**EXPOBANK AD. BEOGRAD**

# INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS FOR THE YEAR 2022

MOORE

**EXPOBANK AD. BEOGRAD**

Independent Auditor’s Report on the
Audit of the Financial Statements for the Year 2022

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*This version of our report/ the accompanying documents is a translation from the original, which was prepared in Serbian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

# INDEPENDENT AUDITORS' REPORT

## To the Shareholders of EXPOBANK ad. Beograd

## Report on the Audit of Financial Statements

### Opinion

*We have audited the annual financial statements of Expobank a.d. Beograd (the Bank), which comprise the balance sheet as at 31 December 2022 and the income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the to the standalone financial statements, including a summary of significant accounting policies.*

*In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Expobank a.d. Beograd as at 31 December 2022 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.*

### Basis for Opinion

*We conducted our audit in accordance with Standards on Auditing (ISA) and Law on Audit of 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 Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Serbia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.*

### Emphasis of Matter

*We draw attention to Note no. 36 to the financial statements, that the Bank (ie its shareholders) on 30 December 2022 signed Sales and Purchase Agreement with a new investor for sale of 100% of its shares, after which proceeded to obtain necessary approvals the finalization the process. As of the date of issuing Report, the Bank received the approval of the Commission for the Protection of Competition.*

*In addition, we draw attention to Note no. 25 to the financial statements, where it is disclosed that within the item Assets acquired by collection of receivables, the Bank shows amount of RSD 146,684 thousand, which refers to real estate acquired during 2012 and 2013. The Bank evaluates every year the value of these properties and the service is provided by reference appraisal firm. Without questioning that the real estate in question has its own value, the lack of sales of the same for a long period of time raises the issue whether the sale itself can be realized. The Management believes that the real estate acquired in 2013 will be sold in near period of time in future (shown in the books in RSD 82,190 thousand).*

*Our opinion is not modified with respect to these matters.*

## Responsibilities of the Management for the Financial Statements

*Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the current accounting regulations in effect in the Republic of Serbia, 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, the Management is responsible for assessing the Banks'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 the Management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.*

*Persons authorized for management are responsible for overseeing the Bank's financial reporting process.*

## Auditor's Responsibilities for the Audit of the Financial Statements

*The objectives of our audit 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.*

*As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the planning and performance of 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 the Management 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.*

**INDEPENDENT AUDITORS' REPORT** (continued)

**To the Shareholders of EXPOBANK ad. Beograd** (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.*

*We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.*

### Other information included in the Bank's Annual Business Report

*Management is responsible for the other information. The other information comprises the Annual Report (but does not include the financial statements and our auditor’s report thereon).*

*Our opinion on the annual financial statements does not cover other information, except to the extent expressly stated in paragraph “Report on other legal and regulatory requirements”, and we do not express any form of assurance conclusion about them.*

*In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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. If, based on the work conducted, we conclude that there is a material misstatement of other information, we are required to disclose that fact in the Report. In that sense, we have nothing to report in this regard.*

## Report on Other Legal and Regulatory Requirements

*According to the requirements arising from Article 33 of the Law on Accounting and Article 39 of the Law on Audit of the Republic of Serbia, we performed procedures required in respect to the Annual Business Report (including Corporate Governance Report) to verify it compliance with annual financial statements, as well as checks whether the Annual Business Report (including the Corporate Governance Report) is prepared in accordance with the applicable legal provisions.*

*In our opinion, the Annual Business Report is:*

- *consistent with the Bank's annual financial statements; and*
- *prepared in accordance with the requirements of Article 34 of the Law on Accounting.*

*In addition, considering the knowledge and understanding of the Bank and its environment obtained during the audit, we are required to report if we have identified material misstatements in the Annual Report.*

*Belgrade, 16 March 2023*

| | |
|---|---|
| *„MOORE STEPHENS Revizija i Računovodstvo“ d.o.o. Beograd 4 Studentski Trg, 5th floor* | *„MOORE STEPHENS Revizija i Računovodstvo“ d.o.o. Beograd 4 Studentski Trg, 5th floor* |
| *Ružica Vukosavljević Authorised Auditor* | *Bogoljub Aleksić Managing Partner* |

Privredno društvo za reviziju, računovodstvo i konsalting MOORE STEPHENS Beograd Revizija i Računovodstvo d.o.o.

**EXPOBANK A.D. BEOGRAD**

**FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 31 DECEMBER 2022**
**AND NOTES TO THE FINANCIAL STATEMENTS**

***All amounts are expressed in thousands of RSD unless otherwise stated***

## INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

| | Note | 2022 | 2021 |
|---|---|---|---|
| Interest income | 6 | 595,545 | 547,038 |
| Interest expenses | 6 | (164,730) | (148,068) |
| **Net interest income** | | **430,815** | **398,970** |
| Fee and commission income | 7 | 523,104 | 143,165 |
| Fee and commission expense | 7 | (26,272) | (20,520) |
| **Net fee and commission income** | | **496,832** | **122,645** |
| Net gain on derecognition financial instruments at fair value | 8 | 5565 | 92,217 |
| Net gains from hedging | 9 | - | 2,395 |
| Net foreign exchange gains / (loss) and currency clause effects | 10 | (38,411) | (4,401) |
| Net profit/(loss) from impairment of financial assets that are not valued at fair value through profit and loss | 11 | (69,412) | 2,301 |
| Net gain on derecognition of financial instruments valued at amortized cost | | 101 | - |
| Other operating income | 12 | 29,462 | 19,985 |
| **TOTAL NET OPERATING INCOME** | | **854,952** | **634,112** |
| Cost of salaries, contributions and other personnel expenses | 13 | (359,316) | (306,643) |
| Depreciation costs | 14 | (69,243) | (66,116) |
| Other income | 15 | 56,311 | 141,713 |
| Other expenses | 16 | (472,861) | (374,602) |
| **PROFIT/(LOSS) BEFORE TAXATION** | | **9,843** | **28,464** |
| Deferred tax gain | 17 | 8,290 | 1,112 |
| **PROFIT/(LOSS) AFTER TAX** | | **18,133** | **29,576** |

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

These financial statements are approved by the Executive Board of Expobank A.D., Beograd on 16 March 2023.

Signed on behalf of Expobank A.D., Beograd:

Dragana Vujinović
Financial Control Manager

Borislav Strugarević
Chairman of the Executive Board

*All amounts are expressed in thousands of RSD unless otherwise stated*

## STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

| | 2022 | 2021 |
|---|---|---|
| **PROFIT FOR THE YEAR** | **18,133** | **29,576** |
| ***Components of other comprehensive income that cannot be reclassified to profit or loss:*** | | |
| Increase in revaluation reserves from valuation of fixed assets | - | 31,634 |
| Effect of deferred tax calculation | - | (4,745) |
| Actuarial gains/(losses) | 2,273 | (4,065) |
| **Components of other comprehensive income that can be reclassified to profit or loss:** | | |
| Positive / (negative) effects of changes in value of debt securities at fair value through other results | (668,125) | (66,128) |
| Effect of deferred tax calculation | 100,870 | 23,894 |
| **Total other result for period** | **(564,982)** | **(19,410)** |
| **TOTAL RESULT FOR THE YEAR** | **(546,849)** | **10,166** |

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Signed on behalf of Expobank A.D., Beograd:

| | |
|---|---|
| Dragana Vujinović<br>Financial Control Manager | Borislav Strugarević<br>Chairman of the Executive Board |

***All amounts are expressed in thousands of RSD unless otherwise stated***

**BALANCE SHEET AS AT 31 DECEMBER 2022**

| | Note | 31 December 2022 | 31 December 2021 |
|---|---|---|---|
| **ASSETS** | | | |
| cash and balances with Central bank | 18 | 2,156,085 | 2,098,591 |
| Securities | 19 | 3,660,279 | 4,115,227 |
| Loans and receivables from banks and others financial organizations | 20 | 1,542,099 | 460,650 |
| Loans and receivables from customers | 21 | 6,960,059 | 8,912,229 |
| Intangible assets | 22 | 46,764 | 43,759 |
| Property, plant and equipment | 23 | 389,079 | 422,571 |
| Investment property | 24 | 268,786 | 209,661 |
| Deferred tax assets | 29 | 121,164 | 12,003 |
| Other assets | 25 | 608,851 | 496,746 |
| **TOTAL ASSETS** | | **15,753,166** | **16,771,437** |
| **LIABILITIES AND EQUITY** | | | |
| Deposits and other liabilities due to banks, other financial institutions and Central Bank | 26 | 258,109 | 1,333,769 |
| Deposits and other financial liabilities due to customers | 27 | 12,316,984 | 11,790,412 |
| Provisions | 28 | 158,300 | 94,466 |
| Other liabilities | 30 | 188,328 | 168,932 |
| **TOTAL LIABILITIES** | | **12,921,721** | **13,387,579** |
| **EQUITY** | | | |
| Share capital | 31 | 8,549,095 | 8,549,095 |
| Loss | 31 | (5,586,421) | (5,604,555) |
| Reserves /(unrealised loss) | 31 | (131,229) | 439,318 |
| **TOTAL CAPITAL** | | **2,831,445** | **3,383,858** |
| **TOTAL LIABILITIES AND EQUITY** | | **15,753,166** | **16,771,437** |

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

These financial statements are approved by the Executive Board of Expobank A.D., Beograd on 16 March 2023.

Signed on behalf of Expobank A.D., Beograd:

| | |
|---|---|
| Dragana Vujinović<br>Financial Control Manager | Borislav Strugarević<br>Chairman of the Executive Board |

***All amounts are expressed in thousands of RSD unless otherwise stated***

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022

| | Share capital | Share issue premium | Reserves from profit and other reserves | Revaluation reserves and unrealized losses | Accumulated loss | Total |
|---|---|---|---|---|---|---|
| **Balance as at 1 January 2021** | **5,671,608** | **2,877,487** | **151,673** | **399,272** | **(5,634,131)** | **3,465,909** |
| Profit for the year | - | - | - | - | 29,576 | 29,576 |
| **Total other result** | | | | | | |
| Effect of change in fair value from financial assets | - | - | - | (66,128) | - | (66,128) |
| Effect of calculation of deferred taxes on other result | - | - | - | 19,149 | - | 19,149 |
| Increase in revaluation reserves from posting of appraisal of fixed assets | - | - | - | 31,634 | - | 31,634 |
| Actuarial loss | - | - | - | (4,065) | - | (4,065) |
| **Total other result of period** | - | - | - | **(19,410)** | **-** | **(19,410)** |
| Effect of sale of securities and derecognition from other capital | - | - | - | (92,217) | - | (92,217) |
| **Balance as of 31 December 2021** | **5,671,608** | **2,877,487** | **151,673** | **287,645** | **(5,604,554)** | **3,383,858** |
| **Balance as at 1 January 2022** | **5,671,608** | **2,877,487** | **151,673** | **287,645** | **(5,604,554)** | **3,383,858** |
| Profit for the year | - | - | - | - | 18,133 | 18,133 |
| **Total other result** | | | | | | |
| Effect of change in fair value from financial assets | - | - | - | (668,125) | - | (668,125) |
| Effect of calculation of deferred taxes on other result | - | - | - | 100,870 | - | 100,870 |
| Increase in revaluation reserves from posting of appraisal of fixed assets | - | - | - | 0 | - | 0 |
| Actuarial gain | - | - | - | 2,273 | - | 2,273 |
| **Total other result of period** | - | - | - | **-564,982** | **-** | **-564,982** |
| Effect of sale of securities and derecognition from other capital | - | - | - | -5,565 | - | -5,565 |
| **Balance as of 31 December 2022** | **5,671,608** | **2,877,487** | **151,673** | **(282,902)** | **(5,586,421)** | **2,831,445** |

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

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Signed on behalf of Expobank A.D., Beograd:

Dragana Vujinović
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Borislav Strugarević
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## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2022

| CASH FLOWS FROM OPERATING ACTIVITIES | 2022 | 2021 |
|---|---|---|
| **Cash generated by operating activities** | **1,208,502** | **870,340** |
| Interest receipts | 594,818 | 544,329 |
| Fee and commission receipts | 522,437 | 142,056 |
| Receipts of other operating activities | 91,247 | 183,955 |
| **Cash used in operating activities** | **(922,203)** | **(791,834)** |
| Interest payments | (168,158) | (152,874) |
| Fees and commissions payments | (26,180) | (20,617) |
| Payments to and on behalf of employees | (356,261) | (317,340) |
| Taxes, contributions and other duties paid | (75,101) | (76,969) |
| Payments for other operating expenses | (296,503) | (224,034) |
| **Net inflow/(outflow) of cash from operating activities before increases or decreases in financial assets and liabilities** | **286,299** | **78,506** |
| **Decrease in financial assets and increase in financial liabilities** | **536,086** | **2,441,033** |
| Decrease in loans and other receivables from banks and other financial organizations, Central Bank and customers | 406,093 | 724,633 |
| Reduction of receivables from securities, derivatives and other financial assets that are not intended for investment | - | - |
| Increase in deposits and other financial liabilities towards banks and other financial organizations, Central Bank and customers | 129,993 | 1,716,400 |
| **Increase in financial assets and decrease in financial liabilities** | **(218,742)** | **(856,262)** |
| Increase in loans and other receivables from banks and other financial organizations, Central Bank and customers | - | - |
| Increase in receivables from securities, derivatives and other financial assets that are not intended for investment | (218,742) | (856,262) |
| Decrease in other financial liabilities | - | - |
| **Net inflow/(outflow) of cash from operating activity before income tax** | **603,643** | **1,663,277** |
| Paid income tax | - | - |
| **Net inflow/(outflow) of cash from operating activities** | **603,643** | **1,663,277** |

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

These financial statements are approved by the Executive Board of Expobank A.D., Beograd on 16 March 2023.

Signed on behalf of Expobank A.D., Beograd:

Dragana Vujinović
Financial Control Manager

Borislav Strugarević
Chairman of the Executive Board

## 1. GENERAL BANK INFORMATION

Expobank a.d. Belgrade was established on 28 December 1990 in accordance with the Law on Banks, the bank was registered to perform payment transactions in the country and abroad and credit and deposit transactions in the country.

The registered office of Expobank A.D. Belgrade is in Belgrade, Dalmatinska Street 22, where the Bank's main office is located as well. The business network of branches, business units and other cash desks as at 31 December 2022 consists of 6 organizational units (31 December 2021: 6 organizational units).

As at 31 December 2022, the Bank had 138 employees (31 December 2021: 129), while the average number of employees during 2022 was 135 (2021: 131). The Bank's registration number is 07534183, and the tax identification number is 100003148.

By the decision of the the Business Registers Agency BD 82147/2014 of 2 October 2014, Borislav Strugarević was appointed Chairman of the Executive Board.

By the decision of the Business Registers Agency BD 79757/2019 from 23 August 2019, Aleksandr Kashtalap was appointed a member of the Executive Board of the Bank.

As at 31 December 2022, members of the Executive Board are: Borislav Strugarević and Aleksandr Kashtalap

## 2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

### 2.1 Basis for Preparation and Presentation of Financial Statements

The Bank financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and the National Bank of Serbia regulation. The attached financial statements are presented in the format prescribed by the Decision on forms and content of positions in the forms of financial statements for banks ("Official Gazette of RS", no. 71/2014, 135/2014, 103/2018, 93/2020).

The financial statements have been prepared under the historical cost principle, unless otherwise stated in the accounting policies set out below.

### 2.2. New and Amended Standards and Interpretations

The following amended standards entered into force on 1 January 2022, but did not have a material impact on the Bank:

- **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** states which costs the company includes in determining cost of fulfilling a contract in order to assess whether the contract is harmful. the amendment to IAS 37 clarifies the meaning of " cost of fulfilling a contract". The amendment explains that the direct costs of fulfilling the contract include additional costs of fulfilling the specific contract; and the allocation of other costs directly related to fulfilment. The amendment also clarifies that, before establishing a separate provision for adverse contract, entity recognizes impairment loss that has arisen on assets used in the fulfilment of the contract, rather than on assets intended for that contract.
- 2018-2020 Annual Improvements bring minor changes to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and Illustrative Examples for IFRS 16 Leases.
- **IAS 16 Property, Plant and Equipment (Amendments)** prohibits a company from deducting from the cost of real estate, plant and equipment amounts received from the sale of manufactured items while the company is preparing the asset for its use. Instead, the company will recognize such sales revenue and related expenses in the income statement. The amendment to IAS 16 also clarifies that an entity "tests whether the asset is functioning properly" when assessing the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. The asset may therefore be capable of performing as anticipated by management and subject to amortization before it reaches the level of operating performance expected by management.

## 2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (continued)

### 2.2. New and Amended Standards and Interpretations (continued)

- **IFRS 3 Business Combinations (Amendments)** has been amended to refer to the 2018 Conceptual Framework for Financial Reporting to determine what constitutes asset or liability in a business combination. Before the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception was added in IFRS 3 for liabilities and contingent liabilities. The exception specifies that for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21 rather than the 2018 conceptual framework. Without this new exception, entity would recognize some liabilities in a business combination that it would not recognize under IAS 37. Therefore, immediately after the acquisition, the entity would have to stop recognizing such liabilities and recognize a gain that did not reflect economic profit. It is also clarified that the acquirer should not recognize a contingent asset, as defined in IAS 37, at the acquisition date.

### 2.3. Standards issued but not yet entered into force and have not been early adopted

- **IFRS 17 - Insurance Contracts, IAS 1 - Presentation of Financial Statements and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors.** The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted. The International Accounting Standards Board has issued amendments to IFRS and IAS as follows:

  - **Amendments to IFRS 17 and amendments to IFRS 4** (published on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023). The amendments include a number of clarifications aimed at facilitating the application of IFRS 17, simplifying some requirements of the standard and the transition. The amendments relate to eight areas of IFRS 17 and are not intended to change the basic principles of the standard. The following changes were made to IFRS 17:
    1. Effective Date: The effective date of IFRS 17 (which includes amendments) has been delayed by two years to annual reporting periods beginning on or after 1 January 2023; and the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been postponed for annual reporting periods beginning on or after 1 January 2023.
    2. Expected recovery of cash flows on insurance acquisition: The entity is required to allocate a portion of the acquisition costs to the related expected contract renewals and recognize those costs as an asset until the entity recognizes the contract renewals. Entities are required to assess the recoverability of assets at each reporting date and to provide certain information about assets in the notes to the financial statements.
    3. Margin of contract service attributable to investment services: Cover units should be identified, taking into account the amount of benefits and the expected period of insurance and investment services, for variable fee access contracts and for other contracts with "return on investment service" under the general model . Costs related to investment activities should be included as cash flows within the limits of the insurance contract, to the extent that the entity performs such activities to increase the benefits of the insurance for the insured.
    4. Reinsurance contracts - recovery of losses: When an entity recognizes a loss after the initial recognition of a loss-making group of underlying insurance contracts or by adding loss-making underlying contracts to the group, the entity should adjust the contractual service margin of the related group of reinsurance contracts and recognize a gain on the reinsurance contract. The amount of loss covered under a reinsurance contract is determined by multiplying the loss recognized in the underlying insurance contracts by the percentage of claims under the underlying insurance contracts that the entity expects to recover from the reinsurance contract. This condition would only apply when the reinsurance contract is recognized before or at the same time as a loss is recognized on the underlying insurance contracts.

## 2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (continued)

### 2.3. Standards issued but not yet entered into force and have not been early adopted (continued)

- **IAS 1 and IFRS Statements of Practice 2 (Amendments)** - The Board has recently issued amendments to IAS 1 - Presentation of financial statements and updates to Statements of Practice IFRS 2 - Making material judgments to help companies disclose useful accounting policies. Key changes to IAS 1 include: requiring companies to disclose their material accounting policies rather than their significant accounting policies; clarifying that accounting policies relating to immaterial transactions, other events or conditions are inherently immaterial and as such need not be disclosed; and clarifying that not all accounting policies relating to material transactions, other events or conditions are themselves material to the company's financial statements. The changes are effective from 01 January 2023, but may be implemented earlier.

- **IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors (Amendments)** introduces a new definition of accounting estimates: clarifying that they are monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set by the accounting policy. Making an accounting estimate includes: the choice of a measurement technique (appraisal or valuation technique) and the choice of inputs to be used when applying the chosen measurement technique.

- **IAS 1 Presentation of financial statements: Classification of short-term and long-term liabilities (Amendments).** The amendments are effective for annual reporting periods beginning on or after 1 January 2022, with earlier application permitted. The International Accounting Standards Board has issued an exposure proposal to delay the effective date of these changes until 1 January 2024. The goal of the changes is to promote consistency in the application of the requirements by helping companies determine whether the statement of financial position, debts and other liabilities with an uncertain maturity date should be classified as short-term or long-term at the end of the reporting period. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements regarding the measurement or timing of recognition of any asset, liability, income or expense, nor the information disclosed by the company about those items. Also, the amendments clarify the requirements for the classification of debt that the company can settle by issuing its own capital instruments. These changes have not yet been adopted by the EU. Liabilities are long-term if the entity has a substantial right, at the end of the reporting period, to postpone settlement for at least 12 months. The guidelines no longer require such a right to be unconditional. Management's expectations of whether they will subsequently exercise the right to defer settlement do not affect the classification of liabilities. The right to defer exists only if the entity meets any relevant conditions at the end of the reporting period. A liability is classified as current if the condition is breached on or before the reporting date, even if a waiver of the condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if the loan agreement is breached only after the reporting date. In addition, the amendments include clarification of the requirements for the classification of debt that an entity can settle by converting it to equity. "Settlement" is defined as the settlement of a liability with cash, other resources containing economic benefits, or equity instruments. There is an exception for convertible instruments that can be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a complex financial instrument. The effects of these changes are not expected to have a significant impact on the Bank's financial statements.

## 2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (continued)

### 2.3. Standards issued but not yet entered into force and have not been early adopted (continued)

- **IFRS 16 – Leases (Amendments).** Amendments to IFRS 16 Leases affect how a seller-lessee accounts for variable lease payments arising in a sale-leaseback transaction. The amendments introduce a new accounting model for variable payments and will require seller-lessees to reassess and potentially review sale and leaseback transactions entered into from 2019. The amendments confirm that upon initial recognition, the seller-lessee includes variable lease payments when measuring the lease liability arising from the sale and leaseback transaction, and that after initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability so that it does not recognizes no gain or loss related to the right of use it retains. A seller-lessee can adopt different approaches to meet the new post-measurement requirements. The amendments are effective for annual reporting periods beginning on or after 1 January 2024.

- **Amendment to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associated Entities and Joint Ventures: Sale of Assets between an Investor and a Subsidiary.** Amendments to IFRS 10 and IAS 28 published in 2014 and effective for annual periods beginning on or after a date determined by the IASB. The changes indicate a known discrepancy between the requirements in IFRS 10 and those in IAS 28, related to the sale or entry of assets between the investor and its subsidiaries and joint ventures. The main consequence of the changes is that the total loss or gain is recognized when the transaction commences operations (regardless of whether it is a subsidiary or not). A partial gain or loss is recognized when a transaction involves an asset that is not a business, even when this asset is part of a subsidiary. In December 2015, the International Accounting Standards Board postponed the date of application of this standard indefinitely pending the outcome of research related to the application of participation methods. These changes have not yet been adopted by the EU. The effects of these changes are not expected to have a significant impact on the Bank's financial statements.

## 2. BASIS FOR PREPARATION OF FINANCIAL STATEMENTS

### 2.4. Comparative Information

Comparative information in these financial statements represent data from the Bank's financial statements for 2021.

### 2.5. Use of Estimates

The preparation of financial statements in conformity with IFRS requires management to use the best possible estimates and reasonable assumptions, which have an effect on the application of accounting policies and on the reported amounts of assets and liabilities, as well as income and expenses. The actual value of assets and liabilities may deviate from the value estimated in this way. Areas that involve a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

### 2.6. Statement of Compliance

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

In preparing the accompanying financial statements, the Bank has applied the accounting policies disclosed below Notes 3.

### 2.7. Going Concern

The Bank's financial statements have been prepared on a going concern basis, which means that the Bank will continue in business for the foreseeable future. In 2021, the bank operated with a profit, with good capitalization and a sufficient level of liquidity provided through deposits and loans. Note 32 provides details on compliance with regulatory indicators, while Note 26 provides details on borrowings.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1. Foreign Currency Translations

Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into dinars at the average exchange rate of the National Bank of Serbia valid on the balance sheet date. Gains and losses arising from the translation of receivables and liabilities are recognized in profit or loss.

Foreign currency transactions are translated into dinars at the official exchange rate at the date of the transaction. Net foreign exchange gains and losses resulting from foreign currency transactions and from the translation of foreign currency balance sheet items are credited or charged to the income statement as foreign exchange gains or losses.

### 3.2. Interest Income and Expense

Interest income and expense on all interest-bearing financial instruments are recognized in the income statement within 'interest income' and 'interest expense' using the effective interest method.

The effective interest method is a method that calculates the cost of repaying financial assets or financial liabilities as well as the cost of allocating interest income or interest expense over a specified period. Effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or, where appropriate, over a shorter period of time to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows taking into account all contractual terms of the financial instrument (for example, prepayment) but does not take into account future credit losses. The calculation includes all fees and amounts paid or received between the two parties that are an integral part of the effective interest rate.

Interest income is calculated by applying the effective interest rate on the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (level 3), for which interest income is calculated at the effective interest rate on their amortized cost less value adjustments based on expected credit losses and (ii) financial assets purchased or realized with impairment for credit losses, for which the original credit-adjusted effective interest rate is applied to amortized cost.

### 3.3. Fee and Commission Income and Expenses

Fee and commission income is recognized over time on a straight-line basis, as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Bank's performance. This income includes fees that are often repeated - for account management, account servicing, current account packages, etc.

Other fee and commission income are recognized when the Bank meets its obligation, usually after the relevant transaction has taken place. The amount of fees and commissions paid or receivable represents the transaction price for the service, which is identified as the performance of a specific obligation. This revenue includes payment fees, cash settlement fees, collection or cash disbursements.

### 3.4. Dividend Income

Dividends are recognized in the income statement when the right to receive payment is established.

### 3.5. Financial instruments - Classification and Measurement of Financial Assets and Liabilities

<u>Financial instruments</u>

A financial instrument is any contract that gives rise to a financial asset or financial liability, with the simultaneous occurrence of a financial liability, i.e. a financial asset of third parties.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.5. Financial Instruments - Classification and Measurement of Financial Assets and Liabilities (continued)

*Financial assets*

A financial asset is any asset that is:
- cash,
- equity instrument of another legal entity,
- contractual right to receive cash or some other financial asset from another legal entity,
- contractual right to exchange financial assets or financial liabilities with another legal entity, under conditions that are potentially favourable,
- a contract that will or may be settled with equity instruments and that is non-derivative, and for which the Bank is or may be obliged to receive a variable number of equity instruments,
- a contract that will or may be settled by equity instruments and which is a derivative, and which will be or may be settled other than by exchanging a fixed amount of cash or other financial asset for a fixed number of equity instruments.

*Financial liabilities*

A financial liability is any contractual liability:

- to deliver cash or other financial means to another legal entity,
- to exchange financial instruments with another legal entity under conditions that are potentially unfavourable.

*Principles of valuation of financial instruments*

From the aspect of classification and measurement, IFRS 9 introduces new criteria for the classification of financial assets, except equity instruments and derivatives, which are based on the assessment of the business model of managing specific financial assets and contractual characteristics of cash flows of financial instruments.

**Financial assets**

Upon initial recognition, the Bank measures a financial asset at fair value, increased or decreased for transaction costs that are directly attributable to the acquisition or issue of the financial asset.

The assessment of how the financial asset will be classified is made on the basis of the Bank's business model and the fulfilment of the performance test of the contracted cash flow.

Upon initial recognition, the Bank may irrevocably determine that financial assets that otherwise meet the criteria for valuation at amortized cost (AC) or at fair value through other comprehensive income (FVOCI), are recognized at fair value through profit or loss (FVTPL), if it eliminates or significantly reduces an accounting inconsistencies that would otherwise occur.

The business model determines whether cash flows arise from the collection of contracted cash flows, the sale of financial assets or both. The business model for the classification of financial assets is determined at the appropriate level of aggregation.

Fulfilment of the test of characteristics of contracted cash flows means that cash flows consist exclusively of payment of principal and interest on the remaining principal (SPPI criterion).

*Classification and measurement*

Financial assets can be classified into the following categories:
- financial assets valued at amortized cost (AC)
- financial assets measured at fair value through profit or loss (FVTPL)
- financial assets measured at fair value through other comprehensive income with losses and gains reclassified to profit or loss - "recycling" (FVOCI) upon derecognition
- financial assets measured at fair value through other comprehensive income without reclassifying losses and gains in profit or loss (FVOCI)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.5. Financial Instruments - Classification and Measurement of Financial Assets and Liabilities (continued)

**Financial assets (continued)**

(a) *Amortized cost* (AC)

Financial assets are held for the purpose of collecting contracted cash flows, and generated cash flows must consist exclusively of payment of principal (the nominal value of the date of financial assets to be charged after maturity) and interest (fee in cash for borrowed funds), which represents the amount by which the financial asset is measured at initial recognition with an increase or decrease in accumulated depreciation using the effective interest method for all differences between the initial amount and the amount at maturity, less all payments and adjustments based on calculated expected credit losses.

Rare sales, even large values or frequent sales of small value, sales made immediately before the maturity of financial assets (less than 3 months before maturity) and when the revenue from such sales are approximately equal to the amount that would be collected from the remaining contractual cash flows , sales due to increased credit risk of financial assets, sales that can be attributed to an isolated event that is beyond the Bank's control and that is one-off, are not contrary to this model.

The results of the analysis of business models and the estimation of contracted cash flows showed that the Bank continues to evaluate loans, placements given to customers and banks, at amortized cost.

*(b) Fair value through other comprehensive income (FVOCI)*

Financial assets are held for the purpose of collecting contracted cash flows and for the sale of such financial assets, as well as on the basis of contractual terms for cash flows to arise on certain dates which are only payment of principal and interest on outstanding amount of principal. This model implies a higher frequency or value of sales, mainly due to changes in market conditions, and / or for the purpose of maintaining liquidity.

The results of the analysis of business models and the estimates of contracted cash flows showed that the Bank evaluates debt securities at fair value through other comprehensive income.

If debt securities do not meet the test characteristics of contracted cash flows, they are measured at fair value through profit or loss.

*(c) Fair value through profit or loss account (FVTPL)*

A business model that results in fair value measurements through profit or loss implies that the Bank manages financial assets in order to generate cash flows from the sale of assets. The Bank makes a decision based on the fair value of assets and manages them in order to achieve those fair values. In this case, the Bank's goal usually leads to active buying and selling. If debt securities or equity securities, including equity holdings, are acquired with the intention of being sold immediately or in the short term, they are classified as at fair value through profit or loss.

Taking into account the nature of the Bank's liabilities, the accounting for financial liabilities is the same as in accordance with the requirements of IAS 39. The Bank has no financial liabilities that are assessed as FVTPL and does not intend to do so.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.5. Financial Instruments - Classification and Measurement of Financial Assets and Liabilities (continued)

**Financial ssets (continued)**

*Impairment of financial assets*

In accordance with IFRS 9, the methodology for impairment is significantly changed, and the approach of IAS 39 incurred loss is replaced, with the principle of forward-looking expected credit loss (ECL) approach by including the impact of expected macroeconomic variables on the future movement of the probability of loss based on statistically proven interdependencies. Impairment losses for expected losses are calculated for all receivables and other debt instruments that are not measured at fair value through profit or loss, including irrevocable liabilities and issued guarantees. Impairment losses are based on the expected credit loss in accordance with the probability of default in the next 12 months, except when there is a significant deterioration in credit risk compared to the moment of initial recognition, when the assessment of credit losses is based on the probability of default over the life of the asset.

The Bank has defined the criteria for classifying financial instruments in levels 1, 2 and 3 depending on the degree of increase in credit risk from the moment of initial recognition. The subject of classification is financial instruments that are measured at amortized cost as well as financial instruments that are measured at fair value through other comprehensive income.

LEVEL 1

In the level 1, the Bank classifies financial instruments in which the credit risk has not significantly increased from the initial recognition.

The expected credit loss recognized for Level 1 financial instruments represents at most one-year portion of accrued credit losses.

Calculated in this manner, expected 12-month credit losses are part of expected credit losses over the financial instrument duration and represent cash deficits during the term that will result if default occurs within 12 months after the reporting date (or a shorter period, if the expected duration of the financial instrument is shorter that 12 months), pondered by the probability of such non-execution.

*LEVEL 2- Significant increase in credit risk*

The Bank classifies financial instruments in level 2 credit risk when it identifies that there is one or more of the following indicators that may indicate that there has been a significant increase in credit risk:

- 31-90 days past due
- restructuring of non-problematic receivables
- account block by the NBS for 30 days or more
- rating downgrade by 2 rating classes

A significant increase in credit risk for the segment of exposure to states and financial institutions was determined as a decline of two rating categories, compared in relation to the rating scale of renowned external rating agencies (Moody's, Fitch, S&P).

At the reporting date, the Bank measures the allowance for a financial instrument at an amount equal to the expected credit loss over its life, if the credit risk for that financial instrument has increased significantly since initial recognition.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.5. Financial Instruments - Classification and Measurement of Financial Assets and Liabilities (continued)

**Financial assets (continued)**

*Impairment of financial assets (continued)*

*LEVEL 3- status of default*

Level 3 of credit risk includes financial instruments that are considered problematic, ie for which there is objective evidence of impairment. The Bank has identified a list of indicators that it monitors in order to identify the status of problem clients:

- blocked accounts for more than 60 days in continuity
Reduction of the payment capacity that can be reflected in:
• 50% decrease in operating income
• capital decrease of more than 50%
- for retail receivables that has been sued according to Bank's records
- for legal entities and entrepreneurs, the client in the status of defendant, bankruptcy, UPPR
- the client has not submitted the last financial statement to the register of business entities
- for corporates, entrepreneurs and individuals which are placed in sector of collection of receivables (WOD);
- other information that indicates business problems or may affect the inability to service debt, such as:
• frequent reminders of the client about settling obligations, difficult negotiations, indicating that the client has or will have problems in business and
• other information identified by credit officer during the monitoring in connection with negative changes in client's business, in relation to the circumstances that existed when approving loans

For these financial instruments, the allowance is calculated as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

Future cash flow is determined based on insight into the borrower's creditworthiness and credit risk exposure.

The reversal of an impairment loss is recognized as income in the period in which the reversal is reversed.

The final write-off of uncollectible receivables is made on the basis of a court decision, settlement of interested parties, or on the basis of decisions of the competent body in the Bank.

The Bank makes an accounting write-off (transfer of balance sheet assets to off-balance sheet records) of problematic receivables, for which the calculated amount of impairment is 100% of their gross value.

The manner and steps of implementing the accounting write-off are defined by the acts of the Debt Collection Department.

### 3.6 Provisions

Provisions for liabilities and expenses are non-financial liabilities of uncertain timing or amount. A provision is recognized when the Bank has a present legal or constructive obligation as a result of a past event, and such an obligation can be measured 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 applicable, the risks associated with the liability. The Bank does not discount future cash flows that are expected to arise in the near future.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.7. Sales and Repurchase Agreements

Securities sale-repurchase agreements ("repo") are securities sold subject to repurchase agreements ("reverse repo") and are accordingly recorded as loans and borrowings to other banks. The difference between the selling price and the repurchase price is treated as interest and is accrued over the life of the contract using the effective interest method.

### 3.8. Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents include balances with maturities of less than three months from the date of acquisition, including cash and non-restricted balances with central banks, treasury bills and other eligible securities, loans and advances to banks, due amounts of other banks and short-term government securities

### 3.9 Intangible Assets

Acquired licenses are stated at historical cost. Licenses have a limited useful life and are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method to allocate the cost of licenses over their estimated useful lives (applied depreciation rate of 25% - 33.33%).

### 3.10. Property, Plant and Equipment

The initial measurement of fixed assets is performed at cost or purchase price. The purchase value is the value according to the supplier's invoices, increased by the dependent costs based on the acquisition and the costs of bringing the asset into a state of functional readiness.

For subsequent measurement of construction, after initial recognition, the Bank applies the revaluation model in accordance with IAS 16 “Property, Plant and Equipment”.

The Bank's equipment is stated at cost less accumulated depreciation and impairment losses, if any.

Buildings are regularly subject to revaluation. The frequency of revaluation depends on the movement of the fair value of the assets being revalued. The increase in the book value of buildings on the basis of revaluation is reflected in the revaluation reserve account. Decreased book values, which reduce previous increases in the value of the same assets, are charged directly to revaluation reserves, while all other reductions are charged to the income statement.

Revaluation reserves are transferred directly to retained earnings when the surplus is realized from the withdrawal from use or disposal of the asset and if the asset is not used by the Bank. In the latter case, the amount of realized profit is the difference between depreciation calculated on the revalued carrying value and depreciation calculated on the initial purchase value of the asset (optional).

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, if applicable, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other maintenance costs are charged to the income statement in the financial period in which they are incurred.

Depreciation of other assets is calculated using the straight-line method to allocate their cost or revalued amount to their residual value over their estimated useful lives, as follows:

- buildings 1.3%
- computer equipment 20.0%
- vehicles 20.0%
- furniture and equipment 12.5% - 20.0%
- leasehold improvements 20.0%

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.10. Property, plant and equipment (continued)

Gains and losses on disposals are determined from the difference between the cash inflow and the carrying amount and are recognized in the income statement within other income / expenses.

The residual value of an asset is the estimated amount that the Bank could currently obtain from the sale of the asset, less the estimated cost of sales, if the asset is already old and in the condition expected to be at the end of its useful life. The residual value of an asset is zero if the Bank expects to use the asset until the end of its useful life. The asset's residual value and useful life are reviewed, and adjusted if appropriate, at each balance sheet date.

When revalued assets are sold, the amount of revaluation included in the revaluation reserve is transferred to retained earnings.

### 3.11. Impairment of Non-Financial Assets

Assets that have an indefinite useful life are not subject to depreciation and are tested for impairment on an annual basis and when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets (other than goodwill) that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

### 3.12. Investment Property

Investment property is property held for the purpose of earning from rent or for the purpose of increasing capital, or for both.

Investment property is held for long-term rental yields and is not occupied by the Bank.

Land held under operating leases is classified and accounted for as investment property if it meets other requirements from the definition of investment property.

Investment property is recognized as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the entity and the cost of the investment property can be measured reliably. Investment property is initially measured at cost. Transaction costs are included in the initial measurement. The purchase value of the purchased investment property includes its purchase price and all costs directly attributable to the acquisition. After initial recognition, investment property is subsequently measured at fair value. The fair value of investment property reflects market conditions at the end of the reporting period. Gains or losses arising from changes in the fair value of investment property are recognized in the income statement in the period in which they arise.

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with the item will flow to the Bank and can be measured reliably. All other maintenance costs are charged to the period in which they are incurred. When an investment property is used by its owner, it is reclassified to property, plant and equipment, and its carrying amount at the date of reclassification becomes its carrying amount which will be further depreciated.

### 3.13. Inventories

Upon acquisition, inventories are measured using the historical cost method, or the net realizable value method, whichever is lower. Historical cost implies that inventories are recognised on the basis of acquisition costs, and net realizable value is the value at which inventories can be realized on the market sale transaction. The Inventories also include assets acquired through the collection of receivables. If there is an indication that an asset is impaired, the recoverable amount of the asset is estimated to determine the amount of impairment.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.14. Leases

**Bank as a *lessee***

The Bank classifies leases (leases of property and equipment) in accordance with IFRS16, which implies that on the first day of the lease, assets with the right to use and lease liabilities are recognized in the balance sheets at the present discounted value of those leasing liabilities. The leasing period means the entire period of the lease, as well as the period of possible extension of the lease provided for in the contract. The choice of the discount rate is conditioned by the interest rate implied in the lease (based on the lease payment, the unguaranteed residual value, the fair value of the fixed asset and the initial direct costs of the lender). The discount rate can also be determined as an incremental lending rate, ie. as the interest rate that the lessee would have to pay for a similar lease or, if it cannot be determined, at what price the lessee can obtain funds on the market for the purchase of the same or similar assets (assets of similar value) under the same conditions (similar term). The Bank recalculates the discount or incremental rate when changing the provisions of the contract (duration of the lease, changes in the option to purchase the subject property, changes in future payments due to changes in the rate in the lease agreement). Changes in estimates (for example, changes in estimates of the economic life or residual value of the leased asset), or changes in circumstances (for example, non-performance of financial obligations of the lessee) do not cause a new classification of leasing, ie. recalculation of the discount or incremental rate.

Each month, the Bank will record the cost of interest on the lease liability and the cost of depreciation on the discounted right to use the asset. Each month, upon receipt of the invoice for the payment of the lease, the amount of leasing liability will decrease.

The Bank will revalue the lease liability based on the occurrence of certain events (eg change in the lease period, change in the lease price, significant change in the incremental rate…). In that case, the Bank recognizes the amount of the revaluation of the lease liability as an adjustment to the right to use the asset.

If the amount of the lease is of small value (monthly lease amount up to EUR 100) and / or if the lease contract is concluded for a period of 12 months or less, the Bank will not treat those leases in accordance with this standard.

**Bank as the lessor**

A lease is an agreement under which the lessor transfers to the lessee the right to use the assets during an agreed period of time in exchange for one or more payments.

When an asset is leased out under an operating lease, the asset is recognized in the balance sheet depending on the type of asset.

Lease income is recognized on a straight-line basis over the term of the lease.

### 3.15. Borrowings

Borrowings are initially recognized at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortized cost. All differences between the realized inflow (less transaction costs) and the amount of repayments are recognized in the income statement over the period of the borrowings using the effective interest rate.

Borrowings are classified as current liabilities unless the Bank has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.16. Employee Benefits

*(a) Employee benefits*

Short-term employee benefits include salaries, wages, taxes and contributions for social insurance. Short-term employee benefits are recognized as an expense in the period in which they are incurred.

The Bank and its employees are legally obliged to pay taxes and social security contributions in accordance with applicable legal regulations. The Bank is not obliged to pay compensation to employees, which is the obligation of the Fund. Taxes and contributions related to defined benefit plans are recorded as an expense of the period to which they relate.

(b) Retirement benefits

In accordance with applicable legal regulations, the Bank is obliged to pay retirement benefits to employees upon retirement or termination of employment by force of law due to loss of working capacity in the amount of three average salaries in the business sector in the Republic of Serbia, according to the latest information published by a competent statistical body. These payments are recognized in the balance sheet as a liability, in accordance with the estimate of the certified actuary at a discounted amount.

Actuarial gains and losses arising from adjustments based on experience as well as changes in actuarial assumptions are charged or credited to the income statement and are allocated to the expected average remaining length of service of the employees in question.

The actuarial assumptions used when calculating retirement benefits were as follows:

- data on employees: total length of service as at 31 December 2022, year of birth and sex, number of years until old age or full pension;
- annual employee turnover rate of 10%;
- annual discount rate 7.1%;
- assumed geometric growth of earnings of 6% per year during the entire period for which funds are reserved.

Termination benefits are paid when the employment is terminated before the date of regular retirement, or when the employee accepts the agreed termination of employment, as redundancy, in exchange for these benefits. The Bank recognizes termination benefits upon termination of employment when it is evident that the Bank will either terminate the employment relationship with the employee, in accordance with a detailed formal plan without the possibility of resignation, or provide termination benefits for termination of employment in order to encourage voluntary termination of employment for the purpose of reducing the number of employees. Benefits that fall due more than 12 months after the balance sheet date are reduced to the present value.

### 3.17. Current Income Tax and Deferred Taxes

*a) Current income tax*

Current income tax is the amount that is calculated and paid in accordance with the tax regulations in the Republic of Serbia, based on the profit shown in the prescribed tax balance. The bank itself calculates the income tax, ie the annual tax liability and the amount of the advance payment for the next year.

Income tax in the amount of 15% is paid based on the annual profit shown in the Tax Balance sheet and is reduced for certain investments during the year, as shown in the tax balance sheet - PDP form. Accounting profit is adjusted for certain permanent as well as temporary differences in order to obtain the amount of taxable profit. The tax balance is submitted within 180 days after the expiration of the period for which the tax liability is determined.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 3.17. Current Income Tax and Deferred Taxes (continued)

*b) Deferred taxes*

Deferred income tax is calculated and recorded on temporary differences between the tax bases of assets and liabilities and their carrying amounts reported in the Bank's financial statements. Deferred tax liabilities are recognized for all taxable temporary differences between the tax bases of assets and liabilities on the balance sheet date and the amounts reported for reporting purposes, which will result in taxable amounts of future periods.

Deferred tax assets are recognized for all deductible temporary differences, unused tax credits and unused tax losses, to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax credits and unused tax losses can be realized.

Current and deferred taxes are recognized as income and expense and are included in net profit for the period.

### 3.18. Share Capital

Ordinary shares are classified as equity.

*(a) Share issue costs*

Additional costs that are directly attributable to the issue of new shares or the acquisition of a legal entity are recognized in equity as a deduction, net of tax, from the inflow of proceeds. Any amount greater than the fair value of the proceeds received above the nominal value of the shares issued is recognized in equity as a share premium.

*(b) Dividends on shares*

Dividends on shares are recorded as liabilities in the period in which the decision on their payment is made. Dividends approved for the year after the balance sheet date are disclosed in the note on events after the balance sheet date.

### 3.19. Financial Guarantees

Financial guarantees are contracts that oblige the issuer of the guarantee to make a payment or compensate the loss to the recipient of the guarantee, incurred if a particular debtor does not settle its obligations in a timely manner in accordance with the terms of the contract. The Bank provides such financial guarantees to banks, financial institutions and other organizations, on behalf of its clients, in order to provide loans, current account overdrafts, and other banking services.

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee is given. After initial recognition, the bank's guarantee liabilities are measured as greater than: a) the initially recognized amount less depreciation calculated to recognize income on the straight-line basis over the duration of the guarantee; and b) the best estimate of the amount of impairment loss for the guaranteed exposure, which is determined based on the ECL model.

## 4. FINANCIAL RISK MANAGEMENT

### 4.1 Introduction

The Bank's operations are exposed to various financial risks and these operations require the identification, assessment, monitoring, mitigation and control of risk management, as well as the establishment of an adequate system for reporting on risk management. The Bank manages its risks through a special organizational unit for risk management. The Bank by its acts prescribes procedures for identification, measurement, risk assessment and risk management in accordance with regulations, standards and rules of the profession.

The Bank's risk management policy defines a unique system for managing the risks to which the Bank is exposed in its operations.

By the nature of its activities, the Bank is exposed to various types of risks, such as:

1. liquidity risk;
2. credit risk;
3. market risk;
4. risks of the Bank's exposure towards an entity or a group of related parties;
5. risks of the Bank's investments in other legal entities and fixed assets;
6. risks related to the country of origin of the entity to whom the Bank is exposed;
7. operational risk (including legal risk).

### 4.2 Liquidity Risk

Liquidity risk is defined as the risk of possible adverse effects on the Bank's financial result and equity due to the Bank's inability to meet its due obligations. Liquidity risk arises due to significant withdrawal of existing sources of financing, inability to obtain new sources of funds (liquidity risk of sources of funds), as well as due to difficult conversion of assets into liquid assets due to market disruptions (market liquidity risk).

In order to adequately manage and control liquidity risk, the Bank has implemented internal procedures that define a comprehensive system for managing this risk, including the competencies and responsibilities of participants in the process as well as controls and methodologies that achieve efficiency of this risk management system.

The Bank's liquidity risk management system includes:

- defining the principles of liquidity risk management,
- organizational structure that supports adequate liquidity risk management,
- procedures for identifying, measuring, mitigating and monitoring liquidity risk,
- information system that supports liquidity risk management,
- timely and adequate activities in situations of increased liquidity risk,
- adoption of the Contingency Plan and the Bank's Recovery Plan,
- internal liquidity risk management system

In its operations, the Bank adheres to the following basic principles for liquidity risk management:

- The Bank actively monitors liquidity risk exposure in significant currencies exceeding 5% of the Bank's liabilities (RSD, EUR, USD and CHF)
- Ensuring continuous stability and diversification of funding sources, according to the type of source and tenors, in which sense the limits of concentration of sources of funds and maximum participation in the deposit base per client have been determined
- Formation of a level of highly liquid assets and an adequate level of liquidity reserves consisting of cash, funds in accounts with foreign banks, obligatory reserves with the National Bank of Serbia in the currencies of EUR and RSD and highly liquid securities issued by the Ministry of Finance of the Republic of Serbia.
- The Bank has established internal procedures for dealing with increased liquidity risk as well as early warning systems for potential impairment of the Bank's liquidity profile. The Bank's business plan in case of unforeseen events as well as the Bank's Recovery Plan are subject to regular annual testing and revision.

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.2 Liquidity Risk (continued)

- Liquidity risk assessment is a mandatory part of the procedure when approving a new product
- Regularly conduct stress tests based on scenarios specific to the Bank or the general market in which the Bank operates, in order to identify sources of potential liquidity crisis as well as the conditions and ways under which the Bank would, in such situations, maintain the required liquidity level with full fulfillment regulatory and internally defined limits.

Bodies and organizational units of the Bank that are directly involved in the liquidity risk management process are:

- The Bank's Managing Board adopts a risk management strategy and policy, of which liquidity risk management is an integral part, as well as the Bank's Recovery Plan.
- The Bank's Executive Board adopts the Bank's risk management procedures and ensures their full implementation
- The Assets and Liabilities Management Committee (ALCO) monitors the Bank's liquidity risk exposures and early warning indicators and proposes measures to improve the Bank's liquidity profile
- The Asset Management Department is responsible for day-to-day liquidity management and maintaining defined internal and regulatory limits at the approved level.
- The Risk Management Department implements procedures for measuring, analysing and monitoring liquidity risk and develops methodologies for internal liquidity risk assessment and stress testing
- Internal audit performs an independent assessment of the adequacy of adopted liquidity risk management procedures at least once a year

The Bank's liquidity risk management means managing all items of assets, liabilities and off-balance sheet items of the Bank that may have an impact on its liquidity position. Internal identification, measurement and monitoring of liquidity risk relies on GAP analysis of future cash flows of these positions allocated over time intervals according to the remaining maturity. For balance sheet items for which it is not possible to determine in advance the exact date of inflow or outflow of assets, the Bank uses assumptions based on the analysis of the historical movement of these positions or on the basis of expert assessment. For the purpose of estimating potential outflows of deposits without a defined maturity, the Bank uses an internal model based on the concept of deposit stability analysis.

The Bank defines individual and cumulative liquidity GAP limits, which it observes both at the aggregate level (consolidated presentation) and by significant currencies. Limits are defined as the limit of the ratio between the cumulative gap of up to one month and the total assets of the bank as well as for the three-month gap in relation to the total assets of the Bank.

The following table shows the assets and liabilities grouped into categories according to the remaining contractual maturity at the balance sheet date.

*All amounts are expressed in thousands of RSD unless otherwise stated*

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.2 Liquidity Risk (continued)

| As of 31 December 2022 | up to 1 month | 1-3 months | 3-12 months | 1 - 5 years | over 5 years | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and funds held with the central bank | 2,156,085 | - | - | - | - | 2,156,085 |
| Securities | 2,562,195 | 1,098,084 | - | - | - | 3,660,279 |
| Loans and receivables from banks and other financial organizations | 1,539,166 | 2,933 | - | - | - | 1,542,099 |
| Loans and receivables from customers | 339,789 | 592,681 | 2,314,473 | 2,174,224 | 1,538,891 | 6,960,059 |
| Receivables from derivatives intended for hedging | - | - | - | - | - | - |
| Other assets | 15,559 | 235 | 52 | 4,264 | 459 | 20,569 |
| **Total assets** | **6,612,795** | **1,693,933** | **2,314,525** | **2,178,488** | **1,539,350** | **14,339,091** |
| **LIABILITIES** | | | | | | |
| Deposits and other liabilities to banks, other financial institutions and the central bank | 244,899 | - | 11,868 | 1,342 | - | 258,109 |
| Deposits and other liabilities to other clients | 4,884,506 | 1,093,184 | 3,537,260 | 2,635,826 | 166,208 | 12,316,984 |
| Liabilities based on derivatives intended for hedging | - | - | - | - | - | - |
| Other liabilities | 181,883 | 2,181 | 2,230 | 1,843 | 191 | 188,328 |
| **Total liabilities** | **5,311,288** | **1,095,365** | **3,551,358** | **2,639,011** | **166,399** | **12,763,421** |
| **Net Gap (Total Assets - Total Liabilities)** | **1,301,507** | **598,568** | **(1,236,833)** | **(460,523)** | **1,372,951** | **1,575,670** |

| As of 31 December 2021 | up to 1 month | 1-3 months | 3-12 months | 1 - 5 years | over 5 years | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and funds held with the central bank | 2,098,591 | - | - | - | - | 2,098,591 |
| Securities | 2,880,659 | 1,234,568 | - | - | - | 4,115,227 |
| Loans and receivables from banks and other financial organizations | 457,709 | 2,941 | - | - | - | 460,650 |
| Loans and receivables from customers | 547,237 | 534,079 | 2,697,189 | 3,905,312 | 1,228,413 | 8,912,229 |
| Receivables from derivatives intended for hedging | - | - | - | - | - | - |
| Other assets | 4,741 | 4,693 | 247 | 3,357 | 476 | 13,514 |
| Total assets | **5,988,937** | **1,776,281** | **2,697,436** | **3,908,669** | **1,228,889** | **15,600,212** |
| **LIABILITIES** | | | | | | |
| Deposits and other liabilities to banks, other financial institutions and the central bank | 211,587 | 1,203 | 412,621 | 708,358 | - | 1,333,769 |
| Deposits and other liabilities to other clients | 5,135,737 | 1,186,415 | 2,887,109 | 2,398,287 | 182,905 | 11,790,453 |
| Liabilities based on derivatives intended for hedging | - | - | - | - | - | - |
| Other liabilities | 162,085 | 2,169 | 2,119 | 2,284 | 275 | 168,932 |
| **Total liabilities** | **5,509,409** | **1,189,787** | **3,301,849** | **3,108,929** | **183,180** | **13,293,154** |
| **Net Gap (Total Assets - Total Liabilities)** | **479,528** | **586,494** | **(604,413)** | **799,740** | **1,045,709** | **2,307,058** |

*All amounts are expressed in thousands of RSD unless otherwise stated*

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.2 Liquidity Risk (continued)

### Non-discounted cash flows

The amounts shown in the table below show the contracted undiscounted cash flows of financial instruments as at 31 December 2022.

| As of 31 December 2022 | up to 1 month | 1-3 months | 3-12 months | od 1 - 5 years | over 5 years | Total |
|---|---|---|---|---|---|---|
| Cash and funds with the central bank | 2,156,085 | - | - | - | - | 2,156,085 |
| Securities | 2,562,195 | 1,098,084 | - | - | - | 3,660,279 |
| Loans and receivables from banks and other financial organizations | 1,539,024 | 2,933 | - | - | - | 1,541,957 |
| Loans and receivables from customers | 303,002 | 655,200 | 2,540,612 | 2,927,461 | 1,949,658 | 8,375,934 |
| **Total assets (contracted maturity dates)** | **6,560,306** | **1,756,217** | **2,540,612** | **2,927,461** | **1,949,658** | **15,734,255** |

| As of 31 December 2022 | up to 1 month | 1-3 months | 3-12 months | od 1 - 5 years | over 5 years | Total |
|---|---|---|---|---|---|---|
| Deposits and other liabilities to banks, other financial institutions and the central bank | 244,900 | - | 11,868 | 1,386 | - | 258,154 |
| Deposits and other liabilities to other clients | 4,884,333 | 1,095,813 | 3,582,678 | 2,655,264 | 166,208 | 12,384,296 |
| **Total liabilities (contracted maturity dates)** | **5,129,233** | **1,095,813** | **3,594,546** | **2,656,650** | **166,208** | **12,642,450** |

| As of 31 December 2021 | up to 1 month | 1-3 months | 3-12 months | od 1 - 5 years | over 5 years | Total |
|---|---|---|---|---|---|---|
| Cash and funds with the central bank | 2,098,591 | - | - | - | - | 2,098,591 |
| Securities | 3,853,609 | 1,651,547 | - | - | - | 5,505,156 |
| Loans and receivables from banks and other financial organizations | 457,710 | 2,940 | - | - | - | 460,650 |
| Loans and receivables from customers | 561,774 | 581,200 | 2,876,295 | 4,246,491 | 1,506,373 | 9,772,132 |
| **Total assets (contracted maturity dates)** | **6,971,685** | **2,235,686** | **2,876,295** | **4,246,491** | **1,506,373** | **17,836,530** |

| As of 31 December 2021 | up to 1 month | 1-3 months | 3-12 months | od 1 - 5 years | over 5 years | Total |
|---|---|---|---|---|---|---|
| Deposits and other liabilities to banks, other financial institutions and the central bank | 214,008 | 2,571 | 420,815 | 709,623 | - | 1,347,017 |
| Deposits and other liabilities to other clients | 3,621,310 | 1,276,887 | 3,299,846 | 3,484,017 | 182,905 | 11,864,965 |
| **Total liabilities (agreed maturity dates)** | **3,835,318** | **1,279,458** | **3,720,662** | **4,193,640** | **182,905** | **13,211,982** |

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.2 Liquidity Risk (continued)

During 2022, the outbreak of war in Ukraine and the appearance of new strains of the COVID-19 virus caused a business environment with a higher Stage of risk compared to 2021, while the situation with the epidemic of the COVID-19 virus is significantly more favorable with the abolition of crisis measures but with the still present increased Stage of caution... In this sense, the Bank's focus during 2022 was on maintaining a high level of liquidity as well as diversification and optimization of liquidity reserves with a reduced appetite for risk taking. At the same time, the Bank continued to strengthen the deposit base, which continued to grow significantly during 2022, while on the other hand, liquidity reserves were maintained through a slightly increased and stable amount of the Bank's placement in the securities of the Ministry of Finance of the Republic of Serbia.

**Regulatory liquidity indicators**

In accordance with the Decision on the Management of the Bank's Liquidity Risk, the Bank is obliged to compile and regularly report to the National Bank of Serbia on the Bank's liquidity level through the Bank's liquidity indicator, narrower bank liquidity indicator and liquidity coverage indicator.

*Bank liquidity indicator and narrower bank liquidity indicator*

The Bank's liquidity indicator represents the ratio of the first and second tier liquidity assets of the bank, on the one hand, and the sum of the bank's liabilities on sight or with no contractual maturity and liabilities of the bank with an agreed maturity in the next month from the day of performing the liquidity ratio calculation, on the other.

A narrower indicator of a bank's liquidity is the ratio of the bank's first-line liquidity claims, on the one hand, and sums the bank's liabilities on sight or with no contractual maturity and the bank's contractual maturity within the next month from the reporting date on the other.

| Banks's liquidity indicator | 31 December |
|---|---|
| 2022 | 3.65 |
| 2021 | 2.98 |

| Narrower indicator | 31 December |
|---|---|
| 2022 | 3.41 |
| 2021 | 2.86 |

*Liquid assets coverage indicator*

The liquid assets coverage indicator represents the ratio of the bank's liquidity buffer and the net outflow of its liquid assets that would occur during the next 30 days from the day of calculating this indicator in the assumed stress conditions.

This indicator significantly relies on the Basel III regulation of the European Union (Commission Delegated Regulation EU 2015/61) with some minor changes to adapt to local conditions. In that sense, the most significant differences relate to the inclusion of the amount of required reserves with the National Bank of Serbia that exceeds the amount of calculated reserves and the inclusion of securities of the Ministry of Finance of the Republic of Serbia without the application of corrective factors.

*All amounts are expressed in thousands of RSD unless otherwise stated*

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.2 Liquidity Risk (continued)

The regulatory requirement is to maintain highly liquid assets at a minimum level of 100% relative to the net outflow of funds. The indicator of liquidity coverage of the Bank as of 31 December 2022 and 2021 was as follows:

| LCR | 31 December |
|---|---|
| 2022 | 383% |
| 2021 | 215% |

### 4.3. Credit Risk

The Bank is exposed to credit risk and the possibility that the debtor will not fulfil its obligations towards the Bank in the agreed amount on the due date. Exposure to credit risk arises primarily from crediting operations.

In order to maintain credit risk at an acceptable level, the Bank:

- reviews the creditworthiness of the borrowers according to loans, guarantees and other products,
- determines the limits of credit indebtedness on the basis of risk assessment,
- does business with creditworthy clients and obtains appropriate security instruments.

Clients are under continuous supervision, and limits on risk exposure are adjusted as necessary. Risk limits are determined depending on the different types of security instruments.

The concentration of risk by economic activities is also under constant monitoring, although no restrictions have been set.

Risk exposure to one debtor, including banks, is limited and includes both on-balance sheet and off-balance sheet risk exposure. The total risk exposure per client in relation to restrictions is considered before the transaction occurs.

***Credit risk management at the level of individual placements***

Credit risk management at the level of individual placements includes:

- credit risk management in the process of approving and realizing placements.
- credit risk management in the process of monitoring and collecting placements.

The organizational units of the Bank responsible for taking credit risk at the level of individual placements of corporate and retail entities are the Business Sector with a branch network as well as the Sector for Management of Funds for Placements to Banks and Other Financial Institutions. Organizational parts of the Bank responsible for independent credit risk assessment at the level of individual placements are the Credit Applications Assessment Division and the Bank's Assets Management Division.

The Managing Board and the Executive Board are the Bank's bodies that participate in the decision-making process on approving loans and other receivables of the Bank, as well as changes in loan terms and other receivables, and are composed of members who meet the requirements for membership. Decision of the National Bank of Serbia on the implementation of the provisions of the Law on Banks relating to the granting of preliminary approval for the establishment of banks and the bank's license, as well as certain provisions relating to the approval of the National Bank of Serbia), and their powers, responsibilities and scope regulated by the Bank's Articles of Association.

Members of the Credit Committee and other committees regulated by the Law on Banks and the above Decision shall be appointed by the Managing Board of the Bank.

The dynamics of sessions of the Credit Committee, the quorum for decision-making, as well as the procedure of the Bank's Credit Committee are defined by the rules of operation of the Credit Committee.

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.3. Credit Risk (continued)

***Credit risk management at the level of individual placements (continued)***

*Large exposures*

The Executive Board of the Bank is authorized to make decisions on the approval of large exposures to one person, a group of related parties and entities related to the Bank based on a special Decision of the Managing Boardof the Bank.

The Executive Board of the Bank is obliged to inform the Managing Boardat least quarterly about the following:

- on all transactions concluded with related parties, including legal transactions with entities related to related parties of the Bank
- granted approvals, ie all placements granted to one person or a group of related parties, by which the Bank increases its exposure to that person or group of related parties

*Placement monitoring*

Organizational parts of the Bank who are in charge of credit risk at the level of individual placements are obliged to monitor individual placements and borrowers. Monitoring of individual placement includes:

- Monitoring the financial status of the debtor,
- Monitoring the regularity in the fulfilment of obligations,
- Status and organizational changes of the debtor, ie. up-to-date documentation,
- Monitoring of collateral,
- Identifying the need to restructure or refinance client liabilities, analyse economic feasibility and implement the process
- Other factors affecting the debtor's ability to fulfil its obligations
- Monitoring and collection of placements for all debtors who are up to 30 days late

*Monitoring of individual placements in the status of default*

The organizational part of the Bank responsible for credit risk management in the process of monitoring and collection of placements with the status of outstanding liabilities is the Sector for Collection of Receivables and the Sector for Human Resources and Legal Affairs.

On a monthly basis, the Sector for Collection of Receivables reports to the Receivables Collection Commission on the status of clients by segments and days past due in order to better monitor and collect receivables from clients and establish a system for early detection of potential problematic placements.

Commission for collection of receivables as a body for bad assets management

- monitors clients who are in problematic status (over 60 days past due - Watch list).
- monitors clients according to the Early Recognition System (EWS) identified as potentially problematic, (makes decisions on actions towards individual clients based on information obtained from the Debt Collection Department, as well as the Business Sector with a branch network)

The system for defining early identification of potential problematic claims (EWS) as well as the Watch List is the responsibility of the Credit Applications Assessment Division in cooperation with the Debt Collection Division and the Risk Management Division and is subject to continuous improvement according to current IT support.

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.3. Credit Risk (continued)

***Portfolio level credit risk management***

Credit risk management at the level of the Bank's portfolio is applied in all organizational units of the Bank whose competence are related to the approval and monitoring of placements, as well as at the level of:

- Risk Management Division
- Financial Control Sector
- Executive and Managing Board of the Bank

By monitoring and identifying credit risks at the portfolio level, the Bank, by analyzing the structure and characteristics of the portfolio, timely identifies factors that may lead to an increase in credit risk.

Identification of credit risk at the level of the Bank's portfolio is carried out by determining current credit risk exposure based on current and historical data as well as by determining credit risk exposure that may occur in the future through projections and simulations of the Bank's portfolio.

Internal credit risk reporting covers the following areas:

- portfolio quality - portfolio quality reports contain detailed views on portfolio structure and focus on concentration indicators, as well as key indicators of the Bank's portfolio quality, based on which proposals/opinions are given on potential future effects and steps to be taken in order to improving the Bank's operations
- classification of client loans - classification of loans by risk categories and ratings are done at least quarterly. A breakdown by portfolio segment is needed to provide appropriate insight in terms of risk sources
- Impairment of loans - analysis of provisions and allowances for loans is considered important as an indicator of portfolio quality and a means of identifying sources of loan deterioration
- large debtors - the analysis of large engagements focuses on significant concentrations towards certain clients, as well as on compliance with regulations
- indicators of early warning about the threat to the activities and financial position of the Bank defined by the Recovery Plan
- level of problem receivables (PE and NPE towards FBE status), movement of NPL portfolios in accordance with the Decision on NBS reporting, structure of NPL portfolios and its coverage by value adjustments.
- quarterly portfolio stress within the ICAAP process and reporting to the Managing Boardon the results of stress tests and their effect on internal capital requirements
- monitoring the quality of assets by days of arrears and their movement for all segments of the portfolio, ie. natural persons, small and medium enterprises and large enterprises
- monitoring the status of foreclosed real estate based on the collection of receivables

***Control and supervision***

Organizational parts of the Bank in the function of independent control and supervision over the risk management system:

- Internal audit,
- Sector for Control of Compliance of the Bank's Operations and Prevention of Money Laundering

Bodies of the Bank in the function of independent control and supervision over the credit risk management system:

- Managing Board of the Bank,
- Executive Board of the Bank,
- ALCO Board of the Bank,
- Audit Committee,
- Credit Committee,
- Receivables Collection Commission

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.3. Credit Risk (continued)

In addition to regular independent assessments of the efficiency and reliability of the credit risk management system, the Bank is obliged to test the quality of the applied internal models for credit risk assessment at least once a year.

**The Bank's exposure to credit risk**

The Bank determines the credit risk exposure of its financial assets by applying IFRS 9 as described further in this section.

**Impairment of financial assets**

*Assets carried at amortized cost*

***Assessment on an individual basis - Stage 3***

The assessment of impairment calculation in accordance with this Methodology for Stage 3 exposures is performed for all exposures with:

- identified default status
- all financial instruments that meet the definition of POCI in accordance with IFRS 9;
- exposure to banks classified in V, G and D categories where the total exposure in the bank exceeds EUR 200,000 on the day of calculation
- exposures with FB/NPE status

The calculation of the value adjustment for exposures to the new 3 is performed on an individual basis if the client meets the following conditions:

- Legal entities and entrepreneurs - the total exposure in the bank is greater than 0.05% of the share in the total portfolio and
- Individuals - the total exposure in the bank is greater than 0.2% of the share in the total portfolio

The amount of the limit for calculating the value adjustment on an individual basis is calculated on a quarterly basis and is applied for the next quarter.

*Individually significant exposures* - The Bank assesses at each reporting date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and an impairment loss is recognized only if there is objective evidence that it is impaired as a result of one or more events that occurred after the initial assessment of the asset.

Criteria used by the Bank to determine whether there is objective evidence of impairment include:

1. the financial condition of the debtor indicates significant problems in its operations such as a change in the classification of the debtor; the debtor is late in settling obligations to the state, other creditors or employees or irregularly fulfills obligations based on taxes and social security contributions of employees, in significant amounts, at the discretion of the bank; significant and continuous reduction of operating revenues in the previous two years; the debtor's capital was significantly reduced (more than 50%) due to losses during the previous two reporting periods; there is a material reduction (more than 50%) of operating income;

2. there are data on non-payment of obligations, frequent delays in the payment of interest and/or principal or non-compliance with other contractual provisions; at the latest when the debtor is 90 days late on the basis of any placement; placement is problematic in accordance with the Decision on the classification of balance sheet assets and off-balance sheet items of the Bank;

3. The bank significantly changed the terms of repayment of placements due to financial difficulties of the debtor in relation to the originally agreed. that is, clients who are in the status of NPE/RES, in accordance with items 35a to 35d of the Decision on the classification of balance sheet assets and off-balance sheet items of the bank for problematic claims of the Bank;

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.3. Credit Risk (continued)

#### Impairment of financial assets (continued)

4. it is certain to initiate bankruptcy proceedings against the debtor or initiate another type of financial reorganization, which can be identified on the basis of: the debtor is blocked for more than 60 days on the day of assessment; the debtor is in the process of liquidation; a lawsuit (lawsuit) was initiated against the debtor; pre-bankruptcy proceedings have been initiated against the debtor or bankruptcy proceedings are underway against any strategically important member of the economic entity to which the debtor belongs; the reasons for initiating bankruptcy proceedings against the debtor have been met, which are defined by the law governing bankruptcy; the debtor is in the process of preparing the reorganization plan/the creditors have accepted the proposed reorganization plan/the debtor is operating according to the adopted reorganization plan; or the debtor is in the process of consensual financial restructuring in accordance with the relevant regulation;
5. other objective evidence of impairment which classifies receivables from the client in the category of doubtful and disputable receivables

If the Bank determines that there is objective evidence that a financial asset is impaired, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows.

The Bank recognizes the existence of several possible collection scenarios when estimating expected future cash flows.

On this occasion, the scenarios that are taken into account are:
- ✓ realization of collateral (then separately judicial and extrajudicial),
- ✓ restructuring and reprogramming,
- ✓ bankruptcy,
- ✓ sale of receivables,
- ✓ everything else that is considered relevant

In determining the probability estimates of certain scenarios, the Bank is guided by the history of realization and collection of problem receivables, but also by the specifics of individual financial instruments and accordingly assigns them appropriate weights, which must be 100% of all scenarios.

In this way, final accrued credit losses meet the standard definition in a way that represents the probability of a weighted estimate of credit losses.

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.3. Credit Risk (continued)

### Impairment of financial assets (continued)

Depending on the type of real estate over which the mortgage is established, the location where it is located and the date of the last appraisal, the Bank uses the reduced market value of the real estate in the process of calculating the value adjustment, as follows:

| ***Residential property/territory*** | **Haircuts 2022** | **Billing year** |
|---|---|---|
| Belgrade and Novi Sad | 20% | 1-5 |
| Other | 42.5% | 1-5 |

| ***Business property/territory*** | **Haircuts 2022** | **Billing year** |
|---|---|---|
| Belgrade and Novi Sad | 25% | 1-5 |
| Other | 42.5% | 1-5 |

| ***Industrial property/type*** | **Haircuts 2022** | **Billing year** |
|---|---|---|
| Factories | 35% | 1-5 |
| Warehouses | 50% | 1-5 |

| ***Land/type*** | **Haircuts 2022** | **Billing year** |
|---|---|---|
| Land Vojvodina | 25% | 1-5 |
| Land other | 40% | 1-5 |

| ***Other/type*** | **Haircuts 2020** | **Billing year** |
|---|---|---|
| Guarantee deposits | | |
| Government bonds, HOV for which the state guarantees | | |
| State guarantees | | |
| First class guarantees | | |

| ***Residential property/territory*** | **Haircuts 2021** | **Billing year** |
|---|---|---|
| Belgrade and Novi Sad | 20% | 1-5 |
| Other | 42,5% | 1-5 |

| ***Business property/territory*** | **Haircuts 2021** | **Billing year** |
|---|---|---|
| Belgrade and Novi Sad | 20% | 1-5 |
| Other | 42.5% | 1-5 |

| ***Industrial property/type*** | **Haircuts 2021** | **Billing year** |
|---|---|---|
| Factories | 35% | 1-5 |
| Warehouses | 50% | 1-5 |

| ***Land/type*** | **Haircuts 2021** | **Billing year** |
|---|---|---|
| Land Vojvodina | 25% | 1-5 |
| Land other | 40% | 1-5 |

| ***Other/type*** | **Haircuts 2021** | **Billing year** |
|---|---|---|
| Equipment | 80% | 1-5 |
| Vehicles | 50% | 1-3 |
| Guarantee deposits | 0% | - |
| Government bonds, securities guaranteed by the state | 0% | - |
| State guarantees | 0% | - |
| First-class guarantees | 0% | - |

In cases when the mortgage valuation date is older than 3 years, the haircut defined above is increased by 10%.

Expected cash flows must be reduced to their present value. As a discount factor, the Bank uses the effective interest rate (effective interest rate calculated on the day of concluding the loan agreement) in cases when a fixed interest rate has been agreed with the client, when the Bank has approved a change in repayment terms, when we have restructured receivables the Bank uses the initial effective interest rate per restructured party. In the case of loans with a variable interest rate, the current effective interest rate valid on the day of calculation is used.

In order to determine the expected period of collateral collection, the Receivables Collection Department takes into account the following factors:

- Type of mortgage (depending on the law under which the mortgage was established, i.e. whether it was established under the Mortgage Act or the Enforcement Procedure Act);
- Validity of mortgage documentation (quality, i.e. completeness of documentation held by the Bank);
- Type, purpose, functionality and size of the real estate that is the subject of the mortgage and the location where the real estate is located;
- Supply and demand for real estate that is the subject of collateral;
- The phase in which the mortgage collection process is located, ie. whether the collection was initiated through court or out-of-court settlement procedure or the collection is expected by exercising the rights from the bankruptcy procedure;
- Client's cooperation with the Bank.

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.3. Credit Risk (continued)

**Impairment of financial assets (continued)**

The minimum or maximum expected collection time from collateral ranges from one to five years, depending on the legal deadlines, court practice and regulations of the Republic of Serbia, which are followed in the process of realization of each individual mortgage.

In that sense, the estimated time of collection is mostly influenced by the type of procedure through which the execution is carried out.

The minimum expected collection period in the mortgage realization procedure is one year, if it is activated according to the out-of-court method of settling the currently valid Mortgage Law, if the Real Estate Cadastre of the Republic of Serbia adheres to all legally prescribed deadlines for registering a note with the Bank.

In cases when collection is expected by realization of collateral by applying any other court procedure (Law on Enforcement and Security, Law on Civil Procedure, Bankruptcy Procedure, etc.), which the Bank cannot influence, and which primarily depends on the actions of the court, court executors and bankruptcy trustees, the expected collection period ranges from one to five years, depending on the specifics of each individual security instrument. The maximum expected collection period of five years is applied in cases when the existence of an objective risk of impairment has just been identified and the Bank has not yet started negotiations with the client and/or initiated a dispute against the client.

***Assessment on a group basis-Stage 1,2,3***

The Bank considers the following receivables on a group basis:

- receivables for which the review on an individual basis has shown that there is no objective evidence of impairment;
- receivables that belong to the group of small receivables and which are not considered on an individual basis.

For the purpose of calculation on a group basis, receivables in the Bank's loan portfolio are grouped on the basis of similar characteristics from the aspect of credit risk.

*Stage 1 - expected credit losses*

The calculation of the allowance under Stage 1 is performed if at the reporting date the credit risk of the financial instrument has not increased significantly since initial recognition. The Bank measures the loss provision for this financial instrument at an amount equal to the most expected twelve-month credit loss.

The expected credit loss recognized for Stage 1 financial instruments is accounted for as a one-year portion of accrued credit losses as follows:

$$ECL = EAD * MPD * LGD * DF$$

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

Thus calculated, expected 12-month credit losses are part of expected credit losses over the term and represent cash deficits over the term that will result if default occurs within 12 months after the reporting date (or a shorter period if the expected financial term is instrument shorter than 12 months), weighted by the probability of such default.

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.3. Credit risk (continued)

### Impairment of financial assets (continued)

*Stage 2 – expected credit losses*

At the reporting date, the Bank measures the allowance for a financial instrument at an amount equal to the expected credit loss over its life, if the credit risk for that financial instrument has increased significantly since initial recognition.

The Bank's general approach to calculating expected credit losses for the entire life of the financial instrument is presented by the formula:

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

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

The expected credit losses calculated in this way for the entire period of the financial instrument represent the losses that the Bank recognizes for the purposes of calculating the Stage 2 impairment.

*Stage 3 – expected credit losses*

The calculation of the value correction within Stage 3 is carried out if the criteria for identifying claims that must be assessed on an individual basis but are below the defined materiality threshold are recognized.

For borrowers on the group assessment at Stage 3, the calculation of expected credit losses is calculated as the difference between the gross book value of the placement and the value obtained by discounting all available collateral at the initial effective interest rate, as well as taking into account the collection beyond the collateral on the remaining amount (1-LGD unsecured).

The collateral value that is discounted is 90% of the allocated value after applying the haircut. The average collection from the collateral of 36 months is taken as the discount period.

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.3. Credit Risk (continued)

### Impairment of financial assets (continued)

***Total balance sheet exposure to credit risk***

The total exposure to credit risk as of 31 December 2022 and 31 December 2021 is presented in the following overview without taking into account any collateral or any other credit protection. These values are stated in the Gross and Net carrying amounts.

| | 31 December 2022 | | 31 December 2021 | |
|---|---|---|---|---|
| | **Gross** | **Net** | **Gross** | **Net** |
| I. Assets overview | **15,176,682** | **14,927,374** | **16,299,659** | **16,083,444** |
| Cash and funds at central banks | 2,156,090 | 2,156,085 | 2,098,591 | 2,098,591 |
| Securities | 3,660,279 | 3,660,279 | 4,115,227 | 4,115,227 |
| Loans and receivables from banks and other financial institutions | 1,545,685 | 1,542,099 | 461,207 | 460,650 |
| Loans and receivables from customers | 7,199,636 | 6,960,059 | 9,119,523 | 8,912,229 |
| Receivables from derivatives intended for protection against risk | - | - | - | - |
| Other assets | 614,992 | 608,852 | 505,110 | 496,747 |

Guarantees and letters of credit represent irrevocable obligations of the bank to make payments if the customer is unable to settle its obligation to a third party and bear the same risk as loans.

| | 31 December 2022 | | 31 December 2021 | |
|---|---|---|---|---|
| | **Gross** | **Net** | **Gross** | **Net** |
| II. Off-balance sheet items | **3,886,214** | **3,839,694** | **3,796,288** | **3,777,887** |
| Payable guarantees | 930,614 | 919,690 | 861,604 | 857,922 |
| Performance guarantees | 743,790 | 739,817 | 755,610 | 754,107 |
| Irrevocable commitments | 2,092,795 | 2,062,830 | 2,118,391 | 2,107,067 |
| Other | 119,015 | 117,356 | 60,683 | 58,791 |
| **Total (I+II)** | **19,062,896** | **18,767,068** | **20,095,947** | **19,861,331** |

Change in loans and receivables from customers by risk Stages during 2022:

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **31 December 2021** | **6,737,291** | **1,802,879** | **579,352** | **9,119,523** |
| New receivables | 2,165,179 | 517,884 | 13,125 | 2,696,188 |
| Reduction/Repayment of receivables | (2,738,117) | (1,360,696) | (517,261) | (4,616,075) |
| Transfer to Stage 1 | 211,097 | (206,820) | (4,276) | - |
| Transfer to Stage 2 | (1,267,349) | 1,269,556 | (2,207) | - |
| Transfer to Stage 3 | (52,412) | (267,874) | 320,286 | - |
| **31 December 2022** | **5,055,688** | **1,754,929** | **389,018** | **7,199,636** |

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.3. Credit Risk (continued)

### Impairment of financial assets (continued)

Change in value adjustments of loans and receivables from customers by risk Stages during 2022

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **31 December 2021** | **36,611** | **25,225** | **145,458** | **207,294** |
| New receivables | 54,212 | 30,140 | 91,818 | 176,171 |
| Reduction/Repayment of receivables | (21,439) | (17,423) | (105,025) | (143,887) |
| Transfer to Stage 1 | 5,767 | (4,690) | (1,077) | - |
| Transfer to Stage 2 | (7,496) | 7,496 | - | - |
| Transfer to Stage 3 | (396) | (3,274) | 3,670 | - |
| **31 December 2022** | **67,259** | **37,475** | **134,843** | **239,577** |

Change in loans and receivables from customers by Stage of risk during 2021

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **31.12.2020** | **8,137,904** | **1,099,973** | **692,974** | **9,930,851** |
| New receivables | 2,216,952 | 367,904 | 5,102 | 2,589,958 |
| Reduction/Repayment of receivables | (2,664,823) | (283,798) | (452,666) | (3,401,286) |
| Transfer to Stage 1 | 146,629 | (134,233) | (12,395) | - |
| Transfer to Stage 2 | (1,075,388) | 1,100,749 | (25,361) | - |
| Transfer to Stage 3 | (23,983) | (347,716) | 371,699 | - |
| **31.12.2020** | **6,737,291** | **1,802,879** | **579,352** | **9,119,523** |

Change in value adjustments of loans and receivables from customers by risk Stages during 2021

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **31.12.2020** | **52,239** | **32,603** | **191,044** | **275,885** |
| New receivables | 20,924 | 9,872 | 85,381 | 116,178 |
| Reduction/Repayment of receivables | (38,497) | (26,689) | (119,584) | (184,770) |
| Transfer to Stage 1 | 8,047 | (4,632) | (3,415) | - |
| Transfer to Stage 2 | (5,879) | 20,007 | (14,128) | - |
| Transfer to Stage 3 | (224) | (5,936) | 6,160 | - |
| **31 December 2021** | **36,611** | **25,225** | **145,458** | **207,294** |

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.3. Credit Risk (continued)

### Loans and receivables from customers, banks and other financial organizations

| 31 December 2022. | Stage 1 | Stage 2 | Stage 3 | Total | Value correction Stage 1 | Value correction Stage 2 | Value correction Stage 3 | Total value correction | Net |
|---|---|---|---|---|---|---|---|---|---|
| Housing | 1,428,159 | 15,751 | 45,583 | 1,489,493 | 3,352 | 1,036 | 5,226 | 9,614 | 1,479,879 |
| Cash and consumer | 211,990 | 5,395 | 11,540 | 228,925 | 3,423 | 1,105 | 5,200 | 9,728 | 219,197 |
| Credit cards | 4,306 | 79 | 7 | 4,392 | 266 | 57 | 7 | 330 | 4,062 |
| Overdraft on current accounts | 3,483 | 1 | 102 | 3,587 | 291 | 1 | 102 | 394 | 3,193 |
| Other | - | - | - | - | - | - | - | - | - |
| **Retails** | **1,647,938** | **21,227** | **57,232** | **1,726,397** | **7,332** | **2,198** | **10,535** | **20,065** | **1,706,332** |
| **Entrepreneurs** | **169,426** | **16,821** | **17,784** | **204,031** | **9,024** | **2,830** | **3,368** | **15,221** | **188,809** |
| **Total retail** | **1,817,364** | **38,048** | **75,016** | **1,930,428** | **16,356** | **5,028** | **13,903** | **35,287** | **1,895,141** |
| Large companies | 208,979 | 40,116 | - | 249,095 | 3,826 | - | - | 3,826 | 245,269 |
| Medium companies | 1,219,701 | 611,583 | - | 1,831,284 | 18,676 | 19,484 | - | 38,160 | 1,793,124 |
| Small companies | 1,354,304 | 775,266 | 266,240 | 2,395,810 | 25,674 | 9,433 | 115,455 | 150,563 | 2,245,247 |
| Micro companies | 333,538 | 289,917 | 47,763 | 671,217 | 2,722 | 3,530 | 5,486 | 11,738 | 659,479 |
| Other | 121,802 | - | - | 121,802 | 4 | - | - | 4 | 121,798 |
| **Corporate** | **3,238,324** | **1,716,881** | **314,003** | **5,269,208** | **50,902** | **32,447** | **120,941** | **204,291** | **5,064,917** |
| **Total corporate** | **5,055,688** | **1,754,929** | **389,019** | **7,199,636** | **67,259** | **37,475** | **134,844** | **239,577** | **6,960,059** |
| **Banks** | **1,545,685** | **-** | **-** | **1,545,685** | **3,587** | **-** | **-** | **3,587** | **1,542,099** |

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.3. Credit Risk (continued)

### Loans and receivables from customers, banks and other financial organizations

| 31 December 2021 | Stage 1 | Stage 2 | Stage 3 | Total | Value correction Stage 1 | Value correction Stage 2 | Value correction Stage 3 | Total value correction | Net |
|---|---|---|---|---|---|---|---|---|---|
| Housing | 1,480,082 | 77,991 | 59,876 | 1,617,948 | 435 | 410 | 13,459 | 14,304 | 1,603,644 |
| Cash and consumer | 272,757 | 23,483 | 35,808 | 332,049 | 3,057 | 3,128 | 15,119 | 21,304 | 310,745 |
| Credit cards | 5,578 | 165 | 149 | 5,892 | 88 | 16 | 138 | 242 | 5,650 |
| Overdraft on current accounts | 4,454 | 56 | 86 | 4,596 | 188 | 35 | 86 | 308 | 4,288 |
| Other | - | - | - | - | - | - | - | - | - |
| **Retails** | **1,762,871** | **101,695** | **95,919** | **1,960,485** | **3,767** | **3,589** | **28,801** | **36,158** | **1,924,328** |
| **Entrepreneurs** | **304,007** | **2,999** | **35,237** | **342,243** | **4,679** | **667** | **6,010** | **11,355** | **330,888** |
| **Total retail** | **2,066,878** | **104,694** | **131,156** | **2,302,729** | **8,446** | **4,256** | **34,811** | **47,513** | **2,255,215** |
| Large companies | 317,950 | 33,731 | 125,435 | 477,116 | 3,641 | 685 | 64,969 | 69,295 | 407,822 |
| Medium companies | 1,924,218 | 683,458 | 149,932 | 2,757,608 | 9,541 | 10,983 | - | 20,524 | 2,737,084 |
| Small companies | 1,872,314 | 702,399 | 137,365 | 2,712,078 | 13,021 | 6,113 | 41,752 | 60,887 | 2,651,191 |
| Micro companies | 446,168 | 278,597 | 35,463 | 760,229 | 1,961 | 3,188 | 3,926 | 9,075 | 751,154 |
| Other | 109,764 | - | - | 109,764 | 1 | - | - | 1 | 109,763 |
| **Corporate** | **4,670,413** | **1,698,185** | **448,196** | **6,816,794** | **28,165** | **20,969** | **110,647** | **159,781** | **6,657,013** |
| **Total corporate** | **6,737,291** | **1,802,879** | **579,352** | **9,119,523** | **36,611** | **25,225** | **145,458** | **207,294** | **8,912,229** |
| **Banks** | **461,207** | **-** | **-** | **461,207** | **558** | **-** | **-** | **558** | **460,650** |

*All amounts are expressed in thousands of RSD unless otherwise stated*

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.3. Credit Risk (continued)

### Loans and receivables from customers, banks and other financial organizations (continued)

The structure of receivables from customers located in Stage 1.

| 31 December 2022. | Not overdue | Up to 30 days overdue | 31-60 days | 61-90 days | Total |
|---|---|---|---|---|---|
| Housing | 1,364,942 | 63,217 | - | - | 1,428,159 |
| Cash and consumer | 196,214 | 15,776 | - | - | 211,990 |
| Credit cards | 4 | 4,302 | - | - | 4,306 |
| Overdraft on current accounts | 3,482 | 1 | - | - | 3,483 |
| Other | - | - | - | - | - |
| **Retails** | **1,564,643** | **83,295** | **-** | **-** | **1,647,938** |
| **Entrepreneurs** | **130,416** | **39,010** | **-** | **-** | **169,426** |
| **Total retails** | **1,695,059** | **122,305** | **-** | **-** | **1,817,364** |
| Large companies | 208,979 | - | - | - | 208,979 |
| Medium companies | 820,412 | 399,289 | - | - | 1,219,701 |
| Small companies | 1,283,855 | 70,449 | - | - | 1,354,304 |
| Micro companies | 325,083 | 8,455 | - | - | 333,538 |
| Other | 121,802 | - | - | - | 121,802 |
| **Corporate** | **2,760,130** | **478,194** | **-** | **-** | **3,238,324** |
| **Total** | **4,455,189** | **600,499** | **-** | **-** | **5,055,688** |
| **of which: restructured** | **-** | **-** | **-** | **-** | **-** |
| **Receivables from banks** | **259,307** | **1,286,378** | **-** | **-** | **1,545,685** |

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.3. Credit Risk (continued)

### Loans and receivables from customers, banks and other financial organizations (continued)

| 31 December 2021. | Not overdue | Up to 30 days overdue | 31-60 days | 61-90 days | Total |
|---|---|---|---|---|---|
| Housing | 1,431,634 | 48,447 | - | - | **1,480,082** |
| Cash and consumer | 247,248 | 25,510 | - | - | **272,757** |
| Credit cards | 21 | 5,557 | - | - | **5,578** |
| Overdraft on current accounts | 4,384 | 70 | - | - | **4,454** |
| Other | - | - | - | - | **-** |
| **Retails** | **1,683,287** | **79,585** | **-** | **-** | **1,762,871** |
| **Entrepreneurs** | **250,956** | **53,051** | **-** | **-** | **304,007** |
| **Total retails** | **1,934,242** | **132,636** | **-** | **-** | **2,066,878** |
| Large companies | 262,368 | 55,581 | - | - | **317,950** |
| Medium companies | 1,863,445 | 60,773 | - | - | **1,924,218** |
| Small companies | 1,543,039 | 329,275 | - | - | **1,872,314** |
| Micro companies | 429,434 | 16,735 | - | - | **446,168** |
| Other | 109,764 | - | - | - | **109,764** |
| **Corporate** | **4,208,049** | **462,364** | **-** | **-** | **4,670,413** |
| **Total** | **6,142,292** | **595,000** | **-** | **-** | **6,737,291** |
| **of which: restructured** | **-** | **-** | **-** | **-** | **-** |
| **Receivables from banks** | **461,207** | **-** | **-** | **-** | **461,207** |

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.3. Credit Risk (continued)

### Loans and receivables from customers, banks and other financial organizations (continued)

The structure of receivables from customers located in Stage 2.

| 31 December 2022. | Not overdue | Up to 30 days overdue | 31-60 days | 61-90 days | Over 90 days | Total |
|---|---|---|---|---|---|---|
| Housing | - | - | 11,891 | 3,860 | - | 15,751 |
| Cash and consumer | 48 | - | 3,550 | 1,797 | - | 5,395 |
| Credit cards | - | - | - | 79 | - | 79 |
| Overdraft on current accounts | - | - | 1 | - | - | 1 |
| Other | - | - | - | - | - | - |
| **Retails** | **48** | **-** | **15,442** | **5,737** | **-** | **21,227** |
| **Entrepreneurs** | **6,635** | **-** | **10,187** | **-** | **-** | **16,821** |
| **Total retails** | **6,682** | **-** | **25,629** | **5,737** | **-** | **38,048** |
| Large companies | - | 40,116 | - | - | - | 40,116 |
| Medium companies | 423,535 | 188,048 | - | - | - | 611,583 |
| Small companies | 257,283 | 494,225 | 23,758 | - | - | 775,266 |
| Micro companies | 271,273 | 18,644 | - | - | - | 289,917 |
| Other | - | - | - | - | - | - |
| **Corporate** | **952,092** | **741,032** | **23,758** | **-** | **-** | **1,716,881** |
| **Total** | **958,774** | **741,032** | **49,386** | **5,737** | **-** | **1,754,929** |
| **of which: restructured** | **51,481** | **-** | **-** | **-** | **-** | **51,481** |
| **Receivables from banks** | **-** | **-** | **-** | **-** | **-** | **-** |

*All amounts are expressed in thousands of RSD unless otherwise stated*

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.3. Credit risk (continued)

### Loans and receivables from customers, banks and other financial organizations (continued)

| 31 December 2021 | Not overdue | Up to 30 days overdue | 31-60 days | 61-90 days | Over 90 days | Total |
|---|---|---|---|---|---|---|
| Housing | 36,377 | 8,432 | 26,017 | 7,165 | - | **77,991** |
| Cash and consumer | 1,983 | 1,548 | 17,513 | 2,439 | - | **23,483** |
| Credit cards | - | - | 165 | - | - | **165** |
| Overdraft on current accounts | - | - | 3 | 54 | - | **56** |
| Other | - | - | - | - | - | **-** |
| **Retails** | **38,360** | **9,980** | **43,697** | **9,658** | **-** | **101,695** |
| **Entrepreneurs** | **-** | **-** | **2,999** | **-** | **-** | **2,999** |
| **Total retails** | **38,360** | **9,980** | **46,696** | **9,658** | **-** | **104,694** |
| Large companies | - | 33,731 | - | - | - | **33,731** |
| Medium companies | 640,925 | 42,534 | - | - | - | **683,458** |
| Small companies | 567,379 | 124,136 | 10,884 | - | - | **702,399** |
| Micro companies | 212,361 | 50,816 | 2,280 | 13,140 | - | **278,597** |
| Other | - | - | - | - | - | **-** |
| **Corporate** | **1,420,664** | **251,217** | **13,164** | **13,140** | **-** | **1,698,185** |
| **Total** | **1,459,024** | **261,197** | **59,860** | **22,798** | **-** | **1,802,879** |
| **of which: restructured** | **20,554** | **499** | **211** | **19** | **-** | **21,282** |
| **Receivables from banks** | **-** | **-** | **-** | **-** | **-** | **-** |

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.3. Credit Risk (continued)

### Loans and receivables from customers, banks and other financial organizations (continued)

| 31 December 2022 | Not overdue | Up to 30 days overdue | 31-60 days | 61-90 days | Over 90 days | Total |
|---|---|---|---|---|---|---|
| Housing | 4,711 | - | - | - | 40,872 | 45,583 |
| Cash and consumer | 409 | 205 | - | - | 10,926 | 11,540 |
| Credit cards | - | - | - | - | 7 | 7 |
| Overdraft on current accounts | - | - | - | - | 102 | 102 |
| Other | - | - | - | - | - | - |
| **Retails** | 5,120 | 205 | - | - | 51,907 | 57,232 |
| **Entrepreneurs** | 3,632 | 4,311 | - | - | 9,840 | 17,784 |
| **Total retails** | 8,753 | 4,516 | - | - | 61,748 | 75,016 |
| Large companies | - | - | - | - | - | - |
| Medium companies | - | - | - | - | - | - |
| Small companies | 1,639 | - | - | - | 264,601 | 266,240 |
| Micro companies | 26,506 | - | - | - | 21,257 | 47,763 |
| Other | - | - | - | - | - | - |
| **Corporates** | 28,145 | - | - | - | 285,857 | 314,003 |
| **Total** | 36,898 | 4,516 | - | - | 347,605 | 389,019 |
| **of which: restructured** | 408 | 205 | - | - | 779 | 1,391 |
| **Receivables from banks** | - | - | - | - | - | - |

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.3. Credit Risk (continued)

### Loans and receivables from customers, banks and other financial organizations (continued)

| 31 December 2021 | Not overdue | Up to 30 days overdue | 31-60 days | 61-90 days | Over 90 days | Total |
|---|---|---|---|---|---|---|
| Housing | 2,902 | 849 | 5,406 | 1,964 | 48,755 | **59,876** |
| Cash and consumer | 1,619 | 1,399 | 418 | 771 | 31,601 | **35,808** |
| Credit cards | - | - | - | - | 149 | **149** |
| Overdraft on current accounts | - | - | - | - | 86 | **86** |
| Other | - | - | - | - | - | **-** |
| **Retails** | **4,521** | **2,249** | **5,824** | **2,735** | **80,591** | **95,919** |
| **Entrepreneurs** | **15,399** | **1,265** | **-** | **292** | **18,282** | **35,237** |
| **Total retails** | **19,919** | **3,514** | **5,824** | **3,026** | **98,873** | **131,156** |
| Large companies | - | - | - | - | 125,435 | **125,435** |
| Medium companies | - | - | - | - | 149,932 | **149,932** |
| Small companies | 19,310 | - | 4,028 | - | 114,027 | **137,365** |
| Micro companies | 7,604 | 8,025 | 7,570 | - | 12,264 | **35,463** |
| Other | - | - | - | - | - | **-** |
| **Corporates** | **26,914** | **8,025** | **11,598** | **-** | **401,658** | **448,196** |
| **Total** | **46,834** | **11,539** | **17,422** | **3,026** | **500,532** | **579,352** |
| **of which: restructured** | **1,528** | **647** | **390** | **386** | **4,591** | **7,542** |
| **Receivables from banks** | **-** | **-** | **-** | **-** | **-** | **-** |

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.3. Credit Risk (continued)

### Loans and receivables from customers, banks and other financial organizations (continued)

The structure of receivables from customers located in Stage 3 as well as restructured receivables.

| 31 December 2022 | Gross exposure | Value correction | Stage 3 receivables | Restructured receivables Stage 3 | Value correction Stage 3 | Share of Stage 3 receivables in Gross exposure | Amount of collateral for Stage 3 |
|---|---|---|---|---|---|---|---|
| **Total retails** | **1,930,428** | **35,287** | **75,016** | **1,391** | **13,903** | **3.89%** | **52,108** |
| Housing | 1,489,493 | 9,614 | 45,583 | - | 5,226 | 3.06% | 41,878 |
| Cash and consumer | 228,925 | 9,728 | 11,540 | 1,391 | 5,200 | 5.04% | 472 |
| Credit cards | 4,392 | 330 | 7 | - | 7 | 0.16% | - |
| Overdraft on current accounts | 3,587 | 394 | 102 | - | 102 | 2.85% | - |
| Other | - | - | - | - | - | - | - |
| **Retails** | **1,726,397** | **20,065** | **57,232** | **1,391** | **10,535** | **3.32%** | **42,349** |
| **Entrepreneurs** | **204,031** | **15,221** | **17,784** | **-** | **3,368** | **8.72%** | **9,759** |
| **Corporate** | **5,269,208** | **204,291** | **314,003** | **-** | **120,941** | **5.96%** | **303,301** |
| Accommodation and catering services | 8,542 | 48 | - | - | - | - | - |
| Administrative and support service activities | 189,912 | 3,789 | 483 | - | 281 | 0.25% | - |
| Agriculture, forestry and fishing | 388,366 | 28,980 | 143,999 | - | 27,302 | 37.08% | 143,840 |
| Arts, entertainment and recreation | 38,674 | 72 | - | - | - | - | - |
| Construction | 679,122 | 94,392 | 102,303 | - | 86,594 | 15.06% | 97,487 |
| Financial and insurance activities | 11,554 | 3 | - | - | - | 0.00% | - |
| Information and communication | 22,714 | 340 | - | - | - | 0.00% | - |
| Manufacturing industry | 2,113,535 | 51,179 | 18,185 | - | 4,546 | 0.86% | 14,978 |
| Professional, scientific, innovation and technical | 104,490 | 1,008 | - | - | - | - | - |
| Real estate business | - | - | - | - | - | - | - |
| Traffic and storage | 211,452 | 4,029 | 17,379 | - | 175 | 8.22% | 17,076 |
| Wholesale and retail trade, repair | 1,299,541 | 19,367 | 31,269 | - | 1,820 | 2.41% | 29,920 |
| Other | 201,307 | 1,083 | 384 | - | 223 | 0.19% | - |
| **Total** | **7,199,636** | **239,577** | **389,019** | **1,391** | **134,844** | **5.40%** | **355,409** |
| **Receivables from banks** | **1,545,685** | **3,587** | **-** | **-** | **-** | **-** | **-** |

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.3. Credit Risk (continued)

### Loans and receivables from clients, banks and other financial institutions (continued)

| 31 December 2021 | Gross exposure | Value correction | Stage 3 receivables | Restructured receivables Stage 3 | Value correction Stage 3 | Share of Stage 3 receivables in Gross exposure | Amount of collateral for Stage 3 |
|---|---|---|---|---|---|---|---|
| **Total retails** | **2,302,729** | **47,513** | **131,156** | **7,542** | **34,811** | **5.70%** | **73,714** |
| Housing | 1,617,948 | 14,304 | 59,876 | 239 | 13,459 | 3.70% | 50,868 |
| Cash and consumer | 332,049 | 21,304 | 35,808 | 7,302 | 15,119 | 10.78% | 2,151 |
| Credit cards | 5,892 | 242 | 149 | - | 138 | 2.53% | - |
| Overdraft on current accounts | 4,596 | 308 | 86 | - | 86 | 1.86% | - |
| Other | - | - | - | - | - | - | - |
| **Retails** | **1,960,485** | **36,158** | **95,919** | **7,542** | **28,801** | **4.89%** | **53,019** |
| **Entrepreneurs** | **342,243** | **11,355** | **35,237** | **-** | **6,010** | **10.30%** | **20,695** |
| **Corporate** | **6,816,794** | **159,781** | **448,196** | **-** | **110,647** | **6.57%** | **417,025** |
| Accommodation and catering services | 17,123 | 58 | 2,207 | - | - | 12.89% | 2,207 |
| Administrative and support service activities | 183,217 | 3,420 | 6,193 | - | 2,156 | 3.38% | 1,440 |
| Agriculture, forestry and fishing | 595,625 | 66,318 | 126,251 | - | 65,059 | 21.20% | 111,058 |
| Arts, entertainment and recreation | 35,559 | 19 | - | - | - | - | - |
| Construction | 984,426 | 34,615 | 53,199 | - | 29,166 | 5.40% | 48,491 |
| Financial and insurance activities | 38,073 | 57 | - | - | - | - | - |
| Information and communication | 21,031 | 146 | - | - | - | - | - |
| Manufacturing industry | 2,321,893 | 27,085 | 242,443 | - | 11,075 | 10.44% | 241,292 |
| Professional, scientific, innovation and technical activities | 170,675 | 1,384 | - | - | - | - | - |
| Real estate business | 395,080 | 7,895 | - | - | - | - | - |
| Traffic and storage | 278,961 | 4,034 | 4,196 | - | 1,860 | 1.50% | 1,176 |
| Wholesale and retail trade, repair | 1,589,259 | 12,739 | 13,045 | - | 1,113 | 0.82% | 11,084 |
| Other | 185,873 | 2,011 | 660 | - | 218 | 0.36% | 276 |
| **Total** | **9,119,523** | **207,294** | **579,352** | **7,542** | **145,458** | **6.35%** | **490,739** |
| **Receivables from banks** | **461,207** | **558** | **-** | **-** | **-** | **-** | **-** |

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.3. Credit Risk(continued)

### Loans and receivables from clients, banks and other financial institutions (continued)

Below are the changes of receivables at the Stage 3 level.

| Changes in Stage 3 receivables | Gross amount as of 31 December 2021 | New Stage 3 clients | Decrease of Stage 3 clients | Gross amount as of 31 December 2022 | Net amount as of 31 December 2022 |
|---|---|---|---|---|---|
| Housing loans | 59,876 | 9,973 | 24,266 | 45,583 | 40,357 |
| Cash and consumer loans | 35,808 | 6,339 | 30,607 | 11,540 | 6,341 |
| Credit cards | 149 | 0 | 142 | 7 | 0 |
| Current account overdrafts | 86 | 62 | 45 | 102 | 0 |
| Other loans | 0 | 0 | 0 | 0 | 0 |
| **Retail** | **95,919** | **16,374** | **55,061** | **57,232** | **46,697** |
| **Entrepreneurs** | **35,237** | **2,157** | **19,611** | **17,784** | **14,416** |
| **Total retail** | **131,156** | **18,531** | **74,671** | **75,016** | **61,113** |
| Large enterprises | 125,435 | 0 | 125,435 | 0 | 0 |
| Medium enterprises | 149,932 | 0 | 149,932 | 0 | 0 |
| Small enterprises | 137,365 | 211,268 | 82,393 | 266,240 | 150,785 |
| Micro enterprises | 35,464 | 32,608 | 20,309 | 47,763 | 42,277 |
| Other | 0 | 0 | 0 | 0 | 0 |
| **Corporates** | **448,196** | **243,876** | **378,069** | **314,003** | **193,062** |
| **Total** | **579,352** | **262,407** | **452,740** | **389,019** | **254,175** |

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.3. Credit Risk (continued)

| Changes in Stage 3 receivables | Gross amount as of 31 December 2020 | New Stage 3 clients | Decrease of Stage 3 clients | Gross amount as of 31 December 2021 | Net amount as of 31 December 2021 |
|---|---|---|---|---|---|
| Housing loans | 71,289 | 2,873 | 14,285 | 59,876 | 46,417 |
| Cash and consumer loans | 83,449 | 3,837 | 51,477 | 35,808 | 20,689 |
| Credit cards | 99 | 66 | 16 | 149 | 11 |
| Current account overdrafts | 96 | 50 | 60 | 86 | - |
| Other loans | - | - | - | - | - |
| **Retail** | **154,932** | **6,826** | **65,838** | **95,919** | **67,118** |
| | | | | | **-** |
| **Entrepreneurs** | **35,868** | **10,215** | **10,846** | **35,237** | **29,227** |
| | | | | | **-** |
| **Total retail** | **190,800** | **17,041** | **76,684** | **131,156** | **96,345** |
| Large enterprises | - | 125,435 | - | 125,435 | 60,467 |
| Medium enterprises | - | 149,932 | - | 149,932 | 149,932 |
| Small enterprises | 434,827 | 24,470 | 321,932 | 137,365 | 95,613 |
| Micro enterprises | 67,347 | 5,713 | 37,597 | 35,464 | 31,537 |
| Other | - | - | - | - | - |
| **Corporates** | **502,174** | **305,551** | **359,529** | **448,196** | **337,549** |
| **Total** | **692,974** | **322,591** | **436,213** | **579,352** | **433,894** |

*All amounts are expressed in thousands of RSD unless otherwise stated*

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.3. Credit Risk (continued)

**Restructured receivables**

Loans with amendments to the initially agreed terms are loans that are rescheduled or restructured due to deterioration in the financial condition of the debtor and due to problems in the settlement of obligations in the initially agreed maturity dates.

The Bank performs a financial analysis of debtors who have a problem in settling liabilities and if it estimates that the debtor will be able to settle its obligations after the changed conditions, the Bank decides to reschedule such loans.

| Restructured receivables as of 31 December 2022 | Restructured receivables (RR)- Gross exposure | Stage 1 RP | Stage 2 RR | Stage 3 RR | Value correction of RR | Value correction of Stage 1 RR | Value correction of Stage 2 RR | Value correction of Stage 3 RR | Share of RR in gross exposure | Amount of collaterals for RR |
|---|---|---|---|---|---|---|---|---|---|---|
| **Total retails** | **1,439** | **-** | **48** | **1,391** | **634** | **-** | **5** | **629** | **0.07%** | **-** |
| Housing loans | - | - | - | - | - | - | - | - | - | - |
| Cash and consumer loans | 1,439 | - | 48 | 1,391 | 634 | - | 5 | 629 | 0.63% | - |
| Credit cards | - | - | - | - | - | - | - | - | - | - |
| Current account overdrafts | - | - | - | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | - | - | - | - |
| **Retail** | 1,439 | - | 48 | 1,391 | 634 | - | 5 | 629 | 0.08% | - |
| **Entrepreneurs** | - | - | - | - | - | - | - | - | - | - |
| **Corporate** | **51,433** | **-** | **51,433** | **-** | **92** | **-** | **92** | **-** | **0.98%** | **50,236** |
| Accommodation and food services | - | - | - | - | - | - | - | - | - | - |
| Administrative and support services | - | - | - | - | - | - | - | - | - | - |
| Agriculture, forestry and fishery | - | - | - | - | - | - | - | - | - | - |
| Art, entertainment and recreation | - | - | - | - | - | - | - | - | - | - |
| Construction | - | - | - | - | - | - | - | - | - | - |
| Financial activities and insurance activities | - | - | - | - | - | - | - | - | - | - |
| Information and communication | - | - | - | - | - | - | - | - | - | - |
| Manufacturing industry | 51,433 | - | 51,433 | - | 92 | - | 92 | - | 2.43% | 50,236 |
| Professional, scientific, innovation and technical activities | - | - | - | - | - | - | - | - | - | - |
| Real estate business | - | - | - | - | - | - | - | - | - | - |
| Transport and warehousing | - | - | - | - | - | - | - | - | - | - |
| Wholesale and retail, repairs | - | - | - | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | - | - | - | - |
| **Corporate** | **52,872** | **-** | **51,481** | **1,391** | **726** | **-** | **97** | **629** | **0.73%** | **50,236** |
| **Receivables from banks** | - | - | - | - | - | - | - | - | - | - |

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.3. Credit Risk (continued)

### Restructured receivables (continued)

| Restructured receivables as of 31 December 2021 | Restructured receivables (RR)-Gross exposure | Stage 1 RP | Stage 2 RR | Stage 3 RR | Value correction of RR | Value correction of Stage 1 RR | Value correction of Stage 2 RR | Value correction of Stage 3 RR | Share of RR in gross exposure | Amount of collaterals for RR |
|---|---|---|---|---|---|---|---|---|---|---|
| **Total retail** | **8,603** | **-** | **1,061** | **7,542** | **2,677** | **-** | **111** | **2,565** | **0.37%** | **1,837** |
| Housing loans | 239 | - | - | 239 | - | - | - | - | 0.01% | 239 |
| Cash and consumer loans | 8,363 | - | 1,061 | 7,302 | 2,676 | - | 111 | 2,565 | 2.52% | 1,597 |
| Credit cards | - | - | - | - | - | - | - | - | - | - |
| Current account overdrafts | - | - | - | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | - | - | - | - |
| **Retail** | **8,603** | **-** | **1,061** | **7,542** | **2,676** | **-** | **111** | **2,565** | **0.44%** | **1,837** |
| **Entrepreneurs** | - | - | - | - | - | - | - | - | - | - |
| **Corporate** | **20,221** | **-** | **20,221** | **-** | **505** | **-** | **505** | **-** | **0.30%** | **18,808** |
| Accommodation and food services | - | - | - | - | - | - | - | - | - | - |
| Administrative and support services | - | - | - | - | - | - | - | - | - | - |
| Agriculture, forestry and fishery | - | - | - | - | - | - | - | - | - | - |
| Art, entertainment and recreation | - | - | - | - | - | - | - | - | - | - |
| Construction | - | - | - | - | - | - | - | - | - | - |
| Financial activities and insurance activities | - | - | - | - | - | - | - | - | - | - |
| Information and communication | - | - | - | - | - | - | - | - | - | - |
| Manufacturing industry | 20,221 | - | 20,221 | - | 505 | - | 505 | - | 0.87% | 18,808 |
| Professional, scientific, innovation and technical activities | - | - | - | - | - | - | - | - | - | - |
| Real estate business | - | - | - | - | - | - | - | - | - | - |
| Transport and warehousing | - | - | - | - | - | - | - | - | - | - |
| Wholesale and retail, repairs | - | - | - | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | - | - | - | - |
| **Total** | **28,824** | **-** | **21,282** | **7,542** | **3,182** | **-** | **617** | **2,565** | **0.32%** | **20,645** |
| **Receivables from banks** | - | - | - | - | - | - | - | - | - | - |

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.3. Credit Risk (continued)

### Restructured receivables (continued)

In 2022, the Bank had restructured receivables that were classified into stage 2 according to the Bank's methodology, and these include:

- Cash and consumer loans in the amount of RSD 48 thousand
- Loans to corporates in the amount of RSD 51,433 thousand,

i.e. into Stage 3:

- Cash and consumer loans in the amount of RSD 1,391 thousand

There were no movements of restructured receivables during 2022 within Stage 1, while the movements within Stage 2 and le Stage3 are shown in the following two tables:

| | Gross restructured Stage 2 receivables as of 31 December 2021 | New restructured Stage 2 receivables | Decrease in restructured Stage 2 receivables | Gross amount as of 31 December 2022 | Net amount as of 31 December 2022 |
|---|---|---|---|---|---|
| Housing loans | - | - | - | - | - |
| Cash | 1,061 | | 1,013 | 48 | 42 |
| Credit cards | - | - | - | - | - |
| Current account overdrafts | - | - | - | - | - |
| Other | - | - | - | - | - |
| **Retail** | **1,061** | **-** | **1,013** | **48** | **42** |
| **Entrepreneurs** | **-** | **-** | **-** | **-** | **-** |
| **Total retail** | **1,061** | **-** | **1,013** | **48** | **42** |
| Large enterprises | - | - | - | - | - |
| Medium enterprises | - | - | - | - | - |
| Small enterprises | - | 50,236 | - | 50,236 | 50,236 |
| Micro enterprises | 20,221 | - | 19,024 | 1,197 | 1,105 |
| Other | - | - | - | - | - |
| **Corporates** | **20,221** | **50,236** | **19,024** | **51,433** | **51,341** |
| **Total** | **21,282** | **50,236** | **20,037** | **51,481** | **51,383** |
| **Banks** | **-** | **-** | **-** | **-** | **-** |
| **Other receivables from banks** | **-** | **-** | **-** | **-** | **-** |
| **Other funds that are not classified** | **-** | **-** | **-** | **-** | **-** |
| Housing | | | | | |
| **TOTAL** | **21,282** | **50,236** | **20,037** | **51,481** | **51,383** |

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.3. Credit Risk (continued)

### Restructured receivables (continued)

| | Gross restructured Stage 3 receivables as of 31 December 2021 | New restructured Stage 3 receivables | Decrease in restructured Stage 3 receivables | Gross amount as of 31 December 2022 | Net amount as of 31 December 2022 |
|---|---|---|---|---|---|
| Housing loans | 239 | | 239 | - | - |
| Cash | 7,302 | 52 | 5,963 | 1,391 | 762 |
| Credit cards | - | - | - | - | - |
| Current account overdrafts | - | - | - | - | - |
| Other | - | - | - | - | - |
| **Retail** | **7,542** | **52** | **6,202** | **1,391** | **762** |
| **Entrepreneurs** | **-** | **-** | **-** | **-** | **-** |
| **Total retails** | **7,542** | **52** | **6,202** | **1,391** | **762** |
| Large enterprises | - | - | - | - | - |
| Medium enterprises | - | - | - | - | - |
| Small enterprises | - | - | - | - | - |
| Micro enterprises | - | - | - | - | - |
| Other | - | - | - | - | - |
| **Corporates** | **-** | **-** | **-** | **-** | **-** |
| **Total** | **7,542** | **52** | **6,202** | **1,391** | **762** |
| **Banks** | **-** | **-** | **-** | **-** | **-** |
| **Other receivables from banks** | **-** | **-** | **-** | **-** | **-** |
| **Other funds that are not classified** | **-** | **-** | **-** | **-** | **-** |
| **TOTAL** | **7,542** | **52** | **6,202** | **1,391** | **762** |

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.3. Credit risk (continued)

### Receivables from clients covered by collaterals (amount of receivable or collateral, whichever is lower)

| 31 December 2022. | Stage 1 clients | | | | | Stage 2 clients | | | | | Stage 3 clients | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Real estate | Deposits | Guarantee | Other collaterals | Total | Real estate | Deposits | Guarantee | Other collaterals | Total | Real estate | Deposits | Guarantee | Other collaterals | Total |
| Housing loans | 1,381,294 | 18,189 | - | - | 1,399,484 | 14,802 | - | - | - | 14,802 | 41,878 | - | - | - | 41,878 |
| Cash and consumer loans | 31,965 | 15,940 | - | - | 47,906 | - | - | - | - | - | 472 | - | - | - | 472 |
| Credit cards | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Current account overdrafts | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Retail** | **1,413,260** | **34,130** | **-** | **-** | **1,447,389** | **14,802** | **-** | **-** | **-** | **14,802** | **42,349** | **-** | **-** | **-** | **42,349** |
| **Entrepreneurs** | **69,128** | **2,440** | **11,295** | **-** | **82,863** | **2,289** | **-** | **185** | **-** | **2,474** | **8,968** | **-** | **791** | **-** | **9,759** |
| **Total retail** | **1,482,388** | **36,570** | **11,295** | **-** | **1,530,252** | **17,091** | **-** | **185** | **-** | **17,276** | **51,317** | **-** | **791** | **-** | **52,108** |
| Large enterprises | 8,782 | - | - | - | 8,782 | 40,116 | - | - | - | 40,116 | - | - | - | - | - |
| Medium enterprises | 385,596 | 29,377 | 60,156 | - | 475,129 | 371,852 | 11,402 | 50,142 | - | 433,396 | - | - | - | - | - |
| Small enterprises | 265,656 | 62,362 | 85,605 | - | 413,623 | 528,024 | 56,953 | 62,012 | - | 646,989 | 259,890 | 473 | - | - | 260,364 |
| Micro enterprises | 171,519 | 41,229 | 17,774 | - | 230,523 | 108,665 | 130,169 | 6,459 | - | 245,293 | 36,590 | - | 6,347 | - | 42,937 |
| States | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Corporates** | **831,553** | **132,969** | **163,535** | **-** | **1,128,057** | **1,048,657** | **198,524** | **118,613** | **-** | **1,365,793** | **296,480** | **473** | **6,347** | **-** | **303,301** |
| **Total** | **2,313,941** | **169,538** | **174,830** | **-** | **2,658,309** | **1,065,748** | **198,524** | **118,797** | **-** | **1,383,069** | **347,797** | **473** | **7,139** | **-** | **355,409** |
| **Receivables from banks** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |

*All amounts are expressed in thousands of RSD unless otherwise stated*

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.3. Credit Risk (continued)

### Receivables from clients covered by collaterals (amount of receivables or collateral, whichever is lower) (continued)

| 31 December 2021 | Stage 1 clients | | | | | Stage 2 clients | | | | | Stage 3 clients | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Real estate | Deposits | Guarantees | Other collaterals | Total | Real estate | Deposits | Guarantees | Other collaterals | Total | Real estate | Deposits | Guarantees | Other collaterals | Total |
| Housing loans | 1,421,282 | 18,553 | - | - | 1,439,835 | 77,991 | - | - | - | 77,991 | 50,868 | - | - | - | 50,868 |
| Cash and consumer loans | 36,732 | 22,623 | - | - | 59,356 | 1,557 | - | - | - | 1,557 | 2,151 | - | - | - | 2,151 |
| Credit cards | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 0 |
| Current account overdrafts | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 0 |
| Other | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 0 |
| **Retail** | **1,458,014** | **41,176** | **-** | **-** | **1,499,190** | **79,547** | **-** | **-** | **-** | **79,547** | **53,019** | **-** | **-** | **-** | **53,019** |
| **Entrepreneurs** | **194,448** | **2,690** | **20,868** | **-** | 218,007 | **-** | **-** | **600** | **-** | **600** | **19,855** | **-** | **840** | **-** | 20,695 |
| **Total retail** | **1,652,463** | **43,866** | **20,868** | **-** | **1,717,197** | **79,547** | **-** | **600** | **-** | **80,147** | **72,874** | **-** | **840** | **-** | **73,714** |
| Large enterprises | 44,044 | - | - | - | 44,044 | 26,505 | - | - | - | 26,505 | 110,402 | - | - | - | 110,402 |
| Medium enterprises | 846,711 | 12,538 | 162,661 | - | 1,021,910 | 566,657 | 6,779 | 31,200 | - | 604,636 | 149,932 | - | - | - | 149,932 |
| Small enterprises | 660,773 | 62,841 | 168,448 | - | 892,062 | 526,333 | 35,127 | 23,280 | - | 584,740 | 127,640 | 1,176 | - | - | 128,816 |
| Micro enterprises | 208,202 | 28,215 | 40,695 | - | 277,111 | 112,984 | 103,977 | 8,880 | - | 225,840 | 26,435 | - | 1,440 | - | 27,875 |
| States | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Corporates** | **1,759,730** | **103,594** | **371,803** | - | **2,235,127** | **1,232,479** | **145,883** | **63,360** | - | **1,441,722** | **414,409** | **1,176** | **1,440** | - | **417,025** |
| **Total** | **3,412,193** | **147,460** | