421,372**
Total liabilities	**1,695,029**	**2,409,254**	**5,314,279**	**7,561,535**	**1,254,351**	**18,234,448**	**17,406,834**
Outflows per loan commitments	598	-	-	-	-	598	5,985
Net liquidity gap as of December 31, 2021	**3,697,844**	**(64,809)**	**2,632,674**	**688,916**	**(782,338)**	**6,172,287**	
Cumulative liquidity gap	**3,697,844**	**3,633,035**	**6,265,709**	**6,954,625**	**6,172,287**		

A significant negative gap in the maturity bucket of over 5 years as of December 31, 2022 was mostly due to expected maturities of long-term deposits and long-term borrowings obtained from international financial institutions. In its financing plan the Bank seeks to expand its deposit potential and renew long-term borrowings before the existing liabilities fall due. At the same time, the amount of inflows from loan repayment by the borrowers has increased in this bucket, so that the gap has been decreasing from year to year.

The table below presents the nominal values of non-derivative financial assets and liabilities that are expected to be recovered or settled after more than 12 months from the reporting date.

	2022	2021
Loans and receivables due from banks and other financial institutions	151,342	142,861
Loans and receivables due from customers	10,718,453	8,579,590
Total financial assets	**10,869,795**	**8,722,451**
Deposits and other liabilities due to banks, other financial institutions and central bank	3,590,202	2,555,603
Deposits and other liabilities due to customers	5,278,153	5,370,314
Subordinated liabilities	1,205,245	1,035,684
Provisions	39,874	32,453
Total financial liabilities	**10,113,474**	**8,994,054**

ii. The Bank's Liquidity Reserves

The table below provides the Bank's liquidity reserve components:

	2022		2021	
	Carrying value	Fair value	Carrying value	Fair value
Balances held with the central bank	3,276,919	3,276,919	2,145,502	2,145,502
Balances held with other banks	77,175	77,175	124,295	124,295
Other cash and cash equivalents	168,868	168,868	109,646	109,646
Total liquid assets	**3,522,962**	**3,522,962**	**2,379,443**	**2,379,443**

iii. Assets Available for Future Funding

The following table shows how much of the Bank's financial resources are available to support future funding:

	2022		2021	
	Available balances	Restricted availability	Available balances	Restricted availability
Balances held with the central bank	1,700,000	-	659,000	-
Mandatory reserve funds	-	907,436	-	843,361
Balances held with other banks	77,175	-	124,295	-
Other cash and cash equivalents	168,868	-	109,646	-
Loans and receivables due from customers	104,153	15,198,989	179,954	12,360,536
Total	**2,050,196**	**16,106,425**	**1,072,895**	**13,203,897**

Assets with restricted availability for future funding are mandatory reserves held with the National Bank of Serbia as those funds can be disposed with only under the restrictions prescribed by the local legislation and NBS rules. In addition, loans and receivables cannot be expected to be available immediately and the Bank includes into the available assets collaterals received (other than deposits received as collateral) whereas assets with limited availability comprise gross loans without days past due classified to Stage 1.

iv. Pledged Financial Assets

No encumbrances (mortgage or pledge liens, easements, tenancies, annotations, lease rights, disposal prohibitions, etc.) were instituted over the Bank's reported assets as of December 31, 2022, nor were the Bank's assets subject to any enforcement decision.

C. Market Risks

Note 37.D provides the market risk definition and information on the Bank's management of banking book market risks.

i. Exposure to Market Risks – Trading Book

The Bank performs analyses of the assets at its disposal in order to classify them in either the trading book or the baking book (trading portfolio). Financial assets are classified to the trading book if they meet the following criteria:

- securities that trade on a regular basis;
- instruments are managed through the Trading Desk organizational unit;
- instruments are held for:
  - sales in the near term,
  - making profit on short-term price volatility,
  - fixing profits made by arbitration, and
  - hedging against risks arising from instruments classified into the Bank's trading book.

As of December 31, 2022, the bank had no financial assets classified into the trading book.

ii. Exposure to Market Risks – Banking Book

The following table contains breakdown of the Bank's exposure to the interest rate risk as of December 31, 2022 per the banking book assets. The gap interest rate risk analysis includes on-balance sheet assets that the Bank intends to hold to maturity classified according to the period remaining until the next interest rate re-pricing or according to the remaining maturity (assets at fixed interest rates). As of December 31, 2022, the Bank had no interest rate sensitive off-balance sheet items.
Bank has exposure mainly to EUR variable interest rate factors - EURIBOR 1 M, EURIBOR 3M , and EURIBOR 6M.

iii. Interest rate structure of financial instruments:

	EURIBOR		BELIBOR		ESTER		KPR	
	31/12/2022	*31/12/2021*	*31/12/2022*	*31/12/2021*	*31/12/2022*	*31/12/2021*	*31/12/2022*	*31/12/2021*
Financial assets								
Liquid assets	-	-	-	-	2,025,866	1,472,168	1,700,000	659,000
Loans	177,933	207,859	230	1,598	-	-	-	-
Financial liabilities								
Deposits	-	-	-	-	-	-	748,658	743,117
Borrowings	3,812,978	2,959,150	960,000	-	-	-	-	-

The table below presents a breakdown of the Bank's exposure to interest rate risk as of December31, 2022:

	Within 1 month	1 to 3 months	3 months to 1 year	1-5 years	Over 5 years	Total interest rate sensitive	Carrying value
December 31, 2022							
Assets							
Cash and balances held with the central bank	1,865,684	1,535,178	-	-	-	3,400,862	3,445,787
Loans and receivables due from banks and other financial institutions	2,181,677	1,157	71,731	83,702	-	2,338,267	2,270,500
Loans and receivables due from customers	1,341,432	2,603,876	9,611,218	10,517,678	200,316	24,274,520	20,183,220
Other assets	-	-	-	-	-	-	83,057
Total financial assets	5,388,793	4,140,211	9,682,949	10,601,380	200,316	30,013,649	25,982,564
Total assets	**5,388,793**	**4,140,211**	**9,682,949**	**10,601,380**	**200,316**	**30,013,649**	**25,982,564**
Liabilities							
Deposits and other liabilities due to banks, other financial institutions and the central bank	972,499	9,705	937,964	3,684,062	390,436	5,994,666	5,241,092
Deposits and other liabilities due to customers	1,415,316	2,498,981	8,527,173	2,373,905	-	14,815,375	11,606,018
Subordinated liabilities	-	322,122	1,152,688	252,115	-	1,726,925	1,184,111
Total financial liabilities	2,387,815	2,830,808	10,617,825	6,310,082	390,436	22,536,966	18,031,221
Total liabilities	**2,387,815**	**2,830,808**	**10,617,825**	**6,310,082**	**390,436**	**22,536,966**	**18,031,221**
Interest rate gap	**3,000,978**	**1,309,403**	**(934,876)**	**4,291,298**	**(190,120)**	**7,476,683**	

The table below presents a breakdown of the Bank's exposure to interest rate risk as of December31, 2021:

	Within 1 month	1 to 3 months	3 months to 1 year	1-5 years	Over 5 years	Total interest rate sensitive	Carrying value
December 31, 2021							
Assets							
Cash and balances held with the central bank	1,524,189	-	605,803	-	-	2,129,992	2,255,148
Loans and receivables due from banks and other financial institutions	1,786,708	1,028	2,907	205,377	-	1,996,020	1,750,783
Loans and receivables due from customers	1,158,058	2,358,054	7,903,871	8,388,965	369,288	20,178,236	16,750,958
Other assets	-	-	-	-	-	-	126,696
Total financial assets	**4,468,955**	**2,359,082**	**8,512,581**	**8,594,342**	**369,288**	**24,304,248**	**20,883,585**
Total assets	**4,468,955**	**2,359,082**	**8,512,581**	**8,594,342**	**369,288**	**24,304,248**	**20,833,585**
Liabilities							
Deposits and other liabilities due to banks, other financial institutions and the central bank	907,277	39,613	729,665	2,316,330	394,260	4,387,145	3,320,999
Deposits and other liabilities due to customers	1,453,465	1,646,028	4,192,454	4,865,509	-	12,157,456	12,387,935
Subordinated liabilities	-	-	520,795	492,003	359,605	1,372,403	1,185,456
Total financial liabilities	**2,360,742**	**1,685,641**	**5,442,914**	**7,673,842**	**753,865**	**17,917,004**	**16,894,390**
Total liabilities	**2,360,742**	**1,685,641**	**5,442,914**	**7,673,842**	**753,865**	**17,917,004**	**16,894,390**
Interest rate gap	**2,108,213**	**673,441**	**3,069,667**	**920,500**	**(384,577)**	**6,387,244**	

The management of interest rate risk is supplemented by controlling the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios of the movements of interest rates. Standard scenarios are considered on a monthly basis and they include a 200 basis points (bps) of parallel shift – fall or rise in all yield curves in Serbia, whereas non-standard scenarios assume changes in shape and slope of the yield curve.

Analyses of the Bank's sensitivity to an increase or decrease in market interest rates assuming parallel movements of the yield curve as of December 31, 2022 and 2021 are provided below:

Effects of changes in market interest rates on capital	100 bp parallel increase	100 bp parallel decrease	200 bp parallel increase	200 bp parallel decrease	300 bp parallel increase	300 bp parallel decrease
As of December 31, 2022						
Interest rate change on						
Assets	5.56%	-5.67%	11.02%	-11.46%	16.38%	-17.36%
Liabilities	4.12%	-4.21%	8.15%	-8.50%	12.10%	-12.89%
Gap	1.45%	-1.47%	2.87%	-2.96%	4.28%	-4.46%
Limit	10.00%	-10.00%	10.00%	-10.00%	10.00%	-10.00%
of December 31, 2021						
Interest rate change on						
Assets	5.63%	-5.76%	11.14%	-11.64%	16.53%	-17.67%
Liabilities	6.07%	-6.30%	11.93%	-12.84%	17.59%	-19.63%
Gap	-0.44%	0.54%	-0.79%	1.19%	-1.06%	1.97%
Limit	10.00%	-10.00%	10.00%	-10.00%	10.00%	-10.00%

Effect of changes in market interest rates on profit or loss	100 bp parallel increase	100 bp parallel decrease	200 bp parallel increase	200 bp parallel decrease	300 bp parallel increase	300 bp parallel decrease
As of December 31, 2022						
Interest rate change on						
Assets	8.90%	-9.07%	17.62%	-18.32%	26.19%	-27.75%
Liabilities	6.58%	-6.72%	13.03%	-13.59%	19.34%	-20.62%
Cumulative	2.31%	-2.35%	4.60%	-4.73%	6.84%	-7.14%
As of December 31, 2021						
Interest rate change on						
Assets	9.70%	-9.91%	19.18%	-20.05%	28.47%	-30.43%
Liabilities	10.46%	-10.85%	20.55%	-22.11%	30.29%	-33.81%
Cumulative	-0.76%	0.93%	-1.36%	2.06%	-1.82%	3.39%

Parallel movements of the yield curve affect capital by increasing/decreasing net interest income. Interest rate risk is measured, monitored and reported by the Portfolio, Market Risk and ICAAP Department. At the proposal of the ALCO, the Executive Board makes decisions on managing aggregate positions that affect interest rate risk: investments in securities, amounts and maturities of interbank loans and account balances with the central and other banks.

ii. Foreign Exchange (Currency) Risk Exposure – Banking Book

The maximum indicator of currency risk (net open position) is determined at the end of each working day in accordance with the regulations of the National Bank of Serbia. In order to reduce the potential negative impact of exchange rate fluctuations on the structure of foreign currency assets and liabilities, the Bank monitors, measures and adjusts its foreign currency position on a daily basis. The Bank conducts its operations in two currencies: RSD and EUR.

Foreign exchange risk exposure

RSD '000	EUR and currency clause index	RSD	Total
Assets			
Cash and balances held with the central bank	991,848	2,453,939	3,445,787
Loans and receivables due from banks and other financial institutions	2,268,790	1,710	2,270,500
Loans and receivables due from customers	9,802,542	10,380,678	20,183,220
Intangible assets, property, plant and equipment		889,352	889,352
Current tax assets		-	-
Deferred tax assets		21,208	21,208
Other assets	76,520	6,531	83,051
Total assets	**13,139,700**	**13.753.423**	**26,893,124**
Liabilities			
Deposits and other liabilities due to banks, other financial institutions and the central bank	4,364,318	1,401,239	5,765,557
Deposits and other liabilities due to customers	7,273,692	7,407,075	14,680,767
Subordinated liabilities	1,186,884	-	1,186,884
Provisions		68,839	68,839
Current tax liabilities		10,740	10,740
Other liabilities	196,090	319,381	515,471
Total liabilities	**13,020,984**	**9,207,274**	**22,228,258**
Net currency mismatch as of December 31, 2022	**118,716**	**4,546,149**	
Net currency mismatch as of December 31, 2021	**48,247**	**4,205,065**	

In addition to foreign currency assets and liabilities, the Bank's foreign currency on-balance sheet line items include assets and liabilities denominated in RSD with a currency clause index. As of December 31, 2022 and 2021, the Bank had no off-balance sheet items that could impact foreign exchange risk.

The table below shows the Bank's regulatory capital sensitivity and profit sensitivity to a change (increase) in foreign exchange rates by 20%:

	EUR	Total
December 31, 2022		
Effect of currency increase by 20%	19,786	19,786
Effect on regulatory capital	0.42%	0.42%
Effect on profit	4.00%	4.00%
December 31, 2022		
Effect of currency increase by 20%	8,041	8,041
Effect on regulatory capital	0.19%	0.19%
Effect on profit	1.84%	1.84%

D. Capital Management

i. Regulatory Capital

The Bank's regulator, the National Bank of Serbia (NBS), sets and monitors the Bank's capital requirements based on the principles of the Basel Committee framework (Basel III). In order to achieve the existing capital requirements, the Bank is required by NBS to maintain the minimum common equity Tier 1 capital ratio (CET 1 ratio) of 5.56%, which represents the Bank's common equity capital relative to its total risk-weighted assets, expressed as a percentage, the minimum core capital adequacy ratio (T1 ratio) of 7.43%, which represents the Bank's core (Tier 1) capital relative to its total risk-weighted assets, expressed as a percentage, and the minimum prescribed capital adequacy ratio of 9.9%, which represents the Bank's total capital relative to its total risk-weighted assets, expressed as a percentage.

Risk-weighted assets are the sum of the following amounts:

- the total amount of risk-weighted exposures to credit risk, counterparty risk, risk of decrease in the value of purchased receivables, for all the business activities of the bank, except for trading book activities, and settlement risk; and
- capital requirement for operational risk multiplied by the reciprocal value of the capital adequacy ratio.

The Bank's regulatory capital is the sum of its core capital (Tier-1 capital) and supplementary capital (Tier-2 capital), where Tier 1 capital is the sum of common equity Tier 1 (CET 1) capital and additional Tier 1 capital.

The Bank's common equity Tier 1 capital is the sum of the following elements, including regulatory adjustments, less deductibles:

- shares and other equity instruments qualifying to be included in the common equity Tier 1 instruments;
- relevant share premium with the common equity Tier 1 instruments;
- revaluation reserves and other unrealized gains;
- reserves from profit and other reserves of the Bank;

Items deductible from the common equity Tier 1 capital are:

- intangible assets, reduced by the amount of deferred tax liabilities that would be extinguished if the intangible assets became impaired or were derecognized under IFRS/IAS;
- gross amount of receivables from a borrower – private individual (except agricultural producers and entrepreneurs) comprising approved consumer loans, cash loans or other loans where the borrower's debt ratio prior to loan approval was higher than the percentage established in line with the decision regulating classification of balance sheet assets and off-balance sheet items of banks or such percentage will be higher after loan approval, with the deductible being implemented regardless of whether the debt ratio of the borrower drops below the said percentage after the loan approval; and
- gross amount of receivables from a borrower – private individual (except agricultural producers and entrepreneurs) comprising approved consumer loans, cash loans or other loans, whose agreed maturities meet the criteria of the capital deductible item in line with the relevant decision governing capital adequacy of banks.*

The Bank's supplementary consists of supplementary capital instruments and subordinated loan liabilities.

The amount in which the supplementary capital instruments or subordinated liabilities are included in the calculation of the Bank's supplementary capital over the past five years prior to their maturity date is obtained by determining the ratio of their nominal value, i.e. principal, on the first day of the last five-year period prior to maturity and the number of calendar days in that period shall be multiplied by the number of the remaining calendar days to the maturity of instruments or subordinated liabilities, on the day of calculation.

The required minimum amount of capital the Bank is to maintain at all times is no less than EUR 10 million in RSD equivalent, translated at the official middle exchange rate.

ii Allocation of Capital

The table below presents the breakdown of the Bank's capital as of December 31:

	Note	31-Dec-22	31-Dec-21
CORE CAPITAL			
Common equity Tier 1 capital		3,915,984	3,545,725
Common equity Tier 1 capital instruments and the relating share premium		1,864,937	1,864,938
Common equity Tier 1 capital paid in	31	1,783,080	1,783,080
Share premium	31	81,857	81,858
(-) Prior years' losses		-	-
Revaluation reserves and other unrealized gains/losses	31	168,422	105,527
Reserves from profit	31	2,146,513	1,846,223
(-)Other intangible assets decreased by deferred tax liabilities		(208,779)	(193,520)
(-)Other intangible assets before decrease by deferred tax liabilities		(218,565)	(203,306)
Deferred tax liabilities per intangible assets that would be extinguished if the intangible assets became impaired or were derecognized under IFRS/IAS		9,786	9,786
(-)Gross amount of receivables from a borrower – private individual (except agricultural producers and entrepreneurs) comprising approved consumer loans, cash loans or other loans recorded on accounts 102, 107 and 108 in line with the decision regulating the chart of accounts and contents of accounts within the chart of accounts for banks where the borrower's debt ratio prior to loan approval was higher than the percentage established in line with the decision regulating classification of balance sheet assets and off-balance sheet items of banks or such percentage will be higher after loan approval, with the deductible being implemented regardless of whether the debt ratio of the borrower drops below the said percentage after the loan approval		(37,662)	(48,634)
(-)Gross amount of receivables from a borrower – private individual (except agricultural producers and entrepreneurs) comprising approved consumer loans, cash loans or other loans recorded on accounts 102, 107 and 108 u in line with the decision regulating the chart of accounts and contents of accounts within the chart of accounts for banks, which per contractual maturity criterion qualify for common equity capital deductibles *		(17,447)	(28,807)
Additional Tier 1 capital		-	-
TOTAL CORE CAPITAL – Tier 1		3,915,984	3,545,726
SUPPLEMENTARY CAPITAL			
Qualifying subordinated liabilities	28	595,735	738,075
Of which: repaid subordinated liabilities that were qualifying to be included in the Bank's supplementary capital until June 30, 2017, and which were included as of December 31, 2022 under the transitional provisions of the Decision on Capital Adequacy	28	48,573	142,695
Non-qualifying subordinated liabilities	28	577,488	437,745
TOTAL SUPPLEMENTARY CAPITAL – Tier 2		595,735	738,075
TOTAL CAPITAL		4,511,721	4,283,800

	Note	31-Dec-22	31-Dec-21
RISK-WEIGHTED ASSETS			
Risk-weighted credit risk exposures: credit risk, counterparty risk, risk of a decrease in value of receivables and settlement/delivery risk		15,366,518	12,743,514
Risk-weighted operational risk exposures		4,329,992	4,068,944
TOTAL RISK-WEIGHTED ASSETS		19,696,510	16,812,458
Common Equity Tier 1 capital ratio (CET1 ratio)		19.88%	21.09%
Tier 1 capital ratio (T1 ratio)		19.88%	21.09%
Total capital adequacy ratio		22.91%	25.48%
CAPITAL BUFFERS			
Combined capital buffer		789,010	642,920
Capital conservation buffer		492,412	420,311
Systemic risk buffer		296,598	222,609

As of December 31, 2022, the Bank's regulatory capital amounted to EUR 38,456 thousand (December 31, 2021: EUR 36,432 thousand). The Bank complies with the requirement that the minimum regulatory capital amount shall be EUR 10 million.

The Bank estimated that the impact of the corona virus epidemic and that of the Russia-Ukraine crisis on its capital adequacy were not material in 2022. the projected regulatory capital growth based on the 2022 profit distribution to reserves from profit will be achieved in a timely manner.

As part of its internal capital adequacy assessment, the Bank conducted tests on the impact of stress conditions on capital and capital adequacy, which could reflect the Bank's ability to withstand the effects of the crisis caused by the Covid-19 epidemic and Russia-Ukraine crisis. For the purposes of credit risk stress testing, the Bank considered increase in non-performing loans by 100% and reduction of the days-past due threshold for Stage 2 from 30 to 15 days, and for Stage 3 from 90 to 45 days. An increase in the EUR/RSD exchange rate by 18.61% was observed, as well as the effect of mortgage inadequacy on commercial and residential real estate. Possible understatement of the capital requirement for foreign exchange risk calculated using the standardized approach was estimated using a VaR model, while the shock and stress tests for interest rate risk were based on 6 scenarios of change in the yield curve (parallel shift of the yield curve by +/- 200 bp, additional 60 bp, "steepening", "flattening", short-term rate shocks). Withdrawal of 10% of deposits in RSD and EUR, as well as reduced inflow due to doubled levels of non-performing loans were assumptions for stress testing of liquidity risk and assessing the additional cost of obtaining the shortfall liquidity.

The Bank reviewed the possible underestimation of the capital requirement for operational risk calculated using the basic indicator (BIA) approach by comparing it with the requirement based on the Basel IV standardized approach and losses that would arise under stress conditions. Additionally, through the *Estimated operating loss in the observed year - Stress test of legal risk within operational risk losses*, the Bank conducted stress tests for legal risk, as a result of the increase in the number of lawsuits against banks regarding loan approval fees during 2021/2022. In the worst case scenario, in case of the most unfavorable trend of unexpected lawsuit losses, the Bank takes into account the sum of all contingent losses on all lawsuits in progress, plus the amount of new contingent litigation losses, minus the total amount of litigation loss provisions. The results obtained are then compared to the current year result and then rolled forward over the next 12 months to arrive at the possible understatement of the operational risk capital requirement using BIA under Basel IV standardized approach. The Bank addresses the possible difference between the capital requirement between the new standardized approach under Basel IV regulations at the end of 2022 and the capital requirement for operational risk calculated using BIA in 2022 by increasing the capital requirement for operational risk generated by the development (change) of legal risk under stress conditions.

The results of the internal capital adequacy assessment showed that the assumed stressful circumstances would not compromise the Bank's capital and capital adequacy.

As of December 31, 2022, the bank was fully compliant with the regulatory requirements as presented in the table below:

	Prescribed	Achieved non-audited	
		2022	2021
Regulatory capital (EUR million)	min 10.00	38.46	36.43
Common equity Tier 1 capital ratio	min 5.49%	19.88%	21.09%
Core capital Tier 1 ratio	min 7.33%	19.88%	21.09%
Total capital adequacy ratio	min 9.77%	22.91%	25.48%
The sum of the Bank's investments	max 60%	14.87%	12.67%
Exposure to a single entity/a group of related entities	max 25%	-	-
The sum of all large Bank's exposures	max 400%	-	-
Liquidity ratio	min 1.00	4.82	3.60
Quick liquidity ratio	min 0.70	4.26	3.10
Liquidity coverage ratio	min 100%	463%	501%
Foreign exchange risk ratio	max 20%	1.08%	0.88%
Concentration risk ratio	max 30%	3.15%	5.24%

E. Interest Rate Benchmark Reform

In September 2019, the International Accounting Standards Board issued Amendments to IAS 39, IFRS 9 and IFRS 7 relating to the uncertainties of the IBORI reform (reform of the interbank offered rates) that provide some reliefs in connection with this reform. The amendments mostly affect financial instrument qualifying for hedge accounting under IAS 39 and IFRS 9. The amendments are effective for annual periods beginning on or after January 1, 2020. Given the fact that the Bank has not used hedge accounting so far, these amendments are not applicable to the Bank's operations.

As the Bank's strategic goal is to continue:

- to extend loans to customers at fixed interest rates, the Bank has assessed that there is no significant exposure to the risks arising from the key rate reform in the customer lending activity;
- to attract customer demand deposits, the Bank has a mix of demand deposit products

In this regard, the Bank has assessed that there is no significant exposure to risks arising from the reform of key interest rates in the investing activities and sources of funds. As of December 31, 2021, the Bank had no contracts linked to a rate that is no longer published, and therefore did not have to carry out any activities related to interest rate reform.
As of December 31, 2022, the Bank had no contracts linked to a rate that is no longer published or interest that is planned to be terminated (like USD LIBOR in 2023).

The Bank will continue to monitor changes in the benchmarking process and their potential impact on its operations and is ready to take into account the latest developments and best practices of banks in this field.

7. FAIR VALUES OF THE FINANCIAL INSTRUMENTS

A. Fair Value Measurement Models

For fair value measurement, the Bank uses the following fair value hierarchy that reflects the significance of the inputs used in fair value assessment:

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

Valuation techniques include the net present value and discounted cash flow models, comparison to similar instruments for which a market observable price exists, as well as the Nelson-Siegel-Svensson (NSS) yield curve model. The Bank collects the assumptions and data used in the assessment from active markets in the Republic of Serbia (interbank, OTC, bank offerings, etc.).

The objective of the valuation technique is to determine fair value that will best reflect the value of a financial instrument as of the reporting date that would be determined by market participants at arm's length. 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.

The Bank uses valuation models that are widely used to determine the fair value of simple financial instruments, such as interbank market interest rates, interest rate swaps that are based on observable inputs and require little estimation. Observable prices or inputs for models are commonly available on primary and secondary securities markets, the interbank market and interest rate swap market. The existence of these rates reduces the need for estimates and reduces the uncertainty associated with fair value measurement.

For instruments for which markets are not sufficiently broad and deep, the Bank uses valuation models that are based on observable market inputs. Estimates are also used when determining future cash flows, probability of default, collection, or future early repayment and withdrawal of funds.

Fair values derived from the model are adjusted for liquidity risk, the impact of the mandatory reserve, and the expected return of the average investor in the market to the extent that it is applicable to a particular financial instrument being measured. Fair value also reflects the credit risk of the instrument and includes adjustments based on the Bank's credit risk, if applicable for a particular financial instrument being measured.

Measurement of financial instruments

I Cash, balances held with the central bank, deposits and other liabilities due to banks, other financial institutions and the central bank

The fair values of cash and balances held with the central bank, deposits and other liabilities due to banks, other financial institutions, and the central bank are equal to the carrying values thereof as these are highly liquid short-term financial instruments.

II. Loans and receivables due from customers and loans and receivables due from banks and other financial institutions

The fair value of loans and receivables due from customers is calculated by using expected and modelled cash flows, i.e., contractual cash flows adjusted for expected losses on credit and other risks and adjusted for expected effects based on embedded explicit and implicit options and discount rates. Since the cash flow already includes the risk adjustments, the Bank used a discount rate for fair value measurement purposes that includes the time value of money, i.e., the "risk-free" rate, the liquidity premium, the cost of the mandatory reserve and the required margin of the average investor that reflects the investment horizon.

In order to determine risk-free rates for RSD, the Bank uses publicly available prices from the interbank market and the primary and secondary securities market, and projects the missing maturities by means of the Nelsson-Siegel-Svensson model. In order to determine the risk-free rates for EUR, the Bank uses the publicly available zero-swap rates. The liquidity premium is determined using quotations on the active interbank market, while the required investor margin rate is determined on the basis of the average ROE (return on equity) of the banking sector in Serbia determined using the latest publicly available data issued by the National Bank of Serbia. Investors in Serbia are interested in stability and return on equity more than on other parameters.

III. Deposits and other liabilities due to customers

For financial liabilities with no agreed maturity date, the Bank considers that as the payment can be demanded at any time, the fair value equals the carrying amount of the liability.

The fair value of deposits and other liabilities due to customers is calculated by using expected and modelled cash flows, i.e., contractual cash flows adjusted for expected effects based on embedded explicit and implicit options and discount rates. Measurement of the fair value of the liability relies on the assumption that the given liability is transferred to the market participant as of the measurement date, in the nominal amount of the liability increased by the agreed interest, which will be paid on the liability maturity date.

The Bank determines rate for discounting purposes using the rates applicable to similar deposits offered by commercial banks in the Serbian market, which are publicly available on the internet pages of those banks, weighted by the deposit creation potential of a particular bank in the market, which is determined based on the latest publicly available data issued by the National Bank of Serbia. For maturities for which there is no sufficient valid market data available, the NSS model approximation is used.

IV. Subordinated liabilities

Subordinated liabilities are measured at amortized cost. The fair value of subordinated liabilities is calculated by using contractual cash flows. The yield curve required for discounting to the present value is calculated by computing the idiosyncratic risk of the Bank as the difference between the last valid bid for a subordinated EUR loan received by the Bank from an EU-based banking institution with an AAA rating and a zero- swap curve for the corresponding maturity. This risk premium is added to all zero-swap curve values. Due to the fact that this curve contains an assessment of the Bank's credit risk by a European Union-based banking institution and an AAA rating, it is considered that it best represents the risk profile of the Bank.

B. Process Organization

The Portfolio, Market Risk and ICAAP Department is responsible for processes and methodologies for calculating the fair value of financial assets and liabilities. This Department first determines whether a specific financial instrument is the subject of fair value measurement and then selects appropriate approach and techniques for fair value measurement. Thereafter, the inputs for measurement are defined, calculation is performed and disclosure on fair value measurement are made.

In the process of determining the classification of a financial instrument into Levels 1-3 of the fair value hierarchy, the Bank considers whether there are quoted prices for an identical instrument. If they exist and these prices do not have to be adjusted, the Bank classifies the instrument into Level 1. If quoted prices exist, but they need to be adjusted, however no significant unobservable inputs are applied, the instrument is classified into Level 2. In case the fair value measurement requires the use of some significant unobservable input, financial assets and liabilities are treated as Level 3 in the fair value hierarchy.

C. Financial Instruments Measured at Fair Value - Fair Value Hierarchy

As of December 31, 2022 and 2021, the Bank had no items in its statement of financial position measured at fair value.

D. Financial Assets and Liabilities not Measured at Fair Value

The following table presents the fair value of financial instruments not measured at fair value and their breakdown per levels of fair value hierarchy:

	Level 1	Level 2	Level 3	Total fair value	Carrying value
2022					
Cash and balances held with the central bank	-	3,445,787	-	3,445,787	3,445,787
Loans and receivables due from banks and other financial institutions	-	2,173,595	-	2,173,595	2,270,500
Loans and receivables due from customers	-	-	20,819,876	20,819,876	20,183,220
Total	**-**	**5,619,382**	**20,819,876**	**26,439,258**	**25,899,507**
Deposits and other liabilities due to banks, other financial institutions and the central bank	-	4,253,717	-	4,253,717	5,765,557
Deposits and other liabilities due to customers	-	-	13,655,446	13,655,446	14,680,767
Subordinated liabilities	-	-	1,202,510	1,202,510	1,186,884
Total	**-**	**4,253,717**	**14,857,956**	**19,111,673**	**21,633,208**

	Level 1	Level 2	Level 3	Total fair value	Carrying value
2021					
Cash and balances held with the central bank	-	2,255,148	-	2,255,148	2,255,148
Loans and receivables due from banks and other financial institutions	-	1,735,057	-	1,735,057	1,750,783
Loans and receivables due from customers	-	-	20,086,868	20,086,868	16,750,958
Total	**-**	**3,990,205**	**20,086,868**	**24,077,073**	**20,756,889**
Deposits and other liabilities due to banks, other financial institutions and the central bank	-	2,985,072	-	2,985,072	3,320,999
Deposits and other liabilities due to customers	-	-	11,153,111	11,153,111	12,387,935
Subordinated liabilities	-	-	999,424	999,424	1,185,456
Total	**-**	**2,985,072**	**12,152,535**	**15,137,607**	**16,894,390**

8. THE BANK'S FUNCTIONAL SEGMENTS

Reporting in accordance with IFRS 8 "Operating Segments" is not applicable to the Bank.

9. NET INTEREST INCOME

	2022	2021
Interest income		
Cash and balances held with the central bank	22,364	2,143
Loans and receivables due from banks and other financial institutions	7,971	6,128
Loans and receivables due from customers	3,514,940	3,070,791
Total interest income	**3,545,275**	**3,079,062**
Interest expenses		
Deposits due to financial institutions	(201,214)	(219,227)
Deposits due to customers	(419,797)	(384,850)
Lease liabilities	(6,245)	(5,151)
Provisions for employee retirement benefits	(634)	-
Total interest expenses	**(627,890)**	**(609,228)**
Net interest income	**2,917,385**	**2,469,834**

The above reported amounts represent exclusively interest income and interest expenses calculated using the effective interest rate method.

10. NET FEE AND COMMISSION INCOME

The following table presents a breakdown of income from fees and commissions arising from contracts with customers for the core types of banking services provided. The Bank's net fee and commission income comprises the following:

	2022	2021
Fee and commission income		
Payment transaction services	15,165	14,888
Deposits administration	16,514	4,025
Foreign currency sales/purchases	744	870
Other banking services	2,159	1,295
Total fee and commission income from contracts with customers	34,582	21,078
Loan administration	36,077	28,943
Total fee and commission income	**70,659**	**50,021**
Fee and commission expenses		
Payment transaction services	(2,886)	(2,958)
Loan administration	(13,159)	(21,888)
Other banking services	(20,791)	(20,489)
Total fee and commission expenses	**(36,836)**	**(45,335)**
Net fee and commission income	**33,823**	**4,686**

Within other banking services the Bank generated income from foreign exchange operations in the amount of RSD 1,222 thousand (2021: RSD 600 thousand), and incurred expenses from foreign exchange operations in the amount of RSD 568 thousand (2021: RSD 397 thousand).

The following table shows information about the nature and timing of satisfying performance obligations that are stipulated in the contracts with customers, as well as policies for revenue recognition depending on the point- in-time/over the time nature of the services rendered.

Fee and commission income	**Detailed:**	**Performance obligation satisfied:**
Payment transaction services	Monthly maintenance of accounts Commissions for cash transactions and non-cash transfer of funds (CLEARING orders, RTGS, Instant payments), service of sending SMS notifications about inflow to the account	Over time At a point in time
Deposit administration	Fee for early withdrawal of deposits	At a point in time
Other banking services	Commission for sale of bills of exchange, the service of registration of bills of exchange and bills of exchange authorizations and internet banking services (e-banking)	At a point in time

The Bank earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services. The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Bank's revenue contracts do not include multiple performance obligations. When the Bank provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time. The Bank has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

Fee and commission income from services where performance obligations are satisfied over time

Performance obligations satisfied over time include, maintenance of current accounts, and other services, where the customer simultaneously receives and consumes the benefits provided by the Bank's performance as the Bank performs. The revenue is recognised evenly over the period, based on time-elapsed.

Fee and commission income from providing services where performance obligations are satisfied at a point in time

Services provided where the Bank's performance obligations are satisfied at a point in time are recognised once control of the services is transferred to the customer. This is typically on completion of the underlying transaction or service or, for fees or components of fees that are linked to a certain performance, after fulfilling the corresponding performance criteria. These include fees for for cash transactions and non-cash transfer of funds service of sending SMS notifications about inflow to the account The Bank has a single performance obligation with respect to these services, which is to successfully complete the transaction specified in the contract.

The Bank has not disclosed information about the allocation of the transaction price to remaining performance obligations in contracts. This is due to the contract periods being typically less than one year in duration.

11. NET LOSSES ON CHANGES IN THE FAIR VALUE OF FINANCIAL INSTRUMENTS

	2022	2021
Negative accounting effects of short-term derivative transactions with NBS	-	(63)
Total	**-**	**(63)**

12. NET FOREIGN EXCHANGE GAINS AND POSITIVE CURRENCY CLAUSE EFFECTS

The Bank's net foreign exchange gains and positive currency clause effects include:

	2022	2021
Foreign exchange gains	64,529	9,271
Foreign exchange losses	(64,469)	(10,978)
Total	**60**	**(1,707)**

13. OTHER OPERATING INCOME

	2022	2021
Rental income- lease of property	211	212
Gains on the sale of assets acquired in lieu of debt collection	-	384
Total	**211**	**596**

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

	2022	2021
Losses on impairment of loans and receivables due from banks and other financial institutions	(13,900)	(12,885)
Losses on impairment of loans and receivables due from customers	(1,240,439)	(878,235)
Losses on impairment of other assets	(11,490)	(13,509)
Losses on impairment of off-balance sheet items	(179)	(491)
Reversal of impairment of loans and receivables due from banks and other financial institutions	14,929	12,534
Reversal of impairment of loans and receivables due from customers	989,045	773,576
Reversal of impairment of other assets	10,017	3,575
Reversal of impairment of off-balance sheet items	198	484
Losses on modification of financial assets	(241)	(14,040)
Gains on modification of financial assets	548	1,536
Write-offs	(8,793)	(706)
Collection of previously written off loans and receivables	42,510	50,881
Total	**(217,795)**	**(77,280)**

Movements on the accounts of impairment allowance for financial assets and provisioning for 2022 and 2021 are presented below:

	2022	2021
Opening balance as of January 1	**414,662**	**335,630**
Provisioning charge for the year	1,266,010	905,120
Reversal of provisions during the year	(1,014,190)	(790,169)
Write-offs	(120,082)	(47,368)
Interest income on impaired loans	16,352	11,440
Foreign exchange rate effects	(608)	9
Balance as of December 31	**562,144**	**414,662**

15. SALARIES, SALARY COMPENSATIONS AND OTHER PERSONNEL EXPENSES

	2022	2021
Employee salaries and salary compensations	698,468	574,136
Payroll taxes and contributions	260,205	212,845
Other personnel expenses	72,418	55,651
Remunerations to the members of the Board of Directors	2,213	584
Payroll contributions charged to the employer	143,321	120,832
Total	**1,176,625**	**964,048**

16. OTHER INCOME

	2022	2021
Reversal of provisions	12,224	5,912
Damages collected from insurers	202	-
Court expenses collected f	1,107	568
Prior years' income	317	2,966
Share in the positive technical result of insurance companies	1,964	602
Write-off of tax liabilities	3,292	-
Other income	782	726
Total	**19,888**	**10,774**

17. OTHER EXPENSES

	2022	2021
lease expenses:	9,474	7,785
Short-term lease costs	-	21
Passenger vehicle rental costs	2,685	2,687
Other lease costs – taxes payable	6,789	5,077
Maintenance of premises and security services	36,472	34,394
Marketing and advertising and entertainment costs	33,506	11,873
Cost of professional services	150,339	141,077
Management fees	2,231	1,303
Cost of office supplies	12,314	8,542
Telecommunications – telephone bills	22,704	22,978
Other taxes and contributions payable	96,948	77,519
Insurance premium costs	230,088	220,289
Cost of fuel	121,546	85,364
Employee training costs	7,422	4,154
Other provisioning charge (Note 29)	72,856	138,998
Court fees	12,460	10,412
Other	71,874	101,992
Total	**880,234**	**866,680**

18. INCOME TAX

A. Income Tax

	2022	2021
Major income tax components:		
Current tax expenses	(89,864)	(82,415)
Deferred tax benefits	6,629	12,356
Total	**(83,235)**	**(70,059)**

B. Tax Statement and Effective Tax Rate

In order to determine its statutory income tax liability for the year ended December 31, 2022, the Bank adjusted income and expenses presented in the profit or loss statement pursuant to the effective tax regulations. Accordingly, the tax base (taxable income) was increased by RSD 20,186 thousand (2021: increased by RSD 78,988 thousand).

	Effective tax rate	2022	Effective tax rate	2021
Profit before tax		**578,273**		**470,446**
Income tax at the statutory rate of 15%	**15.0%**	**86,741**	**15.0%**	**70,567**
Tax effects of expense adjustments – permanent differences		7,286		13,626
Tax effects of income adjustments – permanent differences		(718)		(717)
Tax effects of utilized tax losses that were not recognized in prior years		(3,445)		(1,060)
Changes in unrecognized deferred tax assets		(6,628)		(12,356)
Income tax reported in the profit or loss statement	**14.39%**	**83,235**	**14.89%**	**70,059**

* *The Bank's expectation is reflected here, given that June 30, 2023 is the deadline for the 2022 tax statement*

submission. The Bank has not yet completed the transfer pricing study yet the management believes that there will be no material effects on the Bank's financial statements for 2022 in this respect because in prior years the Bank had either no or little adjustment for related party transactions, which did not impact the Bank's taxable income amount and in 2022 there were no major changes to the types of services the Bank offered against the previous period.

Pursuant to Article 25a of the Corporate Income Tax Law, the Bank intends to recognize, in equal amounts, over five tax periods the effects of the change in the accounting policies resulting from the first-time adoption of IFRS 9. More details on deferred tax assets are given in Note 40.F.II.

In 2022, the Bank had no tax credits for capital expenditures.

The following table presents the origination of deferred tax assets and liabilities and the result of their offsetting:

	2022			2021		
	Liabilities	**Assets**	**Net Assets**	**Liabilities**	**Assets**	**Net Assets**
Temporary differences	(9,434)	30,642	21,208	-	27,305	27,305
Net deferred tax asset/(liability)	**(9,434)**	**30,642**	**21,208**	-	**27,305**	**27,305**

Temporary differences, based on which the tax asset has been recognized in the amount of RSD 30,642 thousand as of December 31, 2022 (December 31, 2022: RSD 27,305 thousand) refer to:

- provisions under IAS 19 in the amount of RSD 739 thousand (2021: RSD 733 thousand);
- losses on impairment of assets that will be recognized in the tax period when those assets are disposed of without effects in 2022 (2021: RSD 0 thousand);
- expenses related to public revenues and earnings of employees referred to in Article 9, para. 2 of the Corporate Income Tax Law, that were not paid in the current tax period in the amount of RSD 1,736 thousand (2021: RSD 1,281 thousand);
- provisions for litigations and operational risk incidents of RSD 9,585 thousand (2021: RSD 12,923 thousand) and the effect of the first time adoption of IFRS 9 in the amount of RSD 0 (2021: RSD 956 thousand); and
- depreciation of property, plant and equipment in the amount of RSD 18,582 thousand (2021: RSD 11,412 thousand).
- Temporary difference based on which tax liability in the amount of RSD 9,434 thousand was recognized refer to revaluation reserves on property, plant and equipment.

C. Movements on Deferred Tax Assets and Liabilities

	2022	**2021**
Balance as of January 1	**27,305**	**14,949**
Temporary differences arisen during the year	(6,098)	12,356
Balance as of December 31	**21,207**	**27,305**

19. FINANCIAL ASSETS AND LIABILITIES

A. Classification of Financial Assets and Liabilities

The following table shows breakdown of the Bank's existing line items in the financial statements and their classification:

	Note	At amortized cost	Carrying value
As of December 31. 2022			
Cash and balances held with the central bank	20	3,445,787	3,445,787
Loans and receivables due from banks and other financial institutions	21	2,270,500	2,270,500
Loans and receivables due from customers	22	20,183,220	20,183,220
Other financial assets	25	83,057	83,057
Total financial assets		**26,506,392**	**26,506,392**
Deposits and other liabilities due to banks, other financial institutions and the central bank	26	5,765,557	5,765,557
Deposits and other liabilities due to customers	27	14,680,767	14,680,767
Subordinated liabilities	28	1,186,884	1,186,884
Total financial liabilities		**21,633,208**	**21,633,208**

The Bank has classified financial instruments into classes that are appropriate to the nature and characteristics of those instruments.

	Note			At amortized cost	Carrying value
As of December 31. 2021					
Cash and balances held with the central bank	20			2,255,148	2,255,148
Loans and receivables due from banks and other financial institutions	21			1,750,783	1,750,783
Loans and receivables due from customers	22			16,750,958	16,750,958
Other financial assets	25			126,696	126,696
Total financial assets				**20,883,585**	**20,883,585**
Deposits and other liabilities due to banks, other financial institutions and the central bank	26	-	-	3,320,999	3,320,999
Deposits and other liabilities due to customers	27	-	-	12,387,935	12,387,935
Subordinated liabilities	28	-	-	1,185,456	1,185,456
Total financial liabilities		-	-	**16,894,390**	**16,894,390**

20. CASH AND BALANCES HELD WITH THE CENTRAL BANK

Cash and balances held with the central bank (details are provided in Note 40 H):

	2022	2021
Cash in hand	168,868	109,646
Current account	669,483	643,117
Deposits of surplus liquid funds	1,700,000	659,000
Obligatory foreign currency reserve held with the central Bank	907,436	843,385
Balance as of December 31	**3,445,787**	**2,255,148**

Reconciliation of the cash and cash equivalents in the statement of cash flows and the line item of cash and balances held with the central bank in the Bank's statement of financial position as of December 31, 2022:

	Financial position	Cash flows	Difference
Cash in hand	168,868	168,868	-
Current account	669,483	669,483	-
Deposits of surplus liquid funds (a)	1,700,000	-	1,700,000
Obligatory foreign currency reserve held with the central Bank (b)	907,436	-	907,436
Current accounts held with other banks	-	75,030	(75,030)
Foreign currency deposits placed with NBS (Note 21)	-	2,025,866	(2,025,866)
Total	**3,445,787**	**2,939,247**	**506,540**

Cash flows do not include movements between items that make up cash or cash equivalents because these components are part of the Bank's cash management and not part of its operating, investing or financing activities. Cash management involves investing excess cash in cash equivalents.

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

Loans and receivables from banks and other financial institutions (Note 40 J) include:

	2022	2021
Foreign currency accounts		
Domestic banks	53,789	56,270
Foreign banks	23,395	68,025
Allowance for impairment	(150)	(270)
Guarantee deposits with domestic banks	1,643	1,646
Allowance for impairment	(3)	(4)
Other deposits with banks (Note 20)	2,025,864	1,472,169
Allowance for impairment	-	-
Loans extended to FSI entities	165,962	152,947
Gross loan carrying amount	175,506	163,426
Allowance for impairment	(9,544)	(10,479)
Balance as of December 31	**2,270,500**	**1,750,783**

In order to reduce the concentration of foreign currency exposure to other banks, the Bank deposited excess foreign currency liquid funds on an a vista account with NBS amounting to RSD 2,025,864 thousand.

22. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

Loans and receivables due from customers are loans extended to individuals, entrepreneurs, micro entities and SMEs and farmers. Such loans are measured at amortized cost.

	2022			2021		
	Gross exposure	**Impairment allowance**	**Net exposure**	**Gross exposure**	**Impairment allowance**	**Net exposure**
Micro entities, SMEs	911,347	(37,879)	873,468	596,962	(31,489)	565,473
Entrepreneurs	6,422,876	(169,558)	6,253,318	4,885,353	(133,663)	4,751,690
Retail customers	5,599,388	(135,439)	5,463,949	4,948,257	(79,687)	4,868,570
Agricultural estates	7,773,439	(180,954)	7,592,485	6,697,093	(131,868)	6,565,225
Balance as of December 31	**20,707,050**	**(523,830)**	**20,183,220**	**17,127,665**	**(376,707)**	**16,750,958**

In 2022, the Bank approved RSD loans to private individuals up to the maximum amount of RSD 400 thousand, for repayment periods from 12 to 71 months at annual interest rates between 22.95% and 29.95%.

The Bank approved loans to entrepreneurs, micro entities and small and medium-sized enterprises mostly in RSD with a currency clause index up to the maximum amount of EUR 25,000 for repayment periods from 12 to 96 months, at annual interest rates ranging from 12.95% (7.95% for VIP gold clients) to 24.95%.

The Bank approved loans to agricultural estates (farmers) in RSD with a currency clause index up to the maximum amount of EUR 25,000 for repayment periods from 12 to 96 months, at annual interest rates ranging from 12.95% (7.95% for VIP gold clients) to 18.95%. Agriculture loans extended up to the amount of RSD 2.9 million mature for repayment within 12 to 60 months at interest rates between 12.95% (20.95%) and 24.95% p.a.

The Bank had no loans and receivables that are measured at fair value through profit or loss.

23. PROPERTY, PLANT AND EQUIPMENT

The Bank's property, plant and equipment include:

	2022	**2021**
Land and buildings	326,412	270,636
IT equipment	75,571	67,469
Leasehold improvements and other equipment	54,826	44,581
Investments (equipment) in progress	13,552	13,391
Right-of-use assets	200,426	146,892
Balance as of December 31	**670,787**	**542,969**

The Bank's investments in progress totaling RSD 13,552 thousand comprise: purchased IT equipment of RSD 12,405 thousand and purchased office furniture of RSD 1,147 thousand. These assets will be activated during 2023. based on the management's assessment, there were no potential impairment of investments in progress as of December 31, 2022.

Movements on the Bank's property, plant and equipment in 2022 and 2021 were as follows:

	Land and buildings	IT equipment	Leasehold improvements and other assets	Investments in progress	ROU assets	Total
REVALUED AMOUNT / COST						
Balance at January 1, 2022	**284,880**	**195,292**	**133,950**	**13,391**	**213,225**	**840,738**
Additions	-	-	157	56,277	99,481	197,447
Activations	-	33,134	22,825	(56,116)	-	(157)
Disposals	(21,363)	(184)	(9,657)	-	(36,013)	(45,854)
Revaluation adjustment (gain)	62,895					
Balance at December 31, 2022	**326,412**	**228,242**	**147,275**	**13,552**	**276,693**	**992,174**
ACCUMULATED DEPRECIATION						
Balance at January 1, 2022	**14,242**	**127,824**	**89,369**	**-**	**66,334**	**297,769**
Depreciation charge for the year	7,121	24,960	11,722	-	34,186	70,868
Disposals	(21,363)	(113)	(8,642)	-	(24,253)	(47,250)
Balance at December 31, 2022	**-**	**152,671**	**92,449**	**-**	**76,267**	**321,387**
NET BOOK VALUE at December 31, 2022	**326,412**	**75,571**	**54,826**	**13,552**	**200,426**	**670,787**

	Land and buildings	IT equipment	Leasehold improvements and other assets	Investments in progress	ROU assets	Total
REVALUED AMOUNT / COST						
Balance at January 1, 2021	**284,880**	**164,887**	**126,992**	**18,755**	**180,692**	**776,206**
Additions	-	-	2,571	39,817	45,698	88,086
Activations	-	30,678	14,503	(45,181)	-	-
Disposals	-	(273)	(10,116)	-	(13,165)	(23,554)
Balance at December 31, 2021	**284,880**	**195,292**	**133,950**	**13,391**	**213,225**	**840,738**
ACCUMULATED DEPRECIATION						
Balance at January 1, 2021	**7,121**	**106,055**	**89,345**	**-**	**43,639**	**246,160**
Depreciation charge for the year	7,121	22,042	10,017	-	30,336	69,516
Disposals	-	(273)	(9,993)	-	(7,641)	(17,907)
Balance at December 31, 2021	**14,242**	**127,824**	**89,369**	**-**	**66,334**	**297,769**
NET BOOK VALUE at December 31, 2021	**270,638**	**67,468**	**44,581**	**13,391**	**146,891**	**542,969**

If the Bank were not to apply the revaluation method for measurement of property presented as and buildings in the table above, but used the cost model instead, the net book value of the land and building items would amount to RSD 158,203 thousand as of December 31, 2022 (2021: RSD 163,763 thousand).
Management determined that the Head office buildings constitute separate class of property, plant and equipment based on the nature, characteristics and risks of the property.

Fair value of the properties was determined using the market comparable method and income method. The valuations have been performed by the valuer and are based on proprietary databases of prices of transactions for properties of similar nature, location and condition. As at the date of revaluation on 31 December 2022, the properties' fair values are based on valuations performed by AT Projekt., an accredited independent valuer who has valuation experience for similar office properties in the country.

Significant unobservable valuation input:

Range Price per square meter: €2.300 - €3.000

Significant increases (decreases) in estimated price per square meter in isolation would result in a significantly higher (lower) fair value on a linear basis.

In relation to fair value hierarchy, properties have been classified as Level 2.

Net gain from revaluation of head office building and land of RSD 62,895 thousand was recognized in OCI. Revaluation reserve is not distributable to shareholders.
As at 31 December 2021 no revaluation had been performed. Based on asesssment of external authorized appraiser there had not been any significant differences with respect to the appraisal performed in 2020.

The Bank as a lease

The Bank leases business premises for branches. The average lease term is five years. Maturity analysis of lease liabilities is presented within Note 30.

	2022	2021
Interest on lease liabilities (Note 9)	(6,245)	(5,151)
Short-term lease expenses (exempt from IFRS 16, Note 17)	-	(21)
Tax expenses - IFRS 16 (Note 17)	(6,789)	(5,077)
Net effects (of variable payments and retirement and withdrawal of ROU assets	(623)	267

Amount recognized in cash flows

	2022	2021
Total cash outflows under IFRS16 “Leases”	(30,817)	(25,259)

24. INTANGIBLE ASSETS

Intangible assets include (Note 40 L):

	2022	2021
Licenses	17,128	19,743
Software	188,341	183,112
Investments in progress	13,096	452
Balance as of December 31	**218,565**	**203,307**

Investments in progress totaling RSD 13,096 thousand pertain to implementation of two software solutions (December 31: RSD 452 thousand). The go live planned date for this intangibles is in May 2023.

	Licenses	Software	Investments in progress	Total
/ COST				
Balance at January 1, 2022	**73,200**	**349,796**	**452**	**423,448**
Additions	-	-	56,085	56,085
Activations	3,026	40,415	(43,441)	-
Balance at December 31, 2022	**76,226**	**390,211**	**13,096**	**479,533**
ACCUMULATED AMORTIZATION				
Balance at January 1, 2022	**53,457**	**166,684**	**-**	**220,141**
Amortization charge for the year	5,641	35,186	-	40,827
Balance at December 31, 2022	**59,098**	**201,870**	**-**	**260,968**
NET BOOK VALUE at December 31, 2022	**17,128**	**188,341**	**13,096**	**218,565**
REVALUED AMOUNT / COST				
Balance at January 1, 2021	**71,537**	**275,462**	**34,792**	**381,791**
Additions	-	-	41,657	41,657
Activations	1,663	74,334	(75,997)	-
Balance at December 31, 2021	**73,200**	**349,796**	**452**	**423,448**
ACCUMULATED AMORTIZATION				
Balance at January 1, 2021	**47,420**	**137,001**	**-**	**184,421**
Amortization charge for the year	6,037	29,683	-	35,720
Balance at December 31, 2021	**53,457**	**166,684**	**-**	**220,141**
NET BOOK VALUE at December 31, 2021	**19,743**	**183,112**	**452**	**203,307**

There were no indications of impairment of intangible assets with definite useful lives as of December 31, 2022 in accordance with the IAS 36 “Impairment of Assets”.

25. OTHER ASSETS

The Bank's other assets refer to:

	2022	2021
Receivables from employees for operational risk incidents	18,137	37,931
Other deferrals	25,697	41,351
Assets acquired in lieu of debt collection	1,375	13,708
Prepaid expenses	22,896	25,984
Trade receivables	23,498	16,500
Receivables from payment transaction services	13,329	12,302
Other assets	6,726	6,087
Allowance for impairment	(28,601)	(27,167)
Balance as of December 31	**83,057**	**126,696**

Assets acquired in lieu of debt collection (repossessed) in the amount of RSD 1,375 thousand (2021: RSD 13,708 thousand) represent property – land and buildings- placed by the customers as collaterals securing loan repayment. The Bank is registered as the owner of all the real estate that it repossessed through debt collection.

The fair values of the assets acquired in lieu of debt collection are determined by an external, independent appraiser of the relevant qualifications and they reflect the fair values of those assets as of December 31, 2022. The comparative method of valuation was used, where, in accordance with the Procedure on the Settlement of Past-Due Receivables through Collateral Foreclosure by the Bank, recording and treatment of the foreclosed assets are made for a period of up to 3 years. Assessment of the fair value of all assets acquired through debt collection is classified as Level 3.
Allowances for impairment mostly relate to allowance for receivables for cash shortages from prior years (calculated in line with IFRS 9 impairment).

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

The breakdown of the Bank's deposits and other liabilities due to banks, other financial institutions and the central bank:

	2022	2021
Short-term deposits	43,591	133,985
Long-term deposits	673,622	553,037
Borrowings	5,007,623	2,606,403
Other	-	181
Deferred interest payments receivable	69,970	50,993
Accrued loan fees per borrowings	(29,249)	(23,600)
Balance as of December 31	**5,765,557**	**3,320,999**

Breakdown of the Bank's borrowings:

	2022	2021
GLS ALTERNATIVE INVESTMENTS	1,525,191	587,911
EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT	960,000	-
EFSE S.A.. SICAV-SIF	-	235,164
COOPEST S.A.	-	117,582
EUROPEAN FUND FOR SOUTHEAST EUROPE S.A.. SICAV-SIF	1,349,208	1,371,791
HELENOS	-	-
EUROPEAN INVESTMENT FUND	1,173,224	293,955
Balance as of December 31	**5,007,623**	**2,606,403**

27. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

The breakdown of the Bank's deposits and other financial liabilities due to customers (Note 40.N) was as follows:

	2022	2021
Transaction deposits		
Corporate clients	145,548	111,999
Retail clients	375,545	516,853
Short-term deposits		
Demand deposits		
Corporate clients	86,833	69,973
Retail clients	3,158,959	4,033,833
Other short-term deposits		
Corporate clients	955,599	628,927
Retail clients	3,890,580	585,353
Total transaction and short-term deposits	**8,613,064**	**5,946,938**
Long-term deposits		
Corporate clients	250,054	242,207
Retail clients	5,473,292	5,856,369
Total long-term deposits	**5,723,346**	**6,098,576**
Accrued non-matured interest	344,357	342,421
on deposits - corporate	19,932	16,173
on deposits - retail	324,425	326,248
Pre-paid interest on retail deposits	-	-
Balance as of December 31	**14,680,767**	**12,387,935**

The following is an overview of interest rates applicable to deposits the Bank collected from clients in 2022:

- corporate foreign currency current accounts – annual interest rate for EUR of 0.00%;
- retail foreign currency current accounts – annual interest rate for EUR of 0.00%
- retail demand savings deposits in foreign currency – annual interest rates for EUR ranging from 0.10% to 4.00%;
- retail term savings deposits in foreign currency – annual interest rates for EUR ranging from 0.20% to 3.60%;
- corporate term deposits in foreign currency – annual interest rates for EUR ranging from 0.75% to 4.00%;
- corporate RSD current accounts – annual interest rate of 0.00%;
- retail RSD current accounts – annual interest rate of 0.00%;
- corporate overnight RSD deposits – annual interest rates ranging from KPR-0.75% to KPR-0.25%;
- retail RSD demand savings deposits – annual interest rate for RSD of 3.00%;
- corporate RSD term deposits – annual interest rates ranging from 1.50% to 9.00%; and
- retail RSD term deposits – annual interest rates ranging from 2.00% to 6.50%.

28. SUBORDINATED LIABILITIES

As of December 31, 2022, the Bank's subordinated liabilities comprised:

	2022	2021
COOPEST S.A.	**234,609**	**234,769**
Principal	234,645	235,164
Deferred fee	(36)	(395)
GLS ALTERNATIVE INVESTMENTS	**236,826**	**236,514**
Principal	234,645	235,164
Deferred fee	(205)	(646)
Accrued interest not matured	2,386	1,996
TRIODOS SICAV II	**120,007**	**120,090**
Principal	117,322	117,582
Deferred fee	(256)	(440)
Accrued interest not matured	2,941	2,948
TRIODOS CUSTODY B.V.	**120,007**	**120,090**
Principal	117,322	117,582
Deferred fee	(256)	(440)
Accrued interest not matured	2,941	2,948
EUROPEAN INVESTMENT FUND	**475,435**	**473,993**
Principal	469,290	470,328
Deferred fee	(1,564)	(1,803)
Accrued interest not matured	7,709	5,468
Balance as of December 31	**1,186,884**	**1,185,456**

29. PROVISIONS

Provisions totaling RSD 68,839 thousand (2021: RSD 91,072 thousand) relate to provisions for employee benefits in the amount of RSD 4,925 thousand (2021: RSD 4,884 thousand), provisions for guarantee losses in the amount of RSD 16 thousand (2021: RSD 35 thousand) and provisions for litigation losses in the amount of RSD 57,899 thousand (2021: RSD 86,152 thousand).

Provisions for employee retirement benefits are formed based on the Bank's statutory obligation to pay retirement benefits to its vesting employees in the amount of two average gross salaries paid in Republic of Serbia and the following actuarial assumptions: a discount rate equal to the rate of return on long-term treasury bonds of the Republic of Serbia of 6%, and projected salary growth rate of 10%p.a. The Bank's liabilities for retirement benefits are discounted to determine their present value.

Provisions for employee benefits include long-term provisions for retirement benefits upon fulfillment of the retirement criteria, and long-term provisions under the Bank's Retention and Incentive Plan.

In the event of employment termination, the Bank is required to pay an employee who has not used the entire annual leave (vacation) a compensation in the amount of an average salary earned by the employee over the previous 12 months commensurately to the number of unused vacation days.

Provisions under the Retention and Incentive Plan (retention and incentives of the members of the Executive Board) are essentially provisions for bonuses, which will be paid after five years, if the conditions defined by the plan are met. The provisioning charge recognized in the Bank's profit or loss statement for 2021 represents the present value of the future payments. The present value is calculated based on the assumption that the interest rate (the rate of return on long-term EUR government bonds of 0.30%), the number of employees and the period of employment (1 year) are constant.

Movements on the Bank's provisions are presented below:

	2022	2021
Balance at January 1	**91,072**	**51,548**
Provisioning charge for the year under IAS 19	40	1,012
Release and reversal of provisions under IAS 19 during the year	-	-
Provisioning charge for the year per liabilities (Note 17)	72,856	138,997
Release and reversal of provisions per liabilities	(95,110)	(100,492)
(Reversal)/ increase in provisions for credit-risk off-balance sheet items	(19)	7
Balance as of December 31	**68,839**	**91,072**

Movements on the provisions for employee benefits were as follows:

	2022	2021
Balance at January 1	**4,884**	**3,873**
Provisioning charge for the year	635	1,011
Reversal of provisions	(1,206)	-
Actuarial loss	612	-
Release through payment	-	-
Balance as of December 31	**4,925**	**4,884**

Movements on the provisions for losses on off-balance sheet items were as follows:

	2022	2021
Balance at January 1	**35**	**28**
Provisioning charge for the year	179	491
Reversal of provisions	(198)	(484)
Foreign exchange effects	-	-
Balance as of December 31	**16**	**35**

Movements on the provisions for litigations and operational risks were as follows:

	2022	2021
Balance at January 1	**86,153**	**47,647**
Provisioning charge for the year	72,856	138,998
Other	-	-
Release through payment	(95,110)	(100,492)
Balance as of December 31	**63,899**	**86,153**

30. OTHER LIABILITIES

Other liabilities include:

	2022	2021
Liabilities for taxes and contributions payable	18,990	16,540
Trade payables	27,269	29,487
Deferred income	8,804	1,197
Liabilities for received payments	188,604	179,268
Liabilities to employees	53,070	39,036
Lease liabilities	194,664	143,042
Other liabilities	24,070	12,802
Balance as of December 31	**515,471**	**421,372**

Liabilities for received payments of RSD 188,604 thousand (2021: RSD 179,268 thousand) represent early loan repayments made by the customers – payments of loan instalments maturing after December 31, 2022.

Lease liabilities refer to the leases of property and automobiles recognized under IFRS 16 as follows:

	December 31, 2022		December 31, 2021	
	Present value	Undiscounted contractual cash flows	Present value	Undiscounted contractual cash flows
Minimum lease payments				
Up to 1 year	40,191	39,267	36,943	38,562
From 1 to 5 years	130,559	121,619	75,349	89,299
After 5 years	23,914	28,279	30,750	37,540
Balance as of December 31	**194,664**	**189,165**	**143,042**	**165,401**

31. EQUITY

A. The Bank's Equity Structure

As of December 31, 2022, the Bank's equity consisted of the bank's share capital, share premium, revaluation reserves, reserves from profit, current year's profit and prior years' retained earnings.

	2022	2021
Share capital	1,783,080	1,783,080
Share premium	81,858	81,858
Reserves	2,304,889	1,951,750
Reserves from profit	2,146,513	1,846,223
Revaluation reserves	158,376	105,527
Prior years' retained earnings	-	36,237
Current year's profit	495,038	400,387
Balance as of December 31	**4,664,866**	**4,253,312**

i. Share Capital

The Bank's share capital was formed through the issuance of ordinary shares in five issues in the period from the establishment of the Bank in 2007 to December 31, 2019.

On June 14, 2012, the General Meeting of the Bank enacted the Decision on the third issuance of ordinary shares. Based on this Decision, 1,950 ordinary shares were issued, with the par value of RSD 60 thousand per share, and with the total nominal value of RSD 117,000 thousand. The third ordinary share issuance was fully subscribed and paid in by OTI Illinois, USA. A portion of the issuance value of RSD 114,000 thousand was paid in on June 27, 2012 while the remaining RSD 3,000 thousand was paid on November 2, 2012.

On November 13, 2012, the Bank's General Meeting enacted the Decision on the fourth issuance of ordinary shares. Based on this Decision, 900 ordinary shares were issued, with the par value of RSD 60 thousand per share, and with the total nominal value of RSD 54,000 thousand. On December 7, 2012, OTI Illinois, USA bought the entire fourth share issue and paid a portion of RSD 24,600 thousand, for 410 shares, while the remaining 490 shares worth RSD 29,400 thousand were registered with the Serbian Business Registers Agency as the subscribed capital not paid in. However, these shares were subsequently paid on December 30, 2014.

In February 2015, the fifth issuance of 4,200 shares was announced, which is fully subscribed and partially paid in (4,081 shares) OTI Illinois USA through conversion of subordinated loan debt (EUR 2.000 thousand) to share capital in the amount of RSD 244,.860 thousand, while the remaining 119 shares with the value of RSD 7,140 thousand were subscribed and not paid in as of December 31, 2019.

In January 2020, OTI Illinois USA made a payment for the remaining 119 shares, subscribed but not paid in the amount of RSD 7,140 thousand, with the par value of RSD 60 thousand per share.

On November 19, 2020, OTI Illinois USA sold 78% of Opportunity Bank's shares to a consortium of investors. All investors, now shareholders, such as Opportunity Bank, are members of GABV – Global Alliance for Banking on Values. The Bank's shareholder structure as of December 31, 2021 is presented in section C of this Note 31.

On February 17, 2021 a transaction was carried out whereby OTI Illinois USA sold 2% of Opportunity Bank's shares to the Bank's management.

ii. Share Premium

Share premium is a result of the difference between the issuance price of shares of RSD 733,758 thousand and the nominal share value of the first and second share issues in the amount of RSD 651,900 thousand, which totals RSD 81,857 thousand. The share premium is distributed to the shareholders commensurately to their respective shares in the Bank's equity as presented in section C of this Note.

B. Nature and Purpose of Reserves

i. Revaluation Reserves

the Bank's revaluation reserves and other unrealized gains totaled RSD 168,422 thousand as of December 31, 2022. Reserves are not distributable to shareholders.

ii. Reserves from Profit

At its regular session held on April 27, 2022, the Bank's General Meeting enacted Decision on Profit Distribution and Dividend Payment. The 2022 profit net of income tax of RSD 400,387 thousand was distributed as follows: 75% or RSD 300,290 thousand was allocated to the reserves from profit, while 25% or RSD 100,097 thousand was allocated to dividend. In addition, prior year's retained earnings of RSD 36,237 thousand was also allocated to dividend payable to the Bank's shareholders. The Bank's total reserves from profit, along with the reserve amount from the previous period of RSD 1,846,222 thousand increased to RSD 2,146,513 thousand.

C. Ownership – Shareholder Structure

	2022			2021		
	Share count*	**Share capital**	**%**	**Share count***	**Share capital**	**%**
Shareholders						
UMWELTBANK. Germany	8,915	534,900	30%	8,915	534,900	30%
OTI Illinois. USA	5,941	356,460	20%	6,541	392,460	22%
GLS.Germany	5,940	356,400	20%	5,940	356,400	20%
Triodos SICAV II. Luxembourg	4,161	249,660	14%	4,161	249,660	14%
TRIODOS FUNDS B.V. Netherlands	4,161	249,660	14%	4,161	249,660	14%
Private individuals	600	36,000	2%	-	-	-
Balance as of December 31	**30,318**	**1,783,080**	**100%**	**30,318**	**1,783,080**	**100%**

* *Share count represents the shares paid in.*

As of December 31, 2022, the Bank had the total of 30,318 (2021: 30,318) issued shares amounting to RSD 1,783,080 thousand. All shares are ordinary, with the par value of RSD 58,813 per share.

Owners of ordinary shares have the right to a dividend published by the Bank's Board of Directors and have the right to vote in the Bank's General Meeting on the one share-one vote principle.

32. TRANSFERS OF FINANCIAL ASSETS

As of December 31, 2022, the Bank had no transfers of financial assets other than those performed in the normal course of business. Financial assets are fully recognized as loans and receivables due from banks and other financial institutions and loans and receivables due from customers. In 2022, the Bank performed no repo transactions, loans secured with pledged securities, issues of securities or securitization operations.

A. Litigation

As of December 31, 2022, there were 13,824 lawsuits filed against the Bank with the aggregate claims totaling RSD 334,890 thousand (December 31, 2021: RSD 484,407 thousand). Provisions for losses arising from these proceedings against the Bank (penalties and lawsuits against the Bank) are based on expert estimates (of the Legal Department) of their outcomes. If the estimate is that the probability of a loss is greater than 50%, a provision is made in the amount of the expected loss (including court costs and default interest), and if the probability is equal to or less than 50%, no provisioning is made.

Management expects cash outflows in respect of 1,793 lawsuits, and the provisions made for contingent litigation losses in this regard amounted to RSD 57,899 thousand as of December 31, 2022 (2021: RSD 86,152 thousand).

B. Off-Balance Sheet Items

	2022	**2021**
Risk-weighted off-balance sheet items		
Irrevocable commitments	4,628	5,985
Total risk-weighted off-balance sheet items, gross	**4,628**	**5,985**
Allowance for impairment for off-balance sheet items	(16)	(35)
Total risk-weighted off-balance sheet items, net	**4,613**	**5,950**

34. RELATED PARTY TRANSACTIONS

A. Entities with significant influence over the Bank

The Bank's on-balance sheet exposures to related parties at the end of the year, together with all income and expenses during the year are presented below:

	2022	2021
STATEMENT OF FINANCIAL POSITION		
Liabilities		
LEGAL OWNER TRIODOS FUNDS BV		
Subordinated loans in foreign currency	117,322	117,582
TRIODOS SICAV II		
Subordinated loans in foreign currency	117,322	117,582
PROFIT OR LOSS		
LEGAL OWNER TRIODOS FUNDS BV		
Interest expenses on subordinated loans	(8,810)	(8,818)
Fee and commission expenses on borrowings	(170)	(170)
TRIODOS SICAV II		
Interest expenses on subordinated loans	(8,810)	(8,818)
Interest expenses on borrowings	-	-
Fee and commission expenses on borrowings	(170)	(170)
TRIODOS INVESTMENT MANAGEMENT B.V.		
Management fees	-	(739)
UMWELTBANK AKTIENGESELLSCHAFT		
Management fees	(939)	(563)

B. Transactions with the Management (Other related parties)

In 2022, the Bank paid gross remuneration (in the form of short-term employee benefits) to members of the Board of Directors and Executive Board in the amount of RSD 87,598 thousand (2021: RSD 66,682 thousand).

35. RECONCILIATION OF MUTUAL BALANCES RECEIVABLE AND PAYABLE

As of October 31, 2022, the Bank performed the balance receivable and payable reconciliation procedure with its debtors and creditors. The total of 16,902 requests for balance confirmation (outstanding item forms, OIS) was sent to debtors.

Of the aforesaid total number of requests sent 557 or 3.30%OIS forms were returned unresponded due to erroneous addresses; 57 OIS forms were returned responded and duly signed (0.34%), while 16,244 OIS forms or 96.10% are considered consenting since each OIS form contains a note that if the client fails to respond within 8 days, the balance will be regarded as reconciled. Only 44 OIS forms or 0.26% were returned to the Bank with unreconciled balances. The amount of the Bank's unreconciled receivables of RSD 1,233 thousand pertains to loan repayment receivables.

As for liability balances, the Bank received 101 OIS forms, of which 82 were reconciled, 19 disputed and the total balance of the disputed liabilities amounted to RSD 417 thousand.

36. EVENTS AFTER THE REPORTING PERIOD

There have been no significant events after the reporting period that would require disclosing in the notes to the Bank's accompanying financial statements for 2022.

37. FINANCIAL RISK MANAGEMENT

A. Introduction and Overview

In its operations, the Bank is exposed to the following risks:

- credit risk,
- liquidity risk,
- market risks,
- operational risks, and
- country risk.

This note presents information about the Bank's exposure to each of the above listed risks, the Bank's objectives, policies and processes for risk measurement and management, and the Bank's capital management.

i. Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board of Directors has established the Risk Management Committee to evaluate risk management reporting by the line management and advises the Executive Board on remedial or further action to reduce negative risk exposure levels.

Responsibility for implementation and effectiveness of risk management rests with the Risk Management Committee. Responsibility for identifying risk and the day-to-day management of risk lies within line management. In addition to the Risk Management Committee, certain risk indicators are reviewed by the Assets & Liabilities Committee (ALCO) and Credit Committee.

When necessary, the chairperson of each Committee will report information and issues to the Risk Management Committee.

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Changes of current policies or adoption of new ones are being approved by the Board of Directors before implementation. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

The Executive Board adopts and revises procedures for identifying, measuring and assessing risk, with respect of aims and principles on basis of which each risk is managed individually, it identifies significant factors for risk management and creates measures and activities for adherence to the limits established for individual risks. Through its training and management standards and procedures, the Bank aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Bank's Internal Audit monitors compliance with the Bank's risks management policies and procedures and undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Compliance Committee.

B. Credit Risk

Credit risk is the risk of financial loss occurring as a result of counterpart default on its contractual obligations to the Bank and arises principally from the Bank's loans and receivable.

Responsibility for credit risk strategy and approval of credit policies and procedures rests with the Board of Directors.

Responsibility for application of the Bank credit policy and adopted credit risk procedures rests with the Executive Board and Chairman of the Executive Board. All employees involved in lending activities are acquainted with the content of policies and procedures that cover their area of responsibility.

The Bank's Credit Risk Department and Portfolio, market Risk and ICAAP Department are responsible for regularly updating credit risk policies and procedures. Head of Business Network Sector, with support of Branch Managers, is responsible for the implementation of approved policies and procedures. Independent internal audits are performed by the Internal Auditor, who assesses the implementation level of internal controls in lending activities and compliance with standards and procedures.

The Bank manages credit risk through monthly credit risk and portfolio reports which contain information:

- on delinquency reports by Client Advisers, branch and the overall Bank;
- balance of loan portfolio at the end of the month by product, gender, sector, geographic location, maturity analysis, repayment by loan size, job impact on data and total loans to date;
- delinquency by product; and
- delinquency trend.

The Bank has developed specific models for assessment of credit risk and monitoring and collection of disbursed loans. The models known as "roll rates" and "vintage" allow the Bank to monitor the loans in terms of:

- Control of collection based on the month of disbursement, immediately after the first instalment becomes due. Based on received information, the Bank can make a decision to change the business strategy i.e., to offer some specific type of loan.
- Establishing the attitude of clients during loan repayment (in terms of identifying the clients who are constantly in delinquency, clients who have improved their position and clients whose position has deteriorated as compared to the previous month).

The Bank's exposure to credit risk arises through its loans and receivables. The amount of credit exposure in this regard is represented by the book value of the assets in the statement of financial position and off-balance sheet receivables.

In order to manage the credit risk, the Bank:

- evaluates the creditworthiness of customers applying for loans, guarantees and other credit products,
- establishes credit limits on the basis of the risk assessment, and
- deals with counterparties of good credit standing and takes appropriate collateral.

Customers are monitored continually and risk limits are adjusted if necessary. Risk limits also take into account various collateral types.

The Bank's exposure to credit risk arises through exposure towards entrepreneurs, small and medium enterprises, agriculture holdings and individuals. The amount of credit exposure in this regard is represented by the book value of the assets in the statement of financial position and off-balance sheet receivables.

In order to identify, monitor and assess them and, above all, to prevent such risk from originating, the Bank has brought and adopted the following policies and standards:

- the credit risk policy and procedure which prescribe the assessment of the debtor's credit risk,
- the non-performing asset management procedure,
- the methodology for calculating the allowance for impairment in accordance with IFRS 9, and
- the procedure for classification of on-balance sheet assets and off-balance sheet items of the Bank in accordance with the effective NBS Decision.

All these documents were adopted to the effect of preventive actions regarding credit risk, through defining the following:

- loan approval, including risk assessment of a customer,
- monitoring,
- loan portfolio analysis,
- loss prevention and collection procedures, and
- classification of loans and creation of allowance for impairment for estimated credit losses.

The core of risk management activities and mitigation of credit risk is detailed analysis of the creditworthiness of customers applying for loans and receivables and evaluation of provided collateral.

Credit analysis considers qualitative and quantitative analysis. Ownership structure, history of the company, market position, management competence, competition, cooperation with main buyers and suppliers, prospective of the business, customer's timeliness in loan repayment are the main factors that qualitative analysis consists of. It also consists of industry comparisons. Quantitative analysis is based on customer's solvency and profitability based on analysis of their financial statements.

The Bank's policy is to mitigate risks by diversifying its portfolio to different industries.

The Risk Management Committee assesses the risk of loan approvals for certain sectors. In order to control the credit risk exposure regarding various business sectors and to provide a risk diversification, the Board of Directors passed a Decision on investment limitations to individual sectors up to 35%. Total agriculture sector, together with mixed clients must not exceed 66% relative to the entire portfolio and total mixed sector of customers, together with the retail sector also must not exceed 66% relative to the entire portfolio.

Through monthly portfolio report and monthly report on risk management, credit exposure by sectors is being monitored for the subsectors: farming, dairy farming, pig breeding, cattle fattening, poultry raising, fruit growing, truck farming, other agricultural production (agro sector), other agro-rural production (agro-rural sector), manufacturing, construction, trade, transport, services (business sector), pensioners and employees (retail).

The Bank also monitors the credit risk exposure regarding certain types of loans through monthly delinquency reports. The exposure is being monitored for all types of loans extended by the Bank. The report shows delinquency by products separately for loans in RSD and in EUR.

In addition, the National Bank of Serbia introduced some restrictions regarding total amount of loans and receivables to one client or the group or related clients:

- The total amount of loans and receivables, including off-balance sheet items, which relate to one client or the group of related clients should not exceed 25% of the Bank's capital.
- Exposure to one client or a group of related clients that exceeds 10% of Tier 1 capital is considered as large exposure. It is prescribed by the National Bank of Serbia that the sum of large exposures and exposures to related parties cannot exceed 400% of the Bank's capital.
- Equity investment in an entity outside of finance sector should not exceed 10% of the Bank's capital and total equity investments in entities outside of the finance sector should not exceed 60% of the Bank's capital.

For loan approval in regular processes there are six levels of decision making:

1. Decision making level 1 – responsible branch director
2. Decision making level 2 – responsible employee Credit Risk Department
3. Decision making level 3 – one responsible person from Business Network Sector and one person from Credit Risk Department
4. Decision making level 4 – one responsible person from Business Network Sector and one person from Credit Risk Department
5. Credit Committee
6. Board of Directors

In addition to the regular process of loan approval there is also an automated process for all lines of business. Limits for decision making depend on level of decision, while for the automated process the maximum amount is defined (EUR 7,000 for the agricultural estates. EUR 7,000 for corporate customers and EUR 3,500 for the retail clients).

Covid-19 impact on credit risk

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. In order to combat the epidemic within the country, the Government of the Republic of Serbia declared on March 15, 2020 a state of emergency that brought restrictions on movement of the population. Some types of economic activities that involve gatherings of more people such as restaurants, cafes, gyms, shopping malls, stadiums, theatres were closed.

On March 17, 2020, the National Bank of Serbia adopted the Decision on Temporary Measures for Preserving Financial System Stability (hereinafter: the NBS Decision), adopting a set of measures intended for preserving the stability of the financial sector, including the mandatory offer of a moratorium on loans and lease payments.

The Regulator's Decision stipulated a delay in credit liabilities payment (moratorium) and implied that clients that accept a moratorium do not have a payment obligation, neither the interest of the principal.

Delay in payment was conducted twice during 2020 based on the following decisions of the National Bank of Serbia:

- Decision on temporary measures for preservation of financial system stability (Official Gazette RS number 33/2020), and
- Decision on temporary measures for Banks in order to mitigate the consequences of COVID 19 pandemic in order to preserve financial system stability (Official Gazette RS number 103/2020).

Delays in payment were used by companies, entrepreneurs and citizens, in respect of their loan liabilities - housing loans, consumer and cash loans, credit cards and current account overdrafts. Also, all collection activities have been postponed, execution and use of judicial elements of collection for 90 days during the state of emergency during moratorium 1 and afterward until September 30, 2020 during moratorium 2, respectively.

On December 14, 2020, the National Bank of Serbia adopted the Decision on temporary measures for Banks in order to adequately manage credit risk during COVID 19 Pandemic (Official Gazette number 150/2020). With this Decision new measures and activities are prescribed that Banks are required to implement in order to adequately manage credit risk during the COVID 19 pandemic, while providing new relief for settlement of liabilities by debtors.

The National Bank of Serbia assessed that the need for new benefits (moratorium 3) is especially pronounced among unemployed persons, debtors whose average net monthly income in the last three months is below the average salary in the Republic of Serbia, as well as debtors with average net monthly income in the last three months of RSD 120,000 and whose net monthly income is lower by 10% or more compared to their income before March 15, 2020, and whose level of credit indebtedness is such that over 40% of their monthly income goes to cover loan and other liabilities.

For farmers, entrepreneurs and legal entities, it was estimated that relief in repayment of liabilities should be offered especially to debtors who in 2020 had a decline in operating income, with a decrease in turnover of at least 15% compared to 2019 or the debtor faced discontinued operations over of a period of at least 30 days due to the COVID-19 pandemic.

Also, debtors who were in arrears for more than 30 days by a materially significant amount in respect of any obligation covered by this decision were also entitled to the mentioned reliefs. In addition to the above, banks were left with the possibility to grant relief to a debtor who provides a reasoned request, where due to other facts and circumstances banks assess that a debtor's financial position has deteriorated to the point of making it impossible to settle obligations as they fall due.

Relief provided for in the decisions relates to the rescheduling and refinancing of loans with the approval of a six-month grace period and a corresponding extension of the repayment period, so that a debtor's monthly obligations do not exceed those from the repayment plan before approval of relief. The Bank accrues interest during the grace period, whereby the debtor, in his/her request, can choose to pay interest during the grace period or after its expiration.

Other credit products - credit cards and overdrafts - may be subject to relief in accordance with this decision, where a loan can be approved to refinance obligations related to these products, with a grace period of six months and an agreed monthly repayment amount, and where the repayment period can be extended in such a way that monthly obligations do not exceed the monthly obligations that the debtor would have otherwise have paid for the particular product.

Receivables from debtors who have been granted relief, where at the moment of entry into force of the decision by regulators those debtors were not overdue by more than 90 days, are not recognized as restructuring, or non-performing receivables, or non-performing in credit terms according to the National Bank of Serbia, where the Bank does not consider that default has occurred.

The following table shows the structure of Bank's portfolio to which the proposed measures of the National Bank of Serbia were applied for postponement of payment (moratoria 1 and 2), and with the balance of exposure as at December 2022 and 2021:

	2022			2021		
	Gross exposure	Impairment allowance	Net exposure	Gross exposure	Impairment allowance	Net exposure
Gross loans with agreed terms of postponed repayment						
Retail customers						
Stage 1	660,158	9,796	650,362	1,272,770	8,419	1,264,351
Stage 2	358,169	15,474	342,695	623,168	14,079	609,089
Stage 3	28,786	12,091	16,695	32,699	16,306	16,393
Entrepreneurs						
Stage 1	101,679	655	101,024	435,084	4,136	430,948
Stage 2	275,719	5,759	269,960	682,602	19,493	663,109
Stage 3	123,681	49,408	74,273	89,972	42,782	47,190
Agricultural estates						
Stage 1	145,339	483	144,856	651,267	2,743	648,524
Stage 2	362,865	8,720	354,145	841,487	10,362	831,125
Stage 3	145,999	53,465	92,534	103,774	51,430	52,344
Corporate clients						
Stage 1	8,577	75	8,502	56,327	663	55,664
Stage 2	33,470	787	32,683	88,456	2,760	85,696
Stage 3	31,069	15,197	15,872	37,296	18,732	18,564
Total	**2,275,511**	**171,910**	**2,103,601**	**4,914,902**	**191,905**	**4,722,997**

The following table shows the structure of Bank's portfolio to which the proposed measures of the National Bank of Serbia were applied for postponement of payment (moratorium 3), and with the balance of exposure as at December 2022 and 2021:

	2022			2021		
	Gross exposure	Impairment allowance	Net exposure	Gross exposure	Impairment allowance	Net exposure
Gross loans with agreed terms of postponed repayment						
Retail customers						
Stage 1	43,449	2,316	41,133	78,536	3,122	75,414
Stage 2	6,131	3,434	2,697	813	362	451
Entrepreneurs						
Stage 1	161,883	3,933	157,950	410,038	14,668	395,370
Stage 2	89,529	36,021	53,508	35,760	16,328	19,432
Agricultural estates						
Stage 1	302,113	7,522	294,591	674,857	8,796	666,061
Stage 2	100,381	37,354	63,027	13,937	4,685	9,252
Corporate clients						
Stage 1	19,199	466	18,733	61,696	2,112	59,584
Stage 2	13,003	5,596	7,407	2,667	1,577	1,090
Total	**735,688**	**96,642**	**639,046**	**1,278,304**	**51,650**	**1,226,654**

As additional measures to mitigate the negative effects of the pandemic, on April 16, 2020, the Republic of Serbia Government enacted the Decree on determining the guarantee schemes of support to the economy for mitigating the consequences of the COVID-19 pandemic caused by the virus SARS – CoV-2 (Official Gazette of RS nos. 57/2020, 62/20 and 65/20). On December 17, 2020, the Parliament of the Republic of Serbia adopted the Law on determining the guarantee schemes of support to the economy for mitigating the consequences of the COVID-19 pandemic caused by the virus SARS – CoV-2 (Official Gazette of RS no. 153/2020) whereby the aforesaid Decree was cancelled, and instead support for the economy was now regulated by the Law. Through guarantee schemes the Republic of Serbia accepted the obligation as guarantor to pay future unpaid loan receivables of banks with the purpose to finance liquidity and working capital of corporate entities, all in order to mitigate the adverse economic and financial consequences of the pandemic.

As part of the guarantee scheme, commercial banks are expected to approve loans to the corporate clients with repayment period that cannot be longer than 36 months, including a grace period of 9 to 12 months. The maximum loan amount is the lower of the following two amounts:

- 25% of the loan recipient's revenue in 2019 according to the financial statements that the loan recipient submitted to the Business Registers Agency for statistical purposes for that year; or
- the amount of EUR 3,000,000.

The maximum allowed amount for an individual guarantee provided by Government, based on the Law, is calculated as the product of the insured portfolio of an individual bank, the coverage rate (80%) and the maximum guarantee rate (30%). The maximum total amount of guarantees at insured portfolio level of the banking sector of the Republic of Serbia is EUR 480,000,000.

The following table shows the structure of the Bank's portfolio paid from the guarantee scheme of the Republic of Serbia as at December 2022 and 2021:

	2022			2021		
	Gross exposure	**Impairment allowance**	**Net exposure**	**Gross exposure**	**Impairment allowance**	**Net exposure**
Gross loans paid from the guarantee scheme						
Stage 1	9,810	62	9,748	40,428	385	40,043
Stage 2	3,161	45	3,116	8,647	149	8,498
Stage 3	499	164	335	294	131	163
Total	**13,470**	**271**	**13,199**	**49,369**	**665**	**48,704**

The Bank's loan portfolio was relatively crisis-resilient, given the Bank's average loan amount, which was below market average.

The Bank performed a qualitative analysis of the impact of COVID-19 in relation to the structure of the Bank's existing debtors and the expected credit risk it may cause. The structure of the Bank's credit portfolio consists of agricultural estates (37% of the principal of the loan portfolio), entrepreneurs (31%), pensioners (22%), corporate clients (4%), employed individuals (5%) and investment funds investing in SME capital in Serbia (1%).

The general assumption is that food and raw food ingredients business activities will not face significant liquidity problems. Mixed-income agricultural holdings, where income significantly derives from pensions, suffers the least financial impact, while those with additional income from private sector employees may be expected to face payment delays. Farmers who are predominantly husbandmen and cattlemen experience lower negative economic impact of the pandemic.

As explained in section A iii), management made assumptions about the impact on the principal entrepreneurial activities in which the Bank's clients are engaged. Most repayment problems continue to be expected in business areas that involve congregation of people or frequent physical interactions. Some sectors are indirectly affected, such as transportation of people and goods. However, management's expectations are that most entrepreneurs will return to normal business after the state of emergency. Restaurateurs and certain service industries will have difficulty for a longer period after the crisis.

Agricultural loan repayment incentives

On October 6, 2022, the National Bank of Serbia enacted Decision on Temporary Measures for Banks Aimed at Adequate Management of Credit Risk in Agricultural Loans Portfolio in Conditions of Aggravated Agricultural Production (Official Gazette of RS no. 111/2022) to prescribe measures and activities that banks are required to implement for adequate credit risk management in agricultural loan portfolio by allowing loan rescheduling to debtors.

The debtors entitled to these incentives are those that are not in arrears longer than 90 days under any liability subject to rescheduling; the debtors are not in default toward the Bank within the meaning of NBS regulations; and the Bank's receivables from the debtors are not considered a non-performing loan or a non-performing receivable within the meaning of NBS regulations.

The debtor referred to in paragraph above is a person/entity entered in the Register of Agricultural Estates within the meaning of the law governing agriculture and rural development. Rescheduling is a change in the conditions of an individual loan in order to enable the debtor a grace period of six to twelve months for the repayment of all of debtor's obligations to the Bank under the loan, during which period the Bank does not collect receivables on account of the loan principal, though it collects the contracted interest, and the loan repayment period is extended so that the amount of the annuity determined when the rescheduling was approved is not higher than the same amount in the period before the rescheduling.

The following table shows the structure of the Bank's portfolio subject to the measures defined by the NBS decision on credit incentives for debtors repaying agricultural loans as of December 31, 2022:

	2022		
	Gross exposure	**Impairment allowance**	**Net exposure**
Gross loans with agreed terms of postponed repayment			
Agricultural estates			
Stage 1	44,511	531	43,980
Stage 2	206,764	11,602	195,162
Stage 3	19,899	6,929	12,970
Total	**271,174**	**19,062**	**252,112**

C. Liquidity Risk

Liquidity risk is the risk that the Bank will not be able to meet its due liabilities. It arises from the mismatch between cash inflows and outflows (structural liquidity risk) or the inability to sell / convert financial instruments into cash in an acceptable period and at an adequate price (financial instruments liquidity risk). The Bank manages its assets and liabilities so as to ensure that it is able to fulfil all outstanding obligations at all times and that its clients can access their assets in accordance to the agreed deadlines without limitation.

The Assets-Liability Committee (ALCO) is responsible for monitoring the liquidity risk, managing the liquidity risk, and proposing measures and activities for maintaining liquidity, adjusting the maturity structure, a business plan in the event of a liquidity crisis and other measures significant for the financial stability of the Bank to the Executive Board. The Chairman of the Risk Management Committee is also a member of the ALCO.

The Bank approaches liquidity management with the intent to provide, as far as possible, an adequate balance of liquid assets that is sufficient to always meet its outstanding obligations under normal conditions and in the liquidity crisis without causing unacceptably high losses or negative impact on the reputation of the bank. Accordingly, the Bank strives to constantly maintain a diversified base of financing sources consisting of deposits from individuals and legal entities, short-term borrowings on the interbank market and long-term loans from international banks and other financial institutions. The Bank also monitors the currency and manual compliance of the expected cash flows and the behavior of clients in certain market circumstances.

Continuous testing is conducted on the potential liquidity crisis that may be caused by macroeconomic, market or internal disorders. Liquidity stress tests are performed regularly using different scenarios that include normal and adverse market conditions. Scenarios are developed using Bank-specific events (e.g., one-off outflow of deposits) and market-specific events (e.g., liquidity crisis on the interbank market, drop in the country's rating, etc.).

D. Market Risks

Market risk is the risk of a change in the balance sheet position of the Bank due to a negative impact of changed market rates or values such as interest rates, exchange rate differences, securities prices, and the outcome is the loss of earnings and capital.

The objective of managing market risk is to manage and control exposure to market risks within limits that are considered acceptable from the aspect of risk appetite and business strategy of the Bank.

i Interest rate risk

Interest rate risk arises due to the possibility that changes in interest rates may affect future cash flows or the fair value of financial instruments. The Bank is exposed to changes in the level of market interest rates which can result in a significant impact on its financial position and cash flows through an increase or decrease of interest margins.

The purpose of managing interest rate risk as a segment of assets and liabilities management is to optimize the amount of net interest income, maintain a market interest rate at a level that is consistent and in line with the Bank's business strategy.

In addition, the Bank is focused on interest rate spreads. The Bank is aware that the interest rate variability of the so-called "interest spread" is a potential indicator of interest rate risk. This spread is regulated by the price of the loan, the price of the deposits and the activities in the money market. The Bank endeavors to have neither the lowest nor the highest interest rates on the market for loans and deposits. The loan prices are determined to achieve a fair return on the owner's investment. Deposit prices provide fair treatment for the Bank's clients and are reasonably competitive without increasing the costs for the Bank.

The Board of Directors has established the interest rate risk exposure limits based on the valid regulations of the National Bank of Serbia and the internal methodologies that follow the level of exposure of the Bank's balance sheet positions to possible unfavorable movements in rates on the market.

The Assets and Liabilities Management Committee, based on macroeconomic analysis and forecasting, the business plan, forecasts of conditions for achieving liquidity and analysis and forecasts market interest rate trends, undertakes activities aimed at:

- adequate determination of the net interest margin from the aspect of the impact on the Bank's current financial position and the adequacy of the Bank's capital level;
- aligning the characteristics of interest-sensitive assets and liabilities in terms of the level of interest rates with the same maturity and the time interval within which the interest rate is re-determined;
- ensuring maturity compliance of interest-sensitive assets and liabilities for which the fixed interest rate has been determined; and
- ensuring compliance of time limits for re-determination of interest rates in case of variable interest rates.

The Portfolio, Market Risks and ICAAP Department monitors and reports the risk of maturity mismatch and the re-establishment of prices or the analysis of disparities on a monthly basis to the Asset-Liability Committee (ALCO). Quarterly reports are presented to the members of the Managing Board through the Risk Management Committee.

Managing interest rate risk, the Bank uses a simulation of expected and extreme interest rate changes and projects the impact of those rates on the income statement. The risk of interest rates is also monitored by the analysis of the sensitivity - scenario analysis.

When preparing the report for measuring interest rate risk, the Bank takes into account all positions in assets, liabilities and off-balance sheet items, as well as all other remunerations and expenses that are exposed to interest rate risk. Fixed interest rate instruments are deployed in time baskets by the remaining maturity. Variable interest rate instruments are placed in time baskets according to the remaining time to the change in the interest rate. Positions with built-in options are arranged according to contractual maturity, modelled by the impact of early repayment of loans and early withdrawal of deposits in different scenarios of rising or falling interest rates. Positions without contractual maturity are included in time baskets according to the Bank's internal models for converting balance sheet items into cash flows based on historical series analysis and projecting their results for future periods that are likely to retain certain types of products in the Bank.

Gap analysis is used to measure the risk of net interest income arising due to the reassessment of prices of assets and liabilities over time. This analysis includes the effects of the time maturity mismatch of the base rates, as well as the potential risks arising from the options embodied in the contracts. The risk is measured based on the size and duration of potential changes in interest rates. The Bank is aware that maintaining a synchronized position throughout the entire period in the GAP reports does not provide for interest rate risk. The Bank is aware of the following limits in the gap reporting:

- the risk can be hidden within the re-establishment of prices;
- interest rates on assets and liabilities are not always changed together; and
- exposure arises through new jobs.

In order to avoid this type of limitation, the Bank uses a simulation (assumptions) for the purpose of designing the future balance sheet structure and applying different interest rate scenarios.

The Bank had no contracts linked to the interest rates that ceased to be published as from January 1, 2022 so no measures need have been taken relating to the transition to new benchmark interest rates.

Within the Bank’s portfolio, loans at floating interest rates have a very low share of merely 0.74%, whereas in the collected deposits, those at floating rates have a 4.97% share. Considering the fact that Bank’s strategic commitment is to continue to extend loans at fixed interest rates, the Bank’s management expects that there will be no significant risk exposure to potential fluctuations in key interest rates.

Credit risk stress tests based on hypothetical interest rates fluctuations for 200 bps in terms of keeping a high liquidity position, which is one of the protective measures against COVID-19 and the Russia-Ukraine crisis impact, have shown that such interest rate fluctuations would not have a significant impact on undermining the Bank’s capital and profit (Note 6 C, II).

ii Currency risk

The Bank is exposed to currency risk through transactions in foreign currencies. Foreign currency risk arises in cases of mismatch in assets and liabilities denominated in foreign currencies. The Bank is potentially at risk through its foreign currency position by granting and taking loans with foreign currency clauses, maintaining funds with correspondent banks, undertaking international payment orders, offering foreign currency accounts, and operating an exchange till.

The Bank's foreign exchange risk management strategy does not allow the holding of significant open positions in different currencies. The Assets and Liabilities Committee is a managing body that monitors compliance with this requirement.

Considering the types and scope of fluctuations that can be expected on the currency market due to crises caused by the spread of the COVID – 19 pandemic and Russia-Ukraine conflict, the Bank’s management expects a relatively low open currency position and the Bank’s policy is to maintain that level below 3% of regulatory capital, ensuring safe continued operation of the Bank as during the period of the state of emergency, both during the special measures of the National Bank of Serbia, as well as after they are lifted. Stress tests of currency risk which are based on hypothetical fluctuations in

exchange rates by 20% show that even under such extreme conditions there would be no significant undermining of the Bank's capital and profit (Note 6 C, III).

E. Operational Risks

Operational risk is the risk of the possibility of adverse effects on the financial results and capital of the Bank due to employees' failures, inadequate internal procedures and processes, inadequate management of information and other systems, as well as unpredictable external events. Operational risk also includes legal risk, as well as information system risk, counterparty risk, and the risk caused by the introduction of new products.

The objective of managing the Bank's operational risk is to minimize operating risk losses with an acceptable level of exposure to the operational risk. The Bank manages operational risk at an individual organizational work level and at the Bank's level. Operational risk management at the level of the Bank constitutes a comprehensive process that is integral to the Bank's risk management system.

The Bank conducts employee training in the area of operational risk and information system risk, both live or via an online e-platform, brochures and similar materials designed to raise awareness about operational risk and its management, in line with the Bank's annual training plan.

The operational risk management system involves the definition of policies and procedures with which the Bank provides:

1. Defined competencies and responsibilities in the process of managing operational risk, which includes an adequate division of competencies and an assessment of the effectiveness of the internal control system; and
2. Periodic risk assessment and system of reporting on operational risk.

The Executive Board of the Bank is responsible for implementing the Operational Risk Management Policy adopted by the Board of Directors and managing the policy with the adopted Operational Risk Management Procedure.

The Operational Risk and NPL Management Department is charged with implementing at operational level policies and procedures for managing operational risk in such a way that it identifies, measures, monitors and manages operational risk both at the level of individual organizational units and at the level of the Bank, and at least once a month reports to the Risk Management Committee that is part of the Bank's Executive Board, i.e. quarterly to the Risk Management Committee that is part of the Board of Directors.

The managers of all organizational parts of the Bank are responsible for assessing the operational risk to the level of their competence, as well as implementing measures to mitigate/eliminate operational risk. All employees are responsible for the occurrence of operational risk and in accordance with their powers and responsibilities are in charge of managing operational risk.

In accordance with the Decision on Capital Adequacy of Banks, the Bank opted for calculating the capital adequacy requirement for operational risk by applying the basic indicator approach (BIA) for calculating capital adequacy for operational risk.

For the purpose of recording operational risk events, the Bank has established the Operational Risk Database (on losses) in the main information system. This database serves as a basis for statistical processing - analysis, reporting and managing operational risks.

Through the adopted policies and procedures, the Bank's operational risk management system has been defined with four basic phases:

1. Identification of existing sources of operational risk and sources of operational risk that may arise from the introduction of new systems, business products or activities;
2. Measurement of operational risk, accurate and timely defined risk assessment;
3. Operational risk mitigation, maintaining that risk at a level acceptable to the risk profile of the Bank, decreasing probability and/or mitigating consequences, transferring, dividing or avoiding risks; and

4. Control and reporting on operational risk through periodic assessment, analysis of conditions of change in risk exposure trends, as well as monitoring of the implementation of decisions on operational risk management.

In addition, the Bank reviewed contingency plans, assessed the feasibility and the need to review and include additional scenarios as a result of the global pandemic. The Bank paid particular attention to the assessment and security of the information system and the additional risks that may arise, but also considered the capacities and possibilities related to employees and work safety - introducing more flexible organization and operation from remote locations (from home) due to the global pandemic.

In order to reduce operational risks in these circumstances, as part of the feasibility analysis and updating of the Business Continuity Plan, the Bank considered the criticality of processes and their dependence on service providers, as well as the critical number of employees.

F. Country Risk

Country risk is the probability of incurring losses to the Bank due to the inability of persons or companies outside of Serbia to repay obligations due to political, social and economic environment of the country of the client. Risks include:

- political-economic risk, where loss is probably due to political restrictions created by the acts of the country, state bodies or other bodies in the country of the client, and/or because of the general economic condition in the country; and
- transfer risk, where probability of loss due to currency restrictions created by the acts of the country, state bodies or other bodies in the country of the client, and/or because of the general economic condition in the country.

The Bank has established limits of exposure per client's country of origin. In case of identified risk concentration the limits have been established per geographical regions. The following table summarizes adopted limits per country of origin:

Country	Limit (EUR)	Country	Limit (EUR)
Germany	12,000,000	United Kingdom	6,000,000
Netherlands	6,000,000	Switzerland	6,000,000
USA	6,000,000	Belgium	3,000,000
Austria	7,700,000	Hungary	3,000,000
Luxembourg	6,000,000	France	6,000,000
Italy	5,000,000	Slovenia	3,000,000
Montenegro	3,800,000		

For all other countries (Norway, EU Member States and CEFTA members) for which no individual limit has been set, a maximum exposure of EUR 0.1 million is allowed.

The Portfolio, Market Risks and ICAAP Department monitors this risk and reports monthly to the Bank's Risk Management Committee and quarterly to the Board of Directors. The Board of Directors assesses the adequacy of the country's risk management system and approves any changes that are necessary to that end.

G. Russia-Ukraine Crisis

Direct impact

The Bank has no activities with entities from Russia, Ukraine and Belarus or exposures to banks with Russian ownership. The Bank has identified a single client, a Russian citizen with a non-resident status and an immaterial amount deposited with the Bank. During regular reviews of outgoing transactions in foreign payment transfers, no transactions toward Ukraine, Russia and Belarus have been identified nor have there been any transaction initiated by the persons/entities or directed toward persons/entities in the said countries.

Sanction lists within the Safe Watch (a system used for customer and transaction filtering) are updated on a daily basis and AML Unit additionally checks the updates.

No RUB (Russian ruble) transactions are conducted within the Bank and the Bank has no open foreign currency position in RUB.

Indirect impact

The Ukraine crisis and the psychological effects of the potential RSD depreciation caused concerns and fear among retail depositors, which led to a withdrawal of deposits totaling EUR 4 million in RSD equivalent. The Bank has undertaken measures to prevent potential higher outflows of deposits. The first promptly implemented measure refers to approval of stimulating interest rated on deposits with simultaneous approval of a more favorable EUR/RSD exchange rate for the bank's clients. The Bank has continued to implement measures in order to obtain and realize the projected sources of funding, which resulted in the liquidity ratios aligned with the bank's risk appetite.

The changes to the foreign exchange rate (EUR/RSD) identified so far do not suggest any significant adverse effect on stability in terms of measurement of assets and liabilities in the forthcoming 12 months. The initial mild EUR strengthening against RSD has been stabilized under the prompt measures of the central bank aimed at mitigating the foreign exchange market situation since this crisis has demonstrated that the stability of exchange rates and certainty in business as its consequence are an important factor of the general stability in the country. The said measures included, inter alia, change in the status of banks previously having Russian ownership and intensified supply of the financial system with sufficient quantities of foreign currency money in order to meet the increased demand.

The Bank's management expects that relatively low amount of the open foreign currency position in EUR and the Bank's policy that prescribes its maintenance at the level of below 3% of the Bank's regulatory capital will by no means compromise the Bank's ability to continue as a going concern. As disclosed in Note 6.C.III, the performed foreign exchange risk stress testing based on a hypothetical 20% exchange rate increase demonstrated that there would be no significant adverse effects on the Bank's capital or profit.

Intensified cost pressures due to rising prices of energy, fuels, food and industrial raw materials, and supply chain disruption generate short-term inflationary pressures, which have transitioned to consumer prices, which is in turn reflected in higher inflation. In order to respond to the uncertainty regarding the expected inflation rate, which will continue to depend on the international environment factors, including the measures of the leading central banks, the National Bank of Serbia continued to increase the key policy rate (from 1% in January 2022 to 5% in December 2022) seeking to mitigate the impact of the current external shock on maintenance of the monetary and financial stability, and to avoid their negative impact on the growth of credit and overall economic activity.

Well aware of the consequence of the prompt responses of the financial markets to the current increase in interest rates due to inflationary pressures and the international crisis, the Bank performs stress testing and simulations of the impact of these changes on the Bank's financial performance. Due to the reduced maturity mismatch of the items exposed to interest rate risk, those simulations have not demonstrated significant negative results. Duration and intensity of the aforesaid trends in the financial markets cannot be accurately estimated, and thus their long-run impact on the Bank's performance cannot be estimated either.

Escalation of the military conflict in Ukraine has had no significant impact on the expected credit loss measurement as of December 31, 2022. Economic difficulties of the Bank's client and the general economic outlook as consequences of the war and their potential effects on the Bank's increase in credit risk and expected credit losses is hard to predict due to complex impacts and the uncertain duration factor. However, the Bank's management endeavors to monitor and assess those on an ongoing basis and propose adequate remedial measures.

Considering the Bank's business strategy and the fact that the Bank's average loan amount is substantially below the market average (ca. EUR 2 thousand), the Bank's management expects that the loan portfolio will be rather resilient to the stresses that may occur in the event of a crisis, which could indirectly affect certain industries and customers whose regular business activities are directed to the regions afflicted by the war.

Although most of the Bank's customers are focused on the local market, the Bank's management performed an analysis of the customers whose business activities and operations may be indirectly associated with exports or transport to the affected countries in order to enable timely response to the risk of the current crisis adverse effects.

38. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

Liabilities arising from financing activities are liabilities for which cash flows are classified in the Statement of Cash Flows as cash flows from financing activities. The following table presents the adjustment of changes in liabilities and equity with cash flows:

	Borrowings	Subordinated liabilities	Lease liabilities	Share capital	Reserves	Other*	Total
Opening balance as of January 1, 2022	**2,616,713**	**1,185,456**	**143,042**	**1,864,938**	**1,951,750**	**436,624**	**8,198,523**
Borrowings obtained	3,367,932	-	-	-	-	-	3,367,932
Borrowings repaid	(959,247)	-	-	-	-	-	(959,247)
Lease liabilities matured	-	-	(53,745)	-	-	-	(35,434)
Total change due to cash flows	(2,408,685)	-	(53,745)	-	-	-	(2,373,251)
Foreign exchange effects	(7,4666)	(258)	-	-	-	-	(7,724)
Other changes							
New lease liabilities			99,122				47,984
Extinguished lease liabilities			-				(5,912)
Interest expense	147,842	73,219,	6,245	-	-	-	227,306
Interest payments	(132,504)	(69,216)	-	-	-	-	(201,720)
Deferred fees	2,944	(2,317)					627
Profit distribution	-	-	-	-	600,290	(436,624)	(136,334)
Other changes	-	-	-	-	62,895	495,038	557,934
Closing balance as of December 31, 2022	**5,036,214**	**1,186,884**	**194,664**	**1,864,938**	**2,314,936**	**495,038**	**11,190,934**
Opening balance as of January 1, 2021	**4,209,879**	**1,184,111**	**131,253**	**1,864,938**	**1,746,406**	**241,581**	**9,378,168**
Borrowings obtained	587,907	-	-	-	-	-	587,907
Borrowings repaid	(2,161,362)	-	-	-	-	-	(2,161,362)
Lease liabilities matured	-	-	(35,434)	-	-	-	(35,434)
Total change due to cash flows	(1,573,455)	-	(35,434)	-	-	-	(1,608,889)
Foreign exchange effects	(119)	(129)	-	-	-	-	(248)
Other changes							
New lease liabilities			47,984				47,984
Extinguished lease liabilities			(5,912)				(5,912)
Interest expense	109,035	71,992,	5,151	-	-	-	186,178
Interest payments	(143,841)	(69,251)	-	-	-	-	(213,092)
Deferred fees	15,214	(1,267)					13,947
Profit distribution	-	-	-	-	205,344	(205,344)	-
Other changes	-	-	-	-	-	400,387	400,387
Closing balance as of December 31, 2021	**2,616,713**	**1,185,456**	**143,042**	**1,864,938**	**1,951,750**	**436,624**	**8,198523**

39 BASIS OF MEASUREMENT

The financial statements are prepared based on the historical cost principle except for the following items in the balance sheet:

- Property that is subsequently measured using a revaluation method, and
- .

Preparation of the financial statements in accordance with IFRS requires the Bank's management to make the best possible estimates and reasonable assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the financial statements' preparation date, as well as income and expenses arising during the accounting period. These estimates and the underlying assumptions are based on the historical experience and various other information and factors available as of the financial statements' preparation date that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

40. SIGNIFICANT ACCOUNTING POLICIES

A Basis of Consolidation

The Bank has no control over any other entity and does not prepare consolidated financial statements.

The Bank did not hold non-controlling interest in other legal entities as of December 31, 2022 and 2021.

B. Foreign Currency Translation

Transactions in foreign currencies are translated into Serbian Dinars at the spot exchange rates at the date of the transaction.

Assets and liabilities denominated in foreign currency at the balance sheet date are translated into dinars at the middle exchange rate prevailing at the reporting date. Foreign exchange gains or losses arising on translation of foreign currency transactions or the translation of foreign currency balance sheet items that are derived from foreign exchange translation are accounted for as income or expense from foreign exchange differences under the heading "Net income / expense from exchange differences and effects" contracted currency clauses in the income statement.

Exchange rates determined at the middle exchange rate of the National Bank of Serbia used to translate items in the financial statements presented in foreign currency as of December 2022 and December 31, 2021 were as follows:

In RSD	2022	2021
USD	110.1515	103.9262
EUR	117.3224	117.5821

Foreign exchange gains or losses arising from the translation of balance sheet items denominated in foreign currency and in foreign currency transactions are recorded in favor of or at the expense of the profit and loss account as income and expense on the basis of exchange rate differences and are presented within the net foreign exchange gains and effects of the contractual currency clause.

C. Interest Income and Expenses

Interest income and expenses are recognized in the income statement using the effective interest method. The effective interest rate discounts the estimated future cash payments and receipts through

the expected life of the financial asset or liability (or shorter period when appropriate) to the book value of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument (for example, the ability to pay in advance), but not future loan losses. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all transaction costs and premiums and discounts paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of profit and loss include income on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis.

When a financial asset or a group of similar financial assets are written-off as a result of a loss due to decreased value, the interest income is calculated on amortized cost of impaired placement by using the initial effective interest rate, which was used for discounting future cash flows in order to measure the loss from a decreased value.

Interest expense as disclosed in the income statement consists of interest on financial liabilities that are measured at amortized cost.

D. Fee and Commission Income and Expenses

The Bank has identified, as types of revenue that it generates in its ordinary course of business, IFRS 15, which are not within IFRS 9, fees for executing payment orders, fees for e-banking installations, account maintenance,. For this income, which falls under the scope of IFRS 15, the Bank has performed analysis in five steps and noted that it collects and presents income at the time of settlement of contractual obligations. Account maintenance fees are charged after the expiration of the month in which the account was used on the contracted scope.

A contract with the customer resulting in recognition of financial instrument in Bank's financial statements can be partially under the scope of IFRS 9 and partially under the scope of IFRS 15. When this is a case, the Bank firstly applies IFRS 9 in order to separate and measure the part of the contract under IFRS 9, and then applies IFRS 15 to the other part of the contract.

In its offer, the Bank does not have card products, nor any other type of complex products (packages) that would require separation of recognition in the terms of IFRS 15.

E. Leases

Under IFRS 16, leases are contracts under which the lessor transfers to the Bank the right to use the assets leased by the Bank within the agreed time limit in exchange for a fee.

The fee includes payments related to the right to use the assets for the duration of the lease, including an estimate of the cost of bringing the leased asset back to original condition, potential penalties for termination of the lease, the residual value of the leased item if defined by the lease agreement, payments that do not constitute a lease if the lessee has chosen to combine them with the lease.

The Bank rents branches and office facilities and IT equipment. In accordance with IFRS 16, the Bank recognizes the right of use assets and lease liabilities with respect to leases of branches and office buildings and recognizes them in its statement of financial position.

IFRS 16 applies to all contracts that meet the definition of leases except:
- intellectual property license agreements governed by IFRS 15 *Revenue from Contracts with Customers*, and
- contracts containing copyright elements governed by IFRS 3*8 Intangible Assets*.

IFRS 16 provides exemption for ::
- short-term leases with a contractual maturity of up to 12 months or less, which do not include a repurchase option, and

– low value leases of less than EUR 4,150.

Initial recognition

At the beginning of the lease period (from commencement date), the Bank recognizes a right of use asset use in its balance sheet, measured at the present value of all lease payments not made on that date. These payments are discounted using an incremental borrowing rate. The lease liability is recognized in the same amount.

Commencement date is the date on which the lessor gives the asset in question to the Bank for use. The lease term is the irrevocable period during which the lessee has the right to use the assets in question, together with the periods covered by the eventual option to extend the lease and the periods covered by the option to terminate the lease.

The initial amount at which the asset and liability are valued is calculated as follows:
- cost in the amount of the initial measurement of the lease liability;
- all possible payments made by the lessee on or before the lease commencement date;
- any direct costs of the lease that would not have occurred had it not been for the lease (e.g., commissions, costs of bringing the asset to use);
- estimated cost of dismantling, i.e., bringing the leasehold item to its initial condition; and
- reduced by any discounts received from the lessor.

An incremental borrowing rate is an interest rate that equates the present value of the lease payment with the sum of the fair value of the assets and all the Bank's initial direct costs. Given that the interest rate is not explicitly stated in the lease agreement, the Bank applies the rate that it assumes it would pay when borrowing funds for a similar term and for similar purposes.

For leases, the Bank determines the incremental borrowing rate once a year in November each year on the basis of the following elements:

An incremental borrowing rate is an interest rate that equates the present value of the lease payment with the sum of the fair value of the assets and all the Bank's initial direct costs. Given that the interest rate is not explicitly stated in the lease agreement, the Bank applies the rate that it assumes it would pay when borrowing funds for a similar term and for similar purposes.

For leases, the Bank determines the incremental borrowing rate once a year in November each year on the basis of the following elements:
- rates for subordinated loans offered to the Bank by the European Investment Bank for a period of 10 years, the subject of which is investment in the development of the organization and expansion of the Bank's capacities;
- yield curves for the euro currency;
- that the period is comparable to the period of the lease, and
- that the rate includes current market conditions.

The yield curve required for discounting to the present value is calculated by calculating the idiosyncratic risk of the bank as the difference between the last valid bid for a subordinated loan in euros received by the Bank from a banking institution with headquarters in the European Union and a rating of AAA and a zero- swap curve for the corresponding maturity. This risk premium is added to all zero-swap values. Due to the fact that this curve contains a credit risk assessment of the Bank by a banking institution based in the European Union and an AAA rating, it is considered that it best reflects the Bank's risk profile.

For vehicles classified as right of use assets under IFRS 16, the Bank determines the discount rate based on the lessor’s financial leasing calculator.

The difference between the nominal value of the liability and its amortized cost determined by discounting at the reporting date is recorded as interest expense.

Leased assets are depreciated, whereby the depreciation period is determined to be shorter of the following two:
- the period until the end of the lease term, or

- the period until the useful life of the asset expires.

Subsequent measurement

The Bank subsequently measures lease assets in accordance with asset management of right of use assets by discounting the purchase value with a linear depreciation calculation.

Subsequent measurement of the carrying amount of leasing liabilities is made when:
- there is a change in the lease terms used to create a significant event or a change in circumstances controlled by the Bank;
- changes in valuation regarding the certainty of using the option to purchase the leased asset after the expiry of the leasing contract;
- changes in the expected amount of the guaranteed residual value; and
- changes in the minimum future lease payments caused by a change in the index or rate used for variable lease payments.

The Bank reports leased assets in its statement of financial position under the line item property, plant and equipment. (Note 23) Lease liabilities are reported under other liabilities (Note 30).

In the profit or loss statement, the Bank presents the cost of depreciation of the leased assets together with the cost of depreciation of other fixed assets and intangible assets. Interest expense related to leased assets is shown separately within financial expenses.

In the statement of cash flows, the Bank discloses liabilities for equity within financial activities, and expenses for repayment of interest, as well as other expenses for interest in the framework of operating activities (outflows based on interest).

Expenditures for leases shorter than 12 months and for leases that are outside the scope of IFRS 16 are recognized in the statement of cash flows from operating activities.

F Income tax

Income tax represents an amount that is calculated and paid in accordance with the Corporate Income Tax Law of the Republic of Serbia (Official Gazette RS, No. 25/01, 80/02, 80/02-other law, 43/03, 84/04, 18/10, 101/11, 119/12, 47/13, 108/13, 68/14- other law, 142/14, 91/15, 112/2015, 113/2017, 95/2018, 86/2019, 153/2020 and 118/2021).

i Current tax assets

During the year, the Bank has been paying income tax through monthly advances, whose amount is determined based on the previous year's income tax return. Final tax base for applying of tax rate on corporate profit of 15% (2021: 15%), is determined based on the tax balance of the Bank.

Taxable profit includes accounting profit presented in the statement of profit and loss and adjustment for permanent differences, in accordance with the Corporate Income Tax Law of the Republic Serbia. These adjustments mainly include costs unrecognized and recognition of some costs reversal and reduction of capital expenditures and investments during the year.

ii Deferred income tax

Deferred income tax is provided using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

Deferred tax assets are recognized for all deductible temporary differences and the tax effects of income tax losses available for carry forward, to the extent that it is probable that the future taxable profits will be available against which the deductible temporary differences and tax losses carried forward can be utilized.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets and liabilities as at December 31, 2022 were calculated at a currently valid rate of 15% (2021: 15%).

iii Indirect taxes and contributions

Indirect taxes and contributions include property tax, VAT, contribution on salaries charged to the employer, as well as other taxes and contributions paid in accordance with the national and local tax regulations. These taxes and contributions are presented within other expenses (Note 16).

G. Financial Assets and Liabilities

i Initial recognition

The Bank initially recognizes loans and receivables, deposits, borrowings and subordinated liabilities on acquisition date. Settlement date is considered to be the contractual date of the financial asset or liability. Purchases or sales of financial assets are recognized on the settlement date, i.e., date on which the asset is delivered to the counterparty.

A financial asset or financial liability is measured initially at fair value plus transaction costs that are directly attributable to acquisition or issue of financial assets and financial liabilities, except in the case when assets and liabilities measured at fair value through profit and loss.

ii Classification

Financial assets

Subsequent valuation of financial assets and liabilities depends on their classification. The Bank classified its financial assets into the following categories:

- financial assets that are measured at amortized cost,
- financial assets that are measured at fair value through other comprehensive income (FVTOCI).
- financial assets that are measured at fair value through profit or loss (FVTPL), and

Financial assets are measured at amortized cost if they are not designated as FVTPL and if the following two conditions are met:

- The asset is held within a business model whose objective is to hold assets in order to collect 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.

Financial assets are measured at fair value through other comprehensive income only if they are not designated as FVTPL and if the following two conditions are met:

- The asset is held within a business model whose objective is both collecting contractual cash flows and selling financial assets; 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.

All other financial assets – i.e., financial assets that do not meet the criteria for classification as subsequently measured at either amortized cost or FVTOCI – are classified as subsequently measured at fair value (FVTPL).

Business model assessment

The Bank made a preliminary assessment of the objectives of the business model at a portfolio level in which a financial asset is held. The information that will be considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of assets;
- How the performance of the portfolio is evaluated and reported to the management of the Bank;
- The risks affecting the performance of the business model and financial assets within that business model and how those risks are managed;
- How managers of business are compensated (e.g., whether compensation is based on fair value of the assets managed of the contractual cash flows collected); and
- The frequency, scope and reason of selling financial assets in previous periods and expectations regarding future sales.

In its operations, the Bank focuses primarily on loans to customers and holds these funds to collect cash flows. No asset sales have been made so far.

Assessment whether the contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of a financial asset on initial recognition. Interest is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks costs (e.g., liquidity risk and administrative cost), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such as: contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms, terms that limit the Bank's claim to cash flows from specified assets, periodic resetting of interest rates.

Reclassification

After initial recognition, financial assets cannot be reclassified except in the period when the Bank changes its business model for managing financial assets.

Financial liabilities

The Bank classifies its financial liabilities (other than liabilities under financial guarantees and approved loan conditions) as being measured at amortized cost. The Bank has no designated financial liabilities classified at fair value through profit or loss.

IFRS 9 requires for changes in fair value of financial liabilities measured at fair value to be recognized as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in other comprehensive income, and
- the remaining amount of change in the fair value is presented in profit or loss.

The Bank has not designated any financial liabilities as FVTPL.

iii Derecognition

Financial assets

The Bank derecognizes a financial asset (or part of a financial asset or group of financial assets) when:
- the contractual rights to the cash flows from the financial asset expire,
- the Bank transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, and
- the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability in the statement of financial position.

On derecognition of a financial asset, the difference between the book value of the asset (or the book value 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 had been recognized in other comprehensive income is recognized as profit or loss.

The Bank enters in transactions whereby it transfers assets recognized on its statement of financial position 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.

When assets are sold to a third party with a competitive total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale and repurchase transactions as the Bank retains all or substantially all the risks and rewards of ownership of such assets.

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

Financial liabilities

Recognition of financial liabilities ends when the obligation foreseen by the contract is fulfilled, cancelled or expired. In that case the existing financial liability is replaced by another obligation towards the same creditor, but under significantly changed conditions or if the terms of the existing obligation have been significantly changed, such replacement or change of conditions is treated as derecognition of the original obligation, with the simultaneous recognition of a new obligation, while the difference between the original and the new value of the liability is recognized in the income statement.

ii. Modification of financial assets and financial liabilities

Financial assets

If the terms of the financial asset are modified, then the Bank estimates that the cash flows of the modified asset are significantly different. If the cash flows are significantly different, then the estimated cash flows of the financial asset are considered to have expired. In that case, the recognition of the original financial asset is terminated, and a new financial asset is recognized at fair value. The derecognition leads to a sustained gain or loss that must be recognized in the income statement, and to be equal to the difference between the amortized cost of the old financial asset and the fair value of the new financial asset.

Modifications that result in the cessation of the recognition of the old financial asset and the initial recognition of the new one, which were motivated by a decline in creditworthiness and repayment capacity, lead to the initial recognition of financial assets that the standard defines as POCI, Assets that are impaired at the moment of initial recognition. At the time of initial recognition of these assets, the expected credit losses over the course of the term are included in the calculation of the effective interest

rate. Consequently, the Bank includes initial expected credit losses in the assessment of cash flows when calculating the loan-adjusted effective interest rate of a financial asset that is considered impaired at the time of initial recognition.

If the modification of financial assets that are measured at amortized cost does not result in the derecognition of financial assets, the bank first calculates the gross carrying amount of financial assets using the original effective interest rate of the asset and recognizes the resulting change as income or expense due to modification through the income statement. For financial assets with variable interest rate, the initial effective interest rate is adjusted to the market conditions at the time of the modification.

In derecognizing a financial asset the Bank takes into account both quantitative and qualitative criteria. If the difference in the present value of cash flows is at least 10%, then in all cases of modification the old financial instrument should be derecognized and the new financial instrument should be accounted for. If based on the difference in present values of cash flows is smaller than 10%, the Bank performs a qualitative assessment in order to analyze whether the terms of the two instruments differ significantly. The qualitative assessment can require a high level of judgement about facts and circumstances of each individual case. In this the change in the reference currency of the loan, repayment schedule and other factors can be taken into account.

Financial liabilities

The Bank derecognizes financial liabilities when their terms are significantly modified and cash flows of modified liabilities that are significantly different. In this case, a new financial liability is created that is measured at fair value based on modified terms. If the modification is not considered as a derecognition, then the amortized cost of the liability is calculated by discounting the modified cash flows at the original effective interest rate, with recognition of the income and expenses arising from the modifications through the income statement. For financial liabilities with variable interest rate, the initial effective interest rate is adjusted for the change in market conditions.

v Offsetting

Financial assets and liabilities are netted and the net amount is shown in the statement of financial position only when the Bank has the legal right to net the amounts or when it intends to settle them on a net basis, or to realize the asset and liability at the same time. Revenues and expenses are presented on a net basis only when IFRS allows it, as well as gains and losses from a group of similar transactions.

vi Fair Value

Fair value measurement is performed regarding the assumption that the transaction of assets sale or transfer of an obligation takes place in the primary market for assets or liabilities, or if there is no primary market available, then in the most favorable market for assets or liabilities at a given moment.

The fair value of financial instruments that are traded on an active market at the balance sheet date is based on quoted market prices of supply and demand without impairment on transaction costs. The market is considered as active if the transactions of assets or liabilities are often carried out and in a sufficient scale, and therefore it can be determined the price.

The fair values of financial instruments that are not traded in an active market are determined using appropriate valuation techniques that involve: net present value techniques, comparison with similar instruments for which there are market prices and other models that include all factors that market participants consider when determining the price transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life

of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

vii Impairment

The Bank recognizes impairment for the expected credit risk for the following financial instruments that are not measured at fair value through profit or loss:
- financial assets that are debt instruments,
- approved financial guarantees, and
- commitments under approved loans.

The Bank recognizes the cost of impairment in accordance with IFRS 9 in the amount equal to the expected credit loss over the entire lifetime of the asset (lifetime ECL) except in the following cases where the 12 month expected credit losses will be recognized:
- debt instruments that are found to have a low risk on the reporting date. The Bank considers this to be the case where the credit rating of the debt instrument is equivalent to the general definition of a "class eligible for investment"; and
- other financial assets (other than loan receivables) for which credit risk has not significantly increased from initial recognition.

The 12 - month expected credit losses are the expected credit losses that occur if the default event occurs within 12 months after the reporting date. The financial instruments for which the 12 month expected credit losses are recognized are classified in Level 1: financial instruments with low credit risk.

Lifetime expected credit losses - The aforesaid credit losses are the result of possible default events throughout the entire expected lifetime of a financial instrument. Financial instruments recognized as expected lifetime losses are classified into Level 2: financial instruments that have significantly increased credit risk.

Calculation of expected losses based on credit risk

Calculated expected credit losses represent the assessment of credit losses, weighted with probability (i.e., the present value of all cash shortages) over the expected duration of a financial instrument, while the cash shortfall alone is the difference between the cash flows that the Bank belongs under the contract and cash flows that the Bank expects to receive.

For unimpaired financial assets, credit loss is the present value of the difference between the contractual cash flows that belong to the Bank under the contract and the cash flows the Bank expects to receive, whereas in the case of an impaired asset, it is the difference between its gross carrying amount and the present value of estimated future cash flows. For undrawn liabilities under an approved loan, the loss is the present value of the difference between the contractual cash flows that belong to the Bank, if the holder of the loan obligation withdraws funds, and the expected cash flows if the loan is withdrawn, whilst for financial guarantees it represents the expected payments that compensate for the loss of a customer arising out of payment default, reduced for any amounts that the Bank expects to collect.

The details are given in Note 6 A.

Restructured financial assets

If the terms of the financial asset are renegotiated or modified or the existing financial asset is replaced with new ones due to the financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and expected credit loss are measured as follows:

- If the expected restructuring will not result in the derecognition of an existing financial asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of an existing financial asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial assets that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of an existing financial asset.

Write-off policy

The Bank writes off financial assets when it is determined that they are uncollectible (detailed in Note 6(A)(*III*).

H. Cash and Cash Equivalents

Cash and cash equivalents include cash on the Bank's account, cash balance (paper and money in metals), accounts with the Central Bank and highly liquid financial assets (funds with an original maturity of up to three months). Cash and cash equivalents are measured at the nominal value in the statement of financial position.

The gyro account includes obligatory reserves in dinars, which represent the minimum deposits set aside in accordance with the NBS Decision on Banks' Required Reserves with the National Bank of Serbia.

The Bank calculates and allocates domestic and foreign currency mandatory reserve in the amount, in the manner and within the time limits laid down by the Decision on Banks' Required Reserves with the National Bank of Serbia (Official Gazette of RS no. 3/2011, 31/12, 57/12, 78/12, 107/12, 62/13, 125/14, 4/15, 78/15, 102/15 76/2018), which among other things defines the manner of determining the basis for calculation of domestic and foreign currency reserve requirements and the rate of reserve requirement. The Bank maintains an average daily balance of allocated domestic required reserves in their account, and the average daily balance of foreign currency required reserves on foreign currency accounts with NBS in the accounting period in an amount calculated in the manner defined by NBS regulations governing the reserve requirement of banks.

I. Securities

Securities are non-derivative financial assets that the Bank acquires or takes over for sale or repurchase in the near future and that may be sold in the event of liquidity requirements or changes in interest rates, foreign exchange rates or the cost of capital.

Initial recognition and subsequent measurement of securities is at fair value through profit or loss (FVTPL). Transaction costs are recognized in the income statement. All changes in fair value while holding instruments are recognized as part of net income from changes in the fair value of instruments.

J. Financial assets at amortized cost

Financial assets at amortized costs include Loans and receivables which 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 debtor with no intention of trading the receivable. Loans and receivables comprise loans and receivables to banks, other financial institutions and customers.

Loans and receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs and any discount or premium on settlement.

Loans are approved in RSD and index-linked to RSD-EUR exchange rates. These loans are revalued at mid exchange rate of the National Bank of Serbia as at reporting date. The effects of such revaluation are included under net result from foreign exchange differences and foreign currency contractual clause.

The statement of financial position line item of loans and receivables includes

- loans and receivables measured at amortized cost, initially measured at fair value plus incremental direct transaction costs, and subsequently at amortized cost using the effective interest rate method;
- loans and receivables whose measurement at fair value through profit or loss is mandatory, or that are designated as items at fair value through profit or loss for which changes in fair value are recognized immediately in the income statement.

K. Property, Plant and Equipment

Property, plant and equipment consists of buildings, equipment, other fixed assets and investments in others as fixed assets for performing business activity.

i Recognition and measurement

As from January 2012, the Bank changed its accounting policy for measurement of real-estate properties and moved from the cost to the revaluation model. The difference between revalued amount and book value of property at transition date was recognized as revaluation gain within revaluation reserves. As per the revaluation model, after recognition as an asset, an item of property, whose fair value can be measured reliably, shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the book value does not differ materially from that which would be determined using fair value at the end of the reporting period.

In accordance with the accounting policy of the Bank, valuation of property shall be made whenever there are materially significant oscillations between the fair value and current book value. In case where such oscillations do not occur, valuations shall be made on a 3 to 5 year basis.

The Bank uses the elimination approach for property that it measures at fair value, i.e., the Bank eliminates accumulated depreciation against the gross book value of the asset.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

Valuation of plant and equipment is carried out using the cost method, i.e., plant and equipment are measured at cost reduced for accumulated depreciation and any impairment losses.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Property, plant and equipment are derecognized from the books after disposal, due to technical obsolescence or when the future economic benefit from their use is not expected. Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the book value of the item) is recognized in the net amount within other operating income in profit or loss.

ii Subsequent expenditures

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

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

iii Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The depreciation estimate starts from the following month when these assets are brought to use.

Leased assets (ROU assets) are depreciated over the shorter of the lease term and their useful lives.

The estimated useful lives for the current and comparative periods are as follows:

Description	Estimated useful life (years)	Depreciation rate (% p.a.)
Property	40	2.5
Furniture and other equipment	3 - 10	10 - 33.3
IT equipment	5	20
Leasehold improvements	2 - 10	10 - 50
Right-of-use assets	1 - 10	10 - 100

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted, if appropriate. There were no changes in rates and estimated useful lives during 2022.

L Intangible assets

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

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

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the intangible asset, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of intangible assets is ten years and amortization rate used is 10% (valid for both periods).

Amortization methods, useful lives and residual values are reassessed at each reporting date and adjusted, if appropriate.

M. Impairment of non-financial assets

At each reporting period-end, the Bank reviews the carrying amounts of its non-financial assets in order to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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

If the carrying amount of an asset exceeds its recoverable amount, an impairment loss (in the amount of the difference between these two values) is recognized in the statement of profit or loss. Impairment loss is reversed if there has been a change in the estimates previously used to determine the recoverable amount.

Impairment losses recognized in prior periods are assessed at each reporting date to identify any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized in prior years.

N. Deposits due to Banks and Subordinated Liabilities

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

Deposits, borrowings and subordinated liabilities are initially measured at fair value plus directly attributable transaction costs, except financial liabilities that are measured at fair value through income statement. After initial recognition, they are carried at amortized cost using the effective interest rate.

Deposits, borrowings and subordinated liabilities are initially recognized at fair value plus accrued transaction costs, other than financial liabilities that are measured at fair value through profit and loss. After initial recognition, they are carried at amortized cost using the effective interest rate.

O. Provisions

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The exception is the provision for litigation, which the Bank determines based on the amount of claims and the costs of litigation for which it assesses the outcomes (Note 33 A).

The Bank makes provisions for potential losses on potential liabilities, for potential outflows in litigation, for the payment of employees on the basis of severance package and other potential liabilities if they meet the conditions for recognition.

In order to maintain the best possible estimates, provisions are reviewed, determined and, if necessary, corrected at each reporting date. When outflow of economic benefits for settling a legal or enforceable obligation is no longer probable, it is cancelled for the benefit of revenue. The provisions are monitored by type and may be used only for expenditure for which they were originally recognized. Provisions are not recognized for future business losses.

P. Employee Benefits

Short-term employee benefits

The Bank's short-term employee benefits comprised taxes and mandatory social insurance contributions, benefits related to unused employees' vacations and bonuses.

Short-term employee benefits in the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period should be recognized as expenses in that period.

Accumulating compensated absences (annual leaves) may be carried forward and used in future periods if the current period's entitlement is not used in full. Expenses for compensated absences are recognized at the amount the Bank expects to pay as a result of the unused entitlement that has accumulated at the balance sheet date. In the case of non-accumulating compensated absences, an obligation or expense is recognized when the absences occur.

Defined contribution plans

In accordance with the regulations prevailing in the Republic of Serbia, the Bank has an obligation to pay contributions to various state social security funds. These obligations involve the payment of contributions on behalf of the employee and by the employer in an amount calculated by applying the specific, legally-prescribed rates. The Bank is also legally obligated to withhold contributions from gross salaries to employees, and on their behalf, to transfer the withheld portions directly to the appropriate government funds. These contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.
Defined post employment benefits

Other Bank's post-employment benefits comprised provisions for legally prescribed retirement benefits.

Pursuant to the Labour Law and Article 92 of the Bank's Rules of Procedure, the employees are entitled to retirement benefits in the amount of two salaries earned in the month preceding the month of retirement or in the amount or two average salaries paid in the Republic of Serbia according to the most recent published information of the Republic Statistical Office, whichever is more favourable for the vesting employee.

Details and assumptions for calculating provisions for employee benefits are provided under Note 29.

41. STANDARDS IN ISSUE NOT YET EFFECTIVE

At the time of the approval of the presented financial statements, the following standards and interpretations were in issue but will be applied in the future periods:

- Amendments to IAS 1 *Classification of Liabilities as Current or Non-current,* effective for annual periods beginning on or after January 1, 2023 - a general approach to the classification of liabilities in IAS 1 based on the agreed arrangements in place at the reporting date;
- Amendments to IFRS 17 effective for annual periods beginning on or after January 1, 2023 - the amendments are intended to assist companies in implementing the standard and make it easier for them to clarify their financial performance;
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* - optional with an indefinite effective date;
- Amendments to IAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*, effective for annual periods beginning on or after January 1, 2023 – the amendments clarify that the initial recognition exemption under IAS 12 does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition; and entity recognizes deferred tax for all temporary differences related to leases and decommissioning obligations, whereby each recognition of a deferred tax assets is subject to recoverability criteria under IAS 12.

The Bank's management is currently considering the impact of these standards and interpretations on the Bank's financial statements, as well as the effective dates.

Novi Sad, April 18, 2023

Signed on behalf of the management of 3 BANK a.d. Novi Sad by:

Vladimir Vukotić
Executive Board Chairperson and CEO

3Banka a.d.Novi Sad

Zorica Sedlar
Executive Board Member and CFO

Bulevar oslobođenja 2a | 21000 Novi Sad | Srbija
Tel: +381/21 530 111 | Fax: +381/21 4893 123 | www.3bank.rs

Annual Report on Business Operations

For the Year 2022

Klasifikacija:Interno

Bulevar oslobođenja 2a | 21000 Novi Sad | Srbija
Tel: +381/21 530 111 | Fax: +381/21 4893 123 | www.3bank.rs

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Introduction from the President of the Executive Board

In 2022, 3 Bank continued its growth and successful operations, balancing social and financial goals despite the challenges caused by the geopolitical and macroeconomic factors. In addition to good business results, we are nonetheless proud of the fact that the clients placed their trust in us, recognizing us as a reliable partner in the realization of personal and business goals, even in times of great economic uncertainty.

The loan portfolio grew by 22% and at the end of the year amounted to RSD 20.4 billion. The number of loan clients increased by 15%, so Bank finished the year with more than 75,000 loan clients.

The Bank retained first place on the market with the number of loans granted to agro households, along with strong growth in the entrepreneurial segment, while in the retail client segment the Bank recorded a slight increase in market share. At the end of 2022, the Bank's market share in the number of loans was 4.4%.

Client deposits also recorded targeted growth and reached the level of RSD 15.1billion at the end of the year.

As in previous years as well, the social performance of the Bank was in line with business performance. As many as 73% of clients were from rural areas, while the share of the so-called underbanked clients, or clients who have not had access to loans before, amounted to an excellent 41%. This indicates that we are sticking to our mission and strategy, which is to improve loan access for categories of clients for whom this access is difficult, in other words - financial inclusion.

In 2022, we continued with the digitization process and took the first step towards creating a digital offer for our clients. The first digital product that allows clients to realize a loan without ever coming to the Bank was implemented, thus raising the availability of financial services to an even higher level, especially for clients with the limited access to the said services. At the same time, we have laid an excellent foundation for the further development of digital products for different client segments.

After the successful change of the ownership structure and change of the Bank’s name, the rebranding process was completed with all Bank’s outlets proudly bearing the 3Bank logo, which symbolically depicts the three main goals of our activity: a positive impact on society, environment and the economic prosperity of the Bank and its employees.

The new shareholder structure, consisting of some of the most famous banks in the field of green lending in Europe, provided us with a new strategic direction which includes enriching the bank's offer with products that will have a positive impact on the environment and make a significant contribution to the "green transition" in the Republic of Serbia.

The said results were achieved thanks to the unreserved support of our shareholders, as well as the exceptional commitment and professionalism of our employees. On this occasion, on behalf of the Executive Board, I wish to thank them for their efforts, their willingness to further improve themselves and their commitment to developing a relationship of partnership and trust with our clients.

Vladimir Vukotić, the President of the Executive Board of 3 Bank

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Corporate management

Until November 19, 2020, the sole shareholder of Opportunity Bank JSC Novi Sad was Opportunity Transformation Investments, Inc. (OTI) a holding company founded in June 2000 with the primary goal of holding ownership shares in Opportunity International partner banks. OTI founded Opportunity Štedionica in Novi Sad in 2002 in order to provide financial services to micro and small entrepreneurs and support employment in the Republic of Serbia, and in 2007 was successfully transformed into a bank in accordance with permission from the National Bank of Serbia. On November 19, 2020, a transaction was conducted in which OTI sold 77.99% of Opportunity Bank shares to a consortium of investors. All investors, and now new shareholders, same as 3 Bank (the name of Bank was changed on 22 Nov 2021), are members of GABV - Global Alliance of Value Banks.

SHAREHOLDER STRUCTURE on DECEMBER 31, 2022

Shareholders	No. of shares	Nominal value RSD per share	Total amount in RSD	% of ownership
Opportunity Transformation Investments INC.,	5,941	60,000	356,460,000	19.99%
Umweltbank Aktiengesellschaft,	8,915	60,000	534,900,000	30.00%
GLS Gemeinschaftsbank EG	5,940	60,000	356,400,000	19.99%
Triodos SICAV II	4,161	60,000	249,660,000	14.00%
Legal Owner Triodos Funds b.v. / Triodos Fair Share Fund Nieuweroordweg 1	4,161	60,000	249,660,000	14.00%
Vladimir Vukotić	315	60,000	18,900,000	1.06%
Novak Rakočević	165	60,000	9,900,000	0.56%
Zorica Sedlar	75	60,000	4,500,000	0.25%
Rajko Maljković	45	60,000	2,700,000	0.15%

COMPOSITION OF THE BOARD OF DIRECTORS AS ON DECEMBER 31, 2022

FIRST AND LAST NAME	Represented by	Individual independent from the Bank	Finance experience
Andrew Pospielovsky	Independent	YES	More than 6 years
Frazer Hume	OTI	NO	More than 6 years
Zorica Stevanović	Independent	YES	More than 6 years
Jelena Bulatović	Independent	YES	More than 6 years
Georg Christoph von Carlowitz	GLS	NO	More than 6 years
Timotheus Gordinou de Gouberville Crijns	Triodos	NO	More than 6 years
Goran Bašić	Umweltbank	NO	More than 6 years

Klasifikacija:Interno

COMPOSITION OF THE EXECUTIVE BOARD AS ON DECEMBER 31, 2022

FIRST AND LAST NAME	Position	Finance experience
Vladimir Vukotić	President	More than 6 years
Zorica Sedlar	Member	More than 6 years
Brankica Kuveljić	Member	More than 6 years
Novak Rakočević	Member	More than 6 years
Rajko Maljković	Member	More than 6 years

Description of business activities

3 Bank provides loans and other financial services to entrepreneurs, micro and small enterprises, rural households and agricultural holdings in the Republic of Serbia, as well as other clients who have difficulties accessing financial services. Our products are intended for starting or developing business or agricultural production, creating new and maintaining existing jobs, and ultimately providing better lives for our clients and their families, and we are especially dedicated to the development of local communities in smaller rural districts, away from cities, where financial services are not easily accessible but are extremely needed.

We want to become a leader in providing financial services to small enterprises, entrepreneurs and small farms in the Republic of Serbia, and we do this through support to private entrepreneurship and opening up new opportunities for the unemployed and economically vulnerable in Serbia.

Since its establishment and until the end of 2022, 3 Bank has disbursed 347,834 loans in Serbia in the amount of over EUR 960 million, opened up 64,657 new jobs, and helped maintain 321,499 existing jobs.

At the end of 2022, 3 Bank had:

- A loan portfolio in the amount of RSD 20,4 billion and RSD 15,1 billion in savings
- 623 employees in 38 business units including the Head Office

Human resources

At the end of 2021, 3 Bank had 503 employees. An equal representation of men (234) and women (269), with an average age of employees being 34. The Bank's Human Resources Department organizes regular employee trainings, both internal and external. The strategic goal in the field of human resources for 2021 was to provide psychological security in the workplace.

Number of employees:

	Number		Number
Executive Board	5	Managers of mini regions	8
Higher management	5	Branches and credit offices managers	37
Middle management	42	Employees	526
TOTAL			**623**

Klasifikacija:**Interno**

Banking operations results

Lending to farmers

Since its establishment in Serbia in 2002, 3 Bank strongly supports the development and operations of registered agricultural holdings, regardless of whether they are commercial or non-commercial.

From the very beginning of its operations in Serbia, a very important target group for 3 Bank are clients who live and work in rural areas, are engaged in agricultural production, and this is their only or additional source of income.

The goal of 3 Bank is to support the development of rural areas and local communities, thereby implementing our mission, which is self-employment - opening new jobs, creating opportunities for starting your own micro and small production, or increasing and modernizing intensive agricultural production.

In 2022, 25% more loans were disbursed in volume and 3% in number than in the previous year, while at the same time the loan portfolio increased by 17% compared to 2021.

Lending to entrepreneurs and small businesses

Business loans approved by 3 Bank are intended for all registered entrepreneurs and private companies in Serbia.

Loans are granted for business activities from the production, services and trade sectors, and our goal is to stimulate the development of entrepreneurship and thus contribute to creating new jobs and reducing unemployment.

At 3 Bank, loan support to the business sector is complete, from empowering small business ideas for beginners, through providing support and improvements to entrepreneurial ventures, regardless of the size of the project or the size of the company, to the care of the small and large needs of the business sector for overcome numerous current or investment problems.

In 2022, 29% more loans were realized than during the previous year, while the loan portfolio grew by 35% compared to 2021, with a keeping the high quality of the portfolio.

Lending to pensioners and employees

As during previous years, the Bank has focused its attention on creating specific retail products and services in order to reach even more clients with difficulties accessing financial services, especially those in rural areas of Serbia and with low incomes as a target group of the 3 Bank.

Loans for pensioners and employees allow a wide range of people with limited excess to financing to use our products and thus improve the standard of living of their households and family members.

In 2022, 52% more loans in number were disbursed than in the previous year, leading to the loan portfolio growth of 15% compared to 2021.

Klasifikacija:Interno

Deposit operations

The Bank's deposit strategy for 2021 was based on providing a framework for achieving and maintaining an adequate level of stable deposits and increasing the average interest rate for deposit products in accordance with benchmark rate movements.

On December 31, 2022, the Bank recorded 18% annual growth of deposits and had at its disposal RSD 15,1 billion, 85% of which were deposits from private individuals.

The average nominal interest rate on RSD deposits increased by 119 bps while the rise of EUR deposits amounted to 50 bps. The balance of irrevocable deposits legal entities recorded growth of 4%.

Long-term deposits accounted for 33% of total deposits in the maturity structure of EUR-denominated savings deposits which is a decrease by 3 p.p., while in the structure of RSD deposits, long-term deposits had a share of 52% of total deposits and recorded a increase of 3 p.p. In the currency structure, 50% are RSD deposits.

Balance sheet

in RSD 000

BALANCE SHEET	31-Dec-22	31-Dec-21	% change
Cash	3,445,787	2,255,148	52.8%
Derivative receivables	0	0	0.0%
Loans and receivables	22,453,720	18,501,741	21.4%
Fixed assets	889,352	746,276	19.2%
Other assets	104,265	200,382	-48.0%
Total assets	**26,893,124**	**21,703,547**	**23.9%**
Deposits and other liabilities	20,446,324	15,708,934	30.2%
Subordinated liabilities	1,186,884	1,185,456	0.1%
Other liabilities	595,050	555,845	7.1%
Equity	4,664,866	4,253,312	9.7%
Total liabilities	**26,893,124**	**21,703,547**	**23.9%**

In 2022, the Bank's balance sheet assets increased by RSD 5,19 billion or 23,9% compared to the previous year.

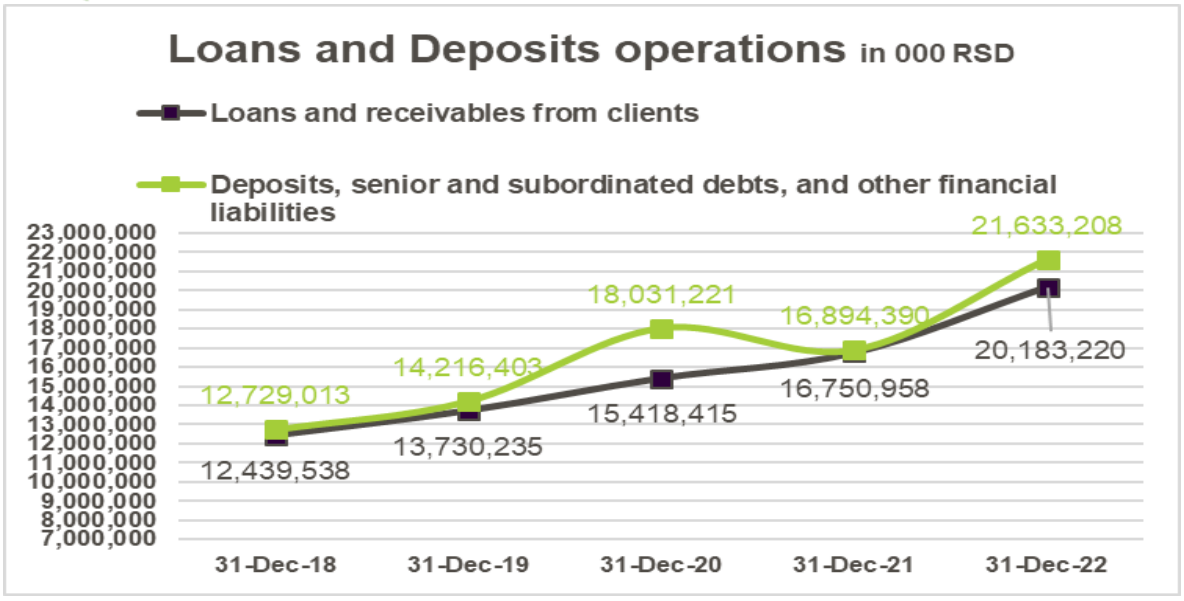
Loans and receivables from clients and banks increased by RSD 4 billion, i.e. 21%. As on December 31, 2022, total placements amounted to RSD 22,5 billion, which makes 83% of total balance sheet assets.

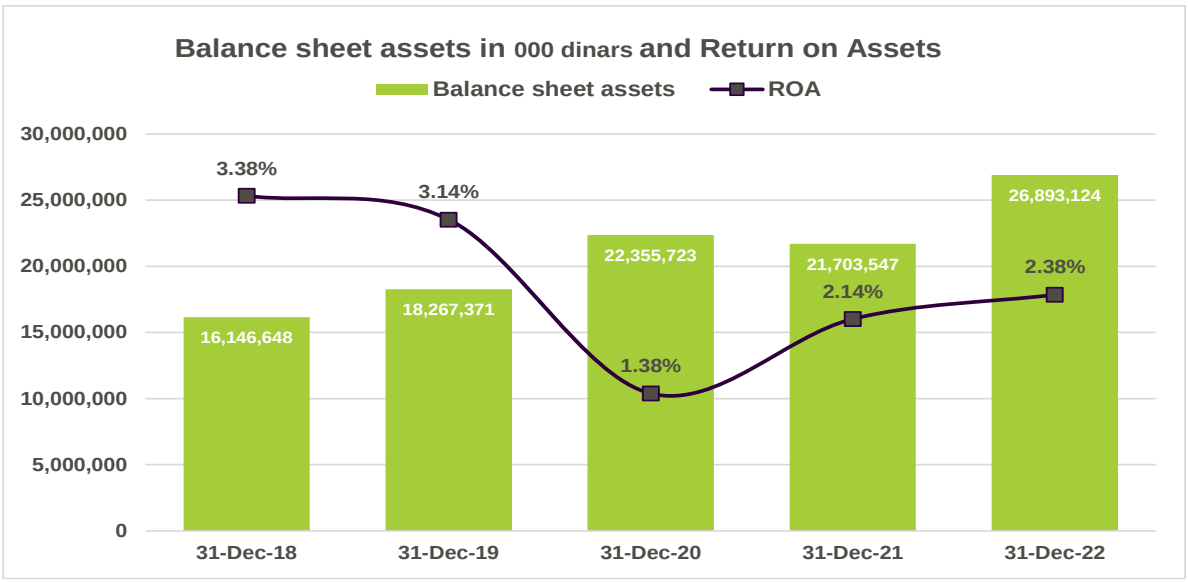
Client deposits amounted to RSD 15,1 billion, which makes 56% of total balance sheet liabilities. In 2022, client deposits increased by RSD 2,3 billion or 18%.

The balance of loans received at the end of the year amounted to RSD 5 billion and was 92%, or RSD 2,4 billion, higher compared to the previous year.

Subordinated liabilities did not change compared to previous year, the balance of the subordinated loan principal amount was RSD 1.2 billion at the end of 2022.

Klasifikacija:Interno





Looking at the five-year period 2018-2022, balance sheet assets recorded growth except in 2021 due to the optimization of the high level of liquid assets, which was the result of a strategic decision by the Bank's management. When it comes to the movement of return on assets, ROA decreased in 2019 compared to 2018 due to relatively higher growth in assets (14%) than profit. A further decline in ROA in 2020 is a consequence of the drop in profits due to the events caused by the Covid pandemic.

From 2021, the increase in profit exceeds the increase in average balance sheet assets, primarily in 2021, when profit grows by 67% compared to the increase in average balance sheet assets (8%), while in 2022 compared to 2021, profit increases by 23%, and average balance sheet assets by 10%. All of the above affects the increase in yield on assets. The dynamic profit growth was mostly influenced by the growing financial margin in 2021 and 2022 (18% and 20% respectively) with the decreasing trend of operating expenses growth (21% and 13% respectively)

Klasifikacija:Interno

Income Statement

in RSD 000

INCOME STATEMENT	31-Dec-22	31-Dec-21	% change
Interest income	3,545,275	3,079,062	15.1%
Interest expenses	(627,890)	(609,228)	3.1%
Net interest income	**2,917,385**	**2,469,834**	**18.1%**
Revenue from fees and commissions	70,659	50,021	41.3%
Expenses from fees and commissions	(36,836)	(45,335)	-18.7%
Net income from fees and commissions	**33,823**	**4,686**	**621.8%**
Net gain / loss on change in fair value	0	(63)	-100%
Net income/expense from exchange differences	60	(1,707)	-103.5%
Net income/expense from impairment of financial assets not valued at fair value through profit and loss	(217,795)	(77,280)	181.8%
Other operating revenue	211	596	-64.6%
Costs of salaries, fringe benefits and other personal expenses	(1,176,625)	(964,048)	22.1%
Depreciation costs	(118,440)	(105,666)	12.1%
Other income	19,888	10,774	84.6%
Other expenses	(880,234)	(866,680)	1.6%
PRE-TAX PROFIT	**578,273**	**470,446**	**22.9%**
Income tax	(89,864)	(82,415)	9.0%
Deferred tax profit/loss	6,629	12,356	153.7%
AFTER-TAX PROFIT	**495,038**	**400,387**	**23.6%**

Basic performance indicators

In 2022, interest income recorded an increase of 15.1%, while interest expense increased by 3.1%.

Profit after tax was RSD 495 million and increased by 23.6% compared to the previous year.

Return on equity of 12.95% was achieved. A stable return on equity, especially in the circumstances of the global economic crisis, is the result of the Bank's clear strategy in terms of market segmentation, an active approach to clients, fostering the principle of availability, speed and the full engagement of all employees.

Equity

At the end of 2022, the Bank’s regulatory capital amounted to RSD 4,512 million. Total growth, compared to the previous year, was RSD 228 million.

The dominant influence on the growth of regulatory capital, in the amount of RSD 299 million, derives from taxable profit which was, on the basis of a Decision of the Bank's Assembly, allocated to the position of profit reserves within initial capital. Based on the Decision of the Bank's Assembly dated April 27, 2022. for

the first time, shareholders were paid a dividend in the amount of RSD 136 million, which was made up of undistributed profit from 2020 and 25% of profit after taxation from 2021.

In structure of deductible items from capital, the total amount of deductible items decreased by RSD 22 million.

Amount of share capital remained unchanged compared to the previous year.

Supplementary capital decreased by RSD 142 million due to depreciation of subordinated liabilities included in equity.

Changes in regulatory capital during the period from 2021 to 2022:

in RSD million

POSITION	2022	2021	Change
TIER 1	**3,916**	**3,546**	10%
CET1 (Common Equity TIER1)	**3,916**	**3,546**	**10%**
Share capital	1,865	1,865	0%
Revaluation reserves	168	106	60%
Reserves from profit	2,147	1,846	16%
Other intangible assets - net	(209)	(194)	8%
Deducuctable items from Capital	(55)	(77)	-29%
Supplementary capital	**596**	**738**	**-19%**
Subordinated liabilities	596	738	-19%
TOTAL REGULATORY CAPITAL	**4,512**	**4,284**	**5%**

Risk management policies

The Bank's risk management system is defined as a continuous process of identifying and assessing risks as well as levels of risk exposure to certain business functions of the Bank, determining and reviewing limits, monitoring and controlling the Bank’s overall exposure to business risks.

Maintaining identified business risks within defined limits is the main goal of the risk management system that has been established.

The basic principles of risk management policy as well as the limits of exposure to business risks have been defined in individual business policy decisions and other acts adopted by the Bank, based on the consideration of external and internal factors and limitations, i.e., the current position of the Bank, expected market trends, historical data, available human resources, information and technological resources.

The current risk management strategy ensures uniform and consistent risk management on a long-term basis and determines the bank's attitude towards all risks to which it is exposed or may be exposed.

Risk Management Policy defines the organization, objectives and tasks, as well as a unified management and supervision system over all current and potential risks the Bank is exposed to during its operations, with the aim of reducing them to an acceptable level while respecting the principle of stability, security, liquidity and profitability, and compliance with applicable statutory regulations and the Bank's internal acts.

The Bank's Risk Management Policy governs:

- defining the responsibilities and competencies for monitoring, measuring and managing risks,
- defining unified procedures, methodology and other acts for the identification, monitoring and control of all risk types,
- defining the limitations of the Bank's exposure to certain types of risks.

The objective of risk management is to identify, assess, measure and control exposure to liquidity, credit, market, operational and other risks, in order to effectively manage the exposure position towards the same, in order to achieve budgeted financial results and increase the economic and market value of the Bank's assets and equity, *i.e.*, achieving its strategic goals in accordance with the Bank's Business Policy.

In order to achieve the stated objective, the Bank provides fulfillment following presumptions, such as: engagement of the Bank's management, carefully prepared policies and procedures, adequate human resources, reliable technologies, high level of data integrity, and the general existence of awareness and risk approach culture adhered to by all Bank employees.

Credit risk management is based on a detailed analysis of the debtor's creditworthiness, the debtor's regularity in settling prior obligations towards the Bank, and an assessment of the quality of collateral. Credit analysis consists of a quantitative and qualitative segment and includes a consideration of the debtor's character, management's expertise, invested equity, debtor's liquidity and profitability, the debtor's cash flows realized in the past period and expected future flows and general business terms and conditions.

Calculation of credit losses is fully implemented in accordance with MSFI 9 standard. The Bank has identified and documented key credit risk and credit loss drivers for each financial instrument portfolio and, taking into account historical data analysis, statistically assesses the relationship between macroeconomic variables and credit risk and credit losses. All financial instruments for which value adjustments are made are classified into one of the levels, namely 1, 2 or 3, depending on the quality of the instrument itself. The level of credit risk for each exposure is determined on the basis of different qualitative and quantitative factors that are defined to predict the risk of the non-performance of obligations based on an experiential credit assessment and available information about the client. Exposures are subject to continuous monitoring, which it is estimated whether there has been a significant increase in credit risk, which may result in a transfer to the second risk level.

The Bank is considering evidence of impairment of financial assets on an individual and group level. All individually significant loans, receivables and financial assets valued at amortized cost are estimated on an individual basis, as well as individually significant receivables with arrears of less than 90 days but exhibiting elements of impairment whereby the impact of the following events is estimated: blocked accounts, significant drop in capital and operating income between two periods, negative indicator of the debt servicing level, restructuring in the last two years, deletion from the Business Registers Agency, bankruptcy/liquidation, information indicating reduced creditworthiness as a result of monitoring.

For an investment with objective proof of impairment, the Bank estimates possible realistic sources of collection through an individual assessment. Future recoverability of receivables can be provided from operating cash flows, partially or totally by the activation and realization of collateral, or irrecoverable. For the purposes of group assessment, investments are grouped in homogeneous groups in terms of credit risk in accordance with the Bank's internal methodology. Formation of the value adjustment for homogeneous groups of investments is based on available historical data on losses and taking into account the flows that will certainly result from the realization of collateral.

Credit risk mitigation is also achieved through portfolio diversification. Bank loan clients operate within a wide range of sectors and their exposure to fluctuations on the global market is limited. In addition, the majority of the Bank's credit exposure is in a relatively small amount.

In 2022, the development of a statistical scoring model was completed, which will ensure the prediction of non-performing credit obligations of the Bank clients. It is expected that this model is a cost-effective tool for approving credit products and significantly contribute to the implementation of credit risk management processes and systems at the level of the overall portfolio. The development of an adequate credit risk rating model provides the Bank to take into consideration potential losses that may arise from loans to customers that cannot, or for which it is not cost efficient to be analyzed at the individual level, and contribute to the optimization of lending and minimizing the ratio of risk to profit. The internal rating models for all client segments are incorporated into the impairment methodology in accordance with IFRS 9 and PD parameters based on migration matrices between rating classes were applied on 12/31/2022.

Liquidity risk management is based on:

- Ensuring the stability and diversification of financing sources, *i.e.*, harmonization of maturity of sources with maturity of investments.
- Preventing temporary or long-term events that may result in a significant reduction in liquidity.
- Development and periodical testing of the business plan, in the event of a liquidity crisis with an assessment of its efficiency and adequacy.

The Bank manages assets and liabilities from the point of view of financial flows, cash flows and the dispersion of the maturity of assets and liabilities, with the aim of adjusting the Bank's cash inflows and outflows while considering ongoing changes in economic, political, legal and other business conditions.

The Bank's risk profile in terms of liquidity risk is determined by the level of risk that the Bank is ready to assume in accordance with the defined appetites and the principles of liquidity risk management.

Liquidity risk identification is carried out by identifying the causes that lead to liquidity risk and identifying current and future liquidity risk exposure, as well as exposure to liquidity risk by introducing new products, *i.e.*, new business activities, and implies an analysis of the balance and changes in balance sheet assets, liabilities and off-balance sheet items, within the meaning of:

- Estimates of the viability of positions of assets of different liquidity levels,
- Reviewing the structure and the number of sources necessary for financing assets, analyzing the maturity structure of assets and the stability of deposits without defined maturity,
- Determining potential outflows of liquid assets based on the activation of off-balance sheet items.

In addition to regulatory, the Bank has an established system of internal limits for certain liquidity indicators.

The Bank identifies, monitors and assesses liquidity risk by applying a gap analysis that involves measuring the difference between expected inflows and outflows over a certain period of time and monitoring defined liquidity ratios.

During 2022, the level of liquidity increased, while the structure of resources remained diversified. All indicators, both regulatory and internal, were above the set limits at all times. Conducted liquidity stress tests indicated the Bank's good ability to overcome possible difficulties in obtaining resources, which was confirmed by the fact that the events related to the multidimensional world crisis, which is also transmitted to Serbia had no significant impact on the liquidity of the Bank.

Interest rate risk management is based on:

- regulations and methodologies set by the National Bank of Serbia and internal methodologies,
- limits for the interest rate risk set at a level where the Bank will not have significant losses due to interest rate variations.

The Bank's risk profile in terms of interest rate risk is determined by the level of risk that the Bank is ready to assume in accordance with the defined goals and the principles of interest rate management. The Bank has defined a set of interest rate risk indicators and established a system of internal limits for individual interest rate risk indicators and processes for monitoring established indicators and limits.

Interest rate risk assessment is carried out using quantitative and qualitative techniques and includes the measurement and limitation of open interest rate positions by currency (total and individual) in relation to applicable regulations and adopted limits, as well as the measurement of volume of potential losses in the event of a significant change in interest rates by using a gap analysis, stress tests and simulation of changes in the open positions, and interest rate movements over a certain period of time, as well as monitoring defined interest rate risk indicators.

The Bank manages various types of interest rate risk in the banking book given the fact that the Bank has no positions in the Trading book:

- the risk of time mismatch in maturity and repricing (repricing risk);
- yield curve risk, to which it is exposed due to a change in the yield curve;
- basis risk, to which it is exposed due to different reference interest rates in interest sensitive positions with similar characteristics in terms of maturity or re-pricing;
- optionality risk, to which it is exposed due to contractual provisions regarding interest-sensitive positions (loans with the possibility of early repayment, deposits with the possibility of early term deposit cancellation, *etc.*)

The Bank regularly conducts stress tests, *i.e.*, sensitivity analysis and scenario analysis based on various assumptions, including operations under extraordinary conditions, which assess the effects of changed, one or more, risk factors on the capital and the financial result of the Bank in clearly identified emergencies (stress conditions).

Over the past year, the Bank has maintained the maturity matching of interest rate risk positions and thus kept its exposure to this risk within its appetite despite environmental factors that worked to increase interest rate risk. All indicators of this risk are within the defined internal limits.

Foreign exchange risk management is based on:

- the management of the Bank's foreign exchange currency risk is in compliance with limitations set by the National Bank of Serbia and the limits set by the Bank itself, taking care that the profitability of the Bank is not compromised.
- the foreign exchange currency risk limits that are determined at a level where the Bank will not have significant losses due to movements of foreign currencies in relation to the dinar.

The Bank performs the identification of foreign exchange currency risk exposure by determining its open FX positions in specific currencies, as well as a total for all currencies in which the Bank operates. The Bank defines a set of foreign exchange indicators and establishes a system of internal limits for individual foreign exchange risk indicators and the processes for monitoring established indicators and limits.

Foreign exchange risk assessment is carried out using quantitative and qualitative techniques and includes the daily measurement and limitation of open positions by currency (total and individual) in relation to

applicable regulations and adopted limits, as well as the measurement of the potential size of potential losses in the event of a significant change in currency.

Identification, monitoring and assessment of foreign exchange risk is carried out using a gap analysis, stress tests and simulation of changes in an open position, and foreign exchange movements over a certain period of time, as well as monitoring defined foreign exchange risk indicators.

The Bank regularly conducts stress tests, *i.e.*, sensitivity analysis and scenario analysis based on various assumptions, including operations under extraordinary conditions, which assess the effects of changed, one or more, risk factors on the capital and the financial result of the Bank in clearly identified emergencies (stress conditions).

During 2022, the exposure to foreign exchange risk was significantly below the level prescribed by the regulator, and it was constantly below the internal, stricter limits. The limits for open positions and foreign exchange VaR were also respected at all times.

Business risk indicators	Limit	31-Dec-22	31-Dec-21	31-Dec-20	31-Dec-19	31-Dec-18
Liquidity indicator	Min 0.8	**3.98**	3.60	5.83	4.61	5.29
Foreign exchange risk indicator	Max 20	**1.08**	0.88	0.08	0.76	0.41
Capital adequacy indicator	Min 9.90	**22.91**	25.48	26.65	26.60	21.62
Problematic loans		**3.22**	2.42	1.64	2.00	1.94

Assessment of risk management efficiency

The Audit Department performs an independent evaluation of the risk management system and performs a regular assessment of the adequacy, reliability and efficiency of the Bank's internal control system.

In line with the Annual Plan for 2022, regular audits of risk of money laundering and terrorist financing and complaints of financial service consumers, as well as disclosure of the bank's information and data were conducted. In addition to the above areas, there have been regular audits of ICAAP, information technology, SWIFT security controls, credit process, cash and till operations, the organizational unit responsible for non-performing assets management, Compliance department and audit of the form on the status and structure of the Bank's bookkeeping accounts. The Audit Department, in its reports, defined recommendations for all findings on identified weaknesses in the internal control systems, while managers in charge of the audited areas defined action plans for the elimination of identified irregularities, the action plan owners and the deadlines for removing irregularities. Internal auditors assessed the adequacy, effectiveness and timeliness of the activities undertaken by management in relation to irregularities and the recommendations of the Audit Department.

The assessment of the Internal Audit Department is that an effective internal control system has been established for these risks, as it, to a large extent, allows for the timely detection and continuous monitoring of risks to which the Bank is exposed in its operations. The Bank's Audit Committee and the Board of Directors were regularly informed of audit results.

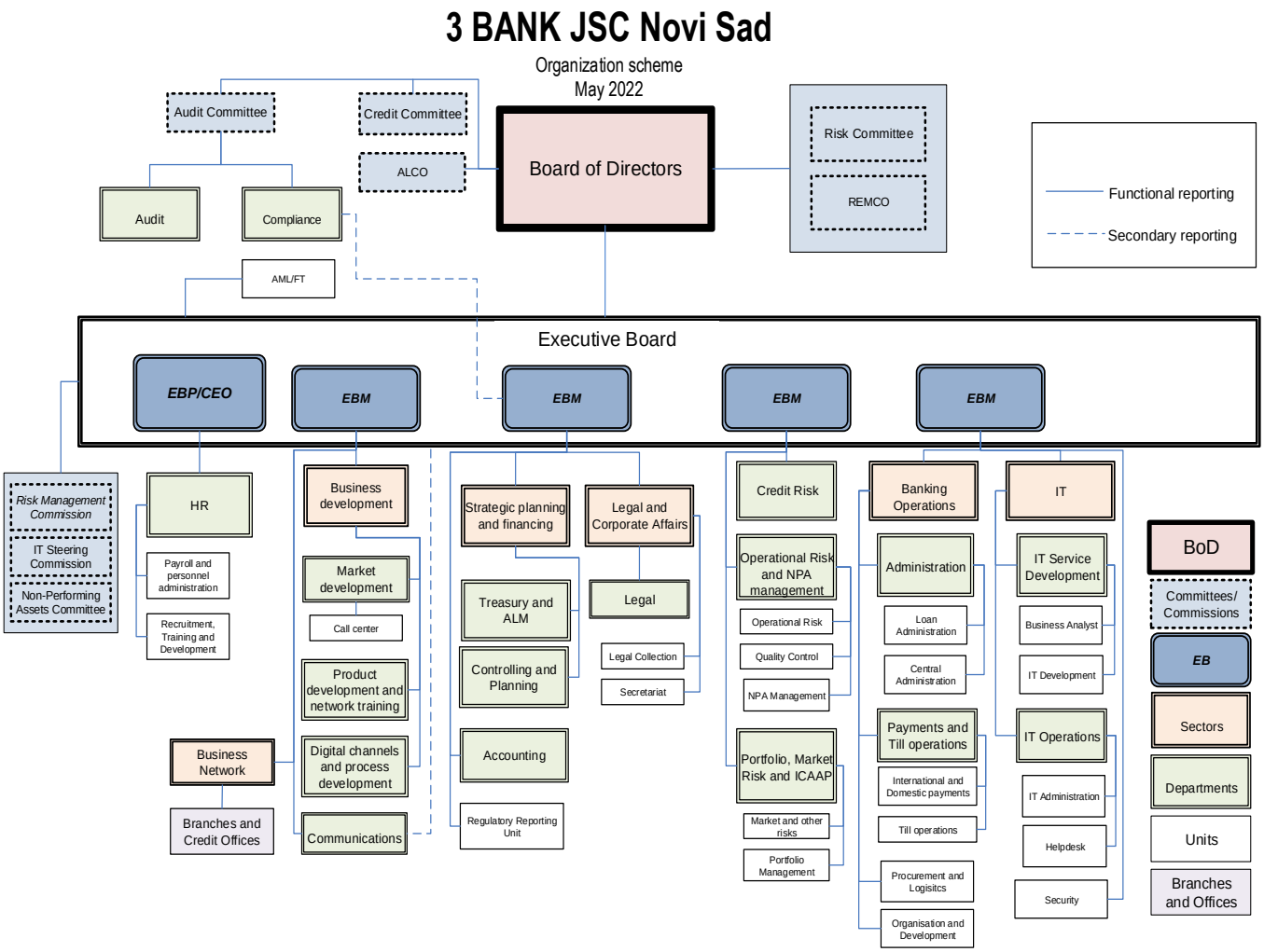
Future development of the Bank

An accent in the coming years will be placed on:

- Continuation of sustainable growth in business, agriculture and population with increased market share in clearly defined segments;
- Continuation of digitalization of business activities with a focus on digital products and services aimed at customers;
- Increasing operational efficiency, improving the process and speed of service, in order to efficiently manage a large number of clients who do not have easy access to financial services;
- Increased activities to diversify sources of funding as a prerequisite for ensuring long-term stable growth;
- The development of innovative savings products that will enable savings to client, with smaller cash amounts, both in the RSD and the EUR.

Bulevar oslobođenja 2a | 21000 Novi Sad | Srbija
Tel: +381/21 530 111 | Fax: +381/21 4893 123 | www.3bank.rs

Organizational structure



Address of branches and credit offices

No.	Name	Address	Legal representative
1	Branch Novi Sad	Bulevar oslobođenja 2a	Nikola Tanasić
2	Branch Beograd	Jurija Gagarina 30g	Tanja Nedović
3	Branch Niš	Cara Dušana 86	Milica Savić
4	Branch Kragujevac	Nikole Pašića 9	Boris Nešovanović
5	Credit office Aleksinac	Vojske Jugoslavije 1	Marko Nikolić
6	Credit office Bačka Palanka	Žarka Zrenjanina 94	Boris Sakač
7	Credit office Čačak	Devet Jugovića 23	Đorđe Gojković
8	Credit office Ivanjica	13. Septembra 24	Milan Milivojević
9	Credit office Jagodina	Kralja Petra 1 lokal 3	Slađan Radosavljević
10	Credit office Kikinda	Svetosavska 110	Tamara Nanić
11	Credit office Kraljevo	Kralja Petra 2/7	Jelena Vukićević

Klasifikacija:Interno

12	Credit office Kruševac	Trg Kosturnica 2	Goran Jovković
13	Credit office Leskovac	Masarikov trg 21, lokal 4	Mladen Veljković
14	Credit office Loznica	Patrijarha Pavla 4	Goran Vesović
15	Credit office Novi Pazar	Stane Bačanin bb	Emir Veljović
16	Credit office Obrenovac	Vuka Karadžića 26	Dragana Kojić
17	Credit office Pančevo	Braće Jovanovića 40	Marko Ljubojević
18	Credit office Pirot	Ćirila i Metodija 3	Božidar Nikolić
19	Credit office Požarevac	Kosovska 14	Kristijan Ilić
20	Credit office Prijepolje	Vladimira Perića Valtera bb	Aleksandra Bukvić
21	Credit office Prokuplje	9. Oktobra 24	Tijana Jovanović
22	Credit office Šabac	Kralja Milutina 22 B	Mirko Jovanović
23	Credit office Sombor	Arsenija Čarnojevića 10	Marko Vučković
24	Credit office Sremska Mitrovica	Masarikova 9	Aleksandar Jeremić
25	Credit office Stara Pazova	Ćirila i Metodija 23	Željko Novaković
26	Credit office Subotica	Matije Gubca 9a	Darko Marić
27	Credit office Topola	Vožda Karađorđa 76	Marko Ivković
28	Credit office Užice	Kneza Lazara 27	Aleksandar Jordović
29	Credit office Valjevo	Karađorđeva 153	Katarina Rašević
30	Credit office Velika Plana	Svetosavska 11	Ljubomir Božović
31	Credit office Vranje	Dunavska 5	Sanja Stamenković
32	Credit office Zaječar	Nikole Pašića 71	Smiljana Mihajlović
33	Credit office Zrenjanin	Jug Bogdana 4	Nina Alavanja
34	Credit office Smederevo	Đure Jakšića 6	Ivana Romanov
35	Credit office Vrbas	Maršala Tita 51	Marko Vučković
36	Credit office Mladenovac	Kralja Aleksandra Obrenovića 81	Nikola Milić
37	Credit office Bajina Bašta	Kneza Milana Obrenovića 25G	Dušan Drndarević
38	Credit office Paraćin	Tome Živanovića 20	Marina Jovković

Nonfinancial report

The business model

The Bank specializes in providing loans and other financial services to entrepreneurs, micro and small businesses, rural and agricultural households in the Republic of Serbia, as well as to other clients who has limited access to financial services. In addition, the Bank provides access to financing to employed persons, regardless of the type of employment contract, and has additionally enabled the realization of loans for those persons via digital platform.

The Bank's activities are aimed at increasing the number of clients through financial inclusion, improving the quality of products and services, as well as negotiating an innovative business model in order to ensure the Bank's successful results expressed in financial indicators and qualitative risk management.

Klasifikacija:Interno

The Bank provides clients with financial products tailored to their specific needs with the best possible quality of services and continuous contribution to the development and economic prosperity of the community, and in proportionally to the results achieved, the living standards of our employees grow as well.

The bank collects funds through deposit products of an educational nature, fostering the principle of the importance of small depositors through a price policy.

An adequate relationship with investors enables the Bank to ensure further strengthening of capital in the medium term (through capitalization or taking subordinated loans) and other sources of financing, primarily from the Bank's shareholders and international financial institutions.

The Mission of 3 Bank is to provide financial services to all those who make a positive economic, social and environmental impact, with special focus on clients who have difficulty in accessing such services.

The concept of sustainable banking is based on the principle of achieving growth and profit but in line with the achievement of social and environmental goals. We have included these principles in our strategic goals. Our goal is not just making profit, in addition to that we also want to make a positive impact on people, the community and the environment. 3 Bank implements its activities in a way that keeps all three goals in balance and the achievement of one goal must not jeopardize the other two.

3 Bank is a member of the Global Alliance for Banking on Values (GABV http://www.gabv.org/). Over sixty GABV members from around the world work with a common goal: achieving sustainable economic and social development, with special emphasis on preserving the environment and supporting individuals to realize their potential, thus strengthening the communities in which they live and work.

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Community impact

During 2023, the bank continued to conduct online educational activities for its clients and all citizens of the Republic of Serbia.

Agro EaSI education - Blog for farmers

During 2021, 3 Bank launched a blog that provides educational content for farmers. The content is completely free and introduces farmers to a full range of topics that contribute to the successful management of their households and the improvement of household related activities.

Education on sustainable development

During 2021, through official profiles on social media and articles on the its website, the bank began to educate citizens about the importance of environmental protection and the ways in which we as individuals can contribute to it. Through educational articles, photographs, infographics, sharing related news, we try to make the topic of sustainable development as relevant as possible for each individual and contribute to raising awareness of the goals of sustainable development.

Sustainable Development Goals (SDG) Management

The Sustainable Development Goals are a universal call to action to eradicate poverty, protect the environment and ensure peace and prosperity for all as part of a new UN global plan for sustainable development.

To support the achievement of sustainable development goals, 3 Bank focuses its activities and impact on the following five Sustainable Development Goals:

1. No poverty

First UN Sustainability goal is to end poverty in all its forms everywhere. In line with this goal, the bank provides support to rural clients, clients with difficult access to banking services and low-income clients.

AIM	SDG - KPI`s	Unit	Jan-December 2022
	Loans to rural clients*	%	75 %
	Loans to underbanked clients**	%	40%
	Loans to low income clients***	%	35%

In accordance with the introduction of new products, intended for new segments of clients with limited access to financial services, 3Bank has defined new KPIs for 2023. The goal is that 65% of the portfolio consists of clients living in rural areas, and 35% clients with difficult access to financial resources.

* Credit clients of 3 Bank are categorized as "rural" if they have an address outside the cities (the definition of the city is in line with the Law on Territorial Organization of the Republic of Serbia).

** The share of these so-called "Underbanked" clients in monthly loan payments are measured as the percentage of credit clients who do not have previous loans recorded in the Credit Bureau. This share is measured only for clients who take their first loan in 3 Bank.

*** The Bank applies an internal methodology for measuring the share of clients with lower than average incomes in the Republic of Serbia, which is in line with the Household Budget Survey conducted quarterly by the Statistical Office of the Republic of Serbia.

2. Zero hunger

The zero hunger goal aims to end world hunger, achieve food security and improved nutrition and promote sustainable agriculture. In line with this goal, the Bank finances agricultural households and agricultural production, thus helping to diversify the food market and food availability.

AIM	SDG - KPI`s	Unit	Jan-December 2022
	Loans to agro clients	%	39%

3. Decent work and economic growth

This goal aims to promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. The Bank finances start-up entrepreneurs, micro SMEs and agricultural households, which together with regular loans also leads to the growth of clients.

AIM	SDG - KPI`s	Unit	Jan-December 2022
	Loans to business clients	%	38%
	New jobs created	%	6,161

4. Responsible consumption and production

The goal of responsible consumption and production aims to ensure sustainable patterns of consumption and production. The Bank has adopted the principles of reducing the overall internal impact on the environment, reducing energy consumption (and the use of green electricity), paper, waste and reducing the CO2 footprint.

AIM	SDG - KPI`s	Unit	Jan-December 2022
	Climate impact intensity	tCO2/ FTE	2.55

5. Climate action

The climate action goal aims on take urgent action to combat climate change and its impacts. The Bank integrates environmental issues with social, cultural and economic aspects. In the lending process, we take into account aspects of environmental protection. The Bank uses a list of exclusions, measures the impact of the portfolio according to the PCAF standard as well as GABV scores and reports in accordance with GRI principles. The bank is one of the signatories of the GABV 3C Carbon initiative.

During 2022, 3 Bank issued their new PCAF and GRI reports.

Regular reporting of SDG goals is done on a monthly basis for the bank's management and on a quarterly basis for the bank's Board of Directors.

Investments in environmental protection

Through its Sustainable Development Goals Policy, the Bank seeks to ensure that its business activities encourage sustainable development, taking care of the environment. The Bank seeks to ensure that the business projects it finances do not have negative environmental impacts, *i.e.*, that they are designed to be

conducted with the control of their environmental impact and in accordance with the applicable statutory framework of the Republic of Serbia. In addition, the term "environment" is used in the broadest sense which includes not only environmental aspects but also the protection of employees and issues related to local communities, *i.e.*, social issues.

The Bank launched a project aimed to optimize the process in a way that contributes to reducing the volume of printing. In 2022, the volume of printing in 3Bank decreased by 12%. Along with the optimization of the process, the education of employees using internal communication tools was launched, in order to improve their knowledge about document management, without unnecessary printing.

During the Rebranding project, all illuminated advertising boxes were replaced with new, LED boxes, significantly reducing electricity consumption.

Hazardous and non-hazardous waste is submitted for recycling and destruction, with full implementation of the Law on Waste Management.

In order to protect the environment, the Bank is working on the development of products and services that will meet environmental goals, as well as those related to social impact and prosperity through:

- further increase of employee awareness about environmental risks in the lending process;
- improving reporting and measurement
- s in relation to the Bank's impact on the environment;
- implementing positive measures to reduce CO2 emissions, conserve energy, reduce material consumption such as paper and recycle waste.

Within its own activities and business processes, the Bank constantly strives to reduce the negative environmental impacts of its activities, such as:

- care about the occupational health and safety of its employees,
- publication of information and data on environmental impact, on the Bank's website and internal magazine in order to increase employee awareness of the environmental impact,
- start reporting on the environmental impact of the loan portfolio in accordance with PCAF standards,
- improving the Bank's energy efficiency class during the design and adaptation of business premises through the use of new materials and a movement towards the use of renewable energy sources,
- enabling the classification of waste within all business premises it uses.

The Bank is dedicated to monitoring the impact that Bank and loan users have on the environment, as well as facilitating dialog with stakeholders.

Social and personnel issues

Management of human resources

The term human resources i.e. human potential refers to all employees of the Bank and implies their knowledge, skills, creative abilities, motivation and commitment that they invest in order to improve both business operations and personal competency, while adhering to the Mission and Values of the Bank.

A Shared Responsibility

Meaningful, professional, dignified and inspiring management of the Bank's employees is the task of managers at all levels, as well as the Human Resources Department.

Line managers have the primary responsibility to ensure psychologically safe work environment where employees will feel appreciated and where the support and setting will be provided for them to express their full potential and commitment to the success of the Bank.

The Mission of Human Resource Department is to provide partner support and development along with professional guidance to managers aiming to deliver business results by optimizing the performance of our people and ensuring good working conditions.

The Human Resource Department Vision is to for the Bank to differentiate itself with good HR practices as an employer of choice on the labor market.

Selection and Recruitment

Long term success of the Bank depends on its capacity to attract, retain and professionally develop employees and this is the primary responsibility of all managers.

The main criteria for hiring employees are their knowledge, skills, attitude and personal values, regardless of race, gender, nationality, social origin, birth, and religion, political or other beliefs, financial status, culture, language, age and mental or physical disability.

Learning and Development

Employees at all levels are encouraged to continuously upgrade their knowledge and skills. Commitment to employee development is one of the key traits of the Bank as an employer.

Company learning in the Bank implies a structured series of activities aimed at building the necessary and anticipated competencies of employees in accordance with the strategic needs of the Bank. In the field of employee development, the Bank promotes the so-called Blended learning approach, i.e. a combination of different learning modalities according to the following principle: approximately 70% of learning is realized through work, 20% through mentoring of colleagues and 10% through formal learning and training.

The role of managers is to define training needs in agreement with their employees, keeping in mind the objective needs of the job, and to provide them with support and favorable opportunities for continuous personal and professional growth.
In order to enable employees to acquire additional skills and broaden their accountability, the Bank also promotes work in cross functional teams, extension of responsibility and broadening the job scope through collaboration on various internal projects.

Talent and performance management

The Bank promotes a workplace where everyone understands the importance of his/her work in achieving common goals.

The line manages are encouraged to maintain continuous performance dialogue throughout the year with their employees.

The Bank ensures that the formal review process is conducted. This enables managers to acknowledge high performance of the employees and to award them accordingly. On the other hand it also ensures that the low performance is managed timely and properly.

The promotion and succession planning is based on the sustained performance (WHAT/RESULT and HOW/BEHAVIOUR) and assessed future potential of an employee.

Rewards System

Depending on the positions, the Bank's rewards system consists of competitive remuneration package, variable pay and benefits, in accordance with Labor Law, Human Resources Policy Manual and Labor Agreement.

Work Environment and Conditions

The Bank is committed to providing to its employees a good working conditions and safe and healthy work environment. The Bank ensures security and safety at work in accordance with relevant legal requirements and Bank Human Resource Policy Manual.

Employee Relations

The Bank has built a culture based on trust, mutual respect and dialog and does not tolerate any form of harassment and discrimination.

The Bank strongly promotes transparency in communication, so that employees are encouraged to point out the situation if they believe that any aspect of the employment relationship has been violated.

Continuous retention rate monitoring and conducting surveys on employee satisfaction with the work environment

With the aim of tracking and timely response to possible problems from the perspective of employees, the Bank monitors the retention rate of employees and measures employee satisfaction with the work environment.

Respect for human rights

The Bank respects all human rights guaranteed by the Constitution of the Republic of Serbia.

Principles of Human Resources

Human resources management represents a shared responsibility of the management and human Resources Department, which is guided by the following principles in its daily work:

1. Employees are the Bank's most import resource i.e. potential
2. All employees shall follow to the Mission and Values of the Bank
3. The Bank ensures impartial employment process
4. The Bank does not employ persons under 18 years of age, thus ensuring compliance with the Labor Law and Human Resources Policy Manual.
5. The Bank takes care of career development of its employees
6. The Bank provides adequate training to all employees
7. Employee performance is assessed by the annual appraisal form that measures work performance and employees' respect for the Mission and Core Values of the Bank
8. All employees are entitled to advancement in accordance with results achieved and their potential
9. The Bank targets the median salary level compared with banking peer group in Serbia.
10. The Bank provides adequate working conditions for employees in accordance with the Law and best practices
11. The Bank monitors, investigates and documents all injuries incurred in the course of regular business activities
12. Rights, duties and responsibilities of the employees and the Bank as an employer are more closely defined in the HR Policy Manual.

Principles of compensation system

There are 6 basic principles in Bank's Salaries structure:

Fairness - Principle that is fair to both the individual and the Bank.
Internal Justice - A fairness criterion that directs an employer to establish salary logic that correspond to each job's relative value to the organization.
Competitiveness - Specific to a particular job and the conditions at the banking labor market for the skills needed. Pay ranges that are comparable to those offered by local and regional employers for similar positions. Also, the principle takes into account the criticality as well as the deficit of a specific position in the labor market.
Performance based - Individual performance, organizational performance, and the needs of the Bank are considered when determining salary.
Transparency - A commitment by the Bank to be transparent and inform all employees about any changes in the compensation system.
Living wage concept – Bank aspires for the continues prosperity of its employees and aims to provide the living wage that will cover basic living needs by paying attention to living standards in cities and purchasing power index.

The Bank shows interest in a market compensation survey on an annual basis, which provides market data across a selected peer group within Serbia, covering cash compensation and non-cash compensation comparison.

Anti-corruption and bribery

The Bank has zero tolerance towards all actions that are illegal, including actions related to corruption and bribery. The bank does not tolerate any type of bribery and corruption, does not allow any type of benefit, regardless of whether the person who offers or requires works in the public or private sector.

The ways in which the Bank opposes corruption and bribery are defined in the internal act, the Compliance Policy. The fact that this matter is regulated by an internal document – which type is policy and which is adopted by the Executive and Board of Directors, speaks of the importance the Bank attaches to anti-corruption, that is, to the prevention of behavior that can lead to corruption.

The Compliance policy establishes the compliance standards, especially the Bank basic values and principles, the code of ethics and professional banking practice and corruption prevention. The policy defines the term of bribery and the principles for preventing bribery. Corruption is defined by the Compliance Policy as abuse of authority given to a person, with aim is achieving personal benefit. Bribery is defined by the Compliance Policy as a direct or indirect promise or giving someone a certain advantage, with aim is performing or not performing tasks or jobs that are part of regular duties.

In order to opposes corruption and bribery, the Bank has defined in Compliance Policy forms which can potentially lead to corruption or bribery (giving and accepting gifts and invitations, dealing with persons acting on behalf of the Bank (third persons), making facilitation payments, sponsorships and donations, conflict of interests) and for the same established the principles which has to be followed in order to protect the Bank from corruption and bribery, in this sense:

Gifts represent a type of benefit, whatever the monetary value, given to a person or legal entity that are grated mostly for reasons of gratitude or for enhancing one's image, without expecting any specific return service. Employees of the Bank may give or receive gifts and invitations from clients or third persons only if the gift meets the conditions which are strictly prescribed by the Compliance Policy.

Dealings with third persons refers to dealing with all persons who directly or indirectly perform specific services in the name or on behalf of the Bank, as is the case with advisors, intermediaries, consultants, service providers, etc. For the purposes of effectively preventing corruption and possible financial damage and damage to Bank reputation, special precautions must be taken when commissioning such third persons as they can be made use of – with or without the knowledge of the Bank's management -for indirectly paying bribes. The Compliance policy prescribes in detail special measures that must be applied in business with third parties.

Sponsorship means supporting a person, group or organization by financial means, contributions or services. In return, the public through the activities of the recipient of the sponsorship, increase the recognition of the sponsor in the public's awareness of the sponsor is increased through the activity or sponsored party and the brand or the name of the sponsor is given a positive connotation. In contrast to donations, sponsorship has a commercial orientation and provides a business advantage to both parties. Donations are given for the good of the community, often within the scope of a company's corporate social responsibility activities and without the expectation of any specific service in return. The Compliance policy prescribes special conditions that must be met in order for the Bank to be a sponsor, or to donate.

A conflict of interest arises when individuals have personal interest that may interfere with, or appear to interfere with, the independent exercises of judgment in business dealings. Employees must avoid situations in which decisions made on behalf of the Bank would be influenced by personal interests, which is why existing, potential and perceived conflicts of interest require careful management. The Compliance policy distinguishes between two types of conflicts of interest that may indicate potential corruption: internal that relate to employees and external that relate to clients and third persons.

The Compliance policy additionally elaborates potential situations that can lead to corruption or bribery.

The Bank has a number of mechanisms that raise employee's awareness that corruption and bribery are strictly prohibited and if it is committed, it can lead to a series of consequences for the employee, both in accordance with positive legal regulations and in accordance with the Labor Regulations. Every employee, regardless of the type of work engagement when establishing an employment relationship, is introduced to anti-corruption through a provision in the contractual documentation. Furthermore, once a year, every employee attends training in the area of compliance, the integral part of which is a topic in the area of anti-corruption in which employees are taught about zero tolerance, risks, ways of recognition, ways of reporting cases related to corruption or bribery, relevant internal acts with which employees are in obligations to meet and contact persons regarding any issue related to corruption and bribery. In addition to the above, all employees have access to the Compliance Policy.

Research and development activities

In 2022, after the Rebranding project was completed, a public opinion survey was conducted on the Brand Awareness. Half a year after the new name and visual identity were launched, a research showed that the recognition of the 3 Banka brand was measured at the level of 11% when it comes to the general population.

The Bank continued to develop products and services based on customer needs, as well as on realization of social, ecological and development goals. Most of the activities during the previous year were focused on:

- Development of products and services tailored to customer needs

  During 2022, the Bank worked on the development of credit products intended for small farmers and entrepreneurs in order to ensure access to financial services in the initial stages of their business development (start-up). In addition, research has shown that one of the key obstacles in the further development of this segment is the absence of long-term financing, therefore the Bank adjusted its products and facilitated access to long-term investment loans and thus provided support for the further growth and development of their businesses.

  A significant part of the activities in 2022 was focused on the research and development of loan products from the "green agenda", which should support the Bank's efforts to, with the strong support of shareholders, actively contribute to the environment protection and to become one of the leaders in lending in this segment in the future.

- Expanding the business network

  In 2022, the trend of opening new credit offices continued, primarily in rural areas, in order to make products and services available to as many customers as possible.

- Development of digital channels and processes

  In 2022, the Bank continued with investments in the digitization of its activities. The first digital product that allows clients to quickly and easily realize a loan without coming to the bank was introduced, which further contributes to easier access to financial services, especially for client segments to whom the said access is limited. Also, a base was created for the further development of the Bank's products and services in the digital sphere.

Klasifikacija:**Interno**

Bulevar oslobođenja 2a | 21000 Novi Sad | Srbija
Tel: +381/21 530 111 | Fax: +381/21 4893 123 | www.3bank.rs

In addition to the development of digital channels, the work on the optimization and digitalization of internal processes with the aim of raising efficiency on the one hand and improving the user experience of both clients and employees on the other was continued.

Marketing activities - Rebranding

After the successful launching at the end of 2021, the Rebranding project was implemented in the first half of 2022. All branches got the new colors, and the new brand was applied to all promotional materials. In media campaigns on traditional and digital media, the bank made its new name and visual identity visible to a large number of citizens.

Given that in 2022 the bank celebrated its 20th anniversary, the campaign used the slogan: New name for 20 years of trust throughout the year. In May, the bank gathered clients, associates, representatives of relevant institutions at an event in the capital's Hilton Hotel, in order to mark two decades of business.

Events occurring after the Balance Sheet date

There were no significant events after the reporting period date that would require disclosure in the notes to the Bank's 2022 financial statements.

Novi Sad, 18th April 2023

On behalf of the management
3 BANKA a.d. Novi Sad

Vladimir Vukotić
President of the Executive Board

3Banka a.d.Novi Sad

Zorica Sedlar
Member of the Executive Board

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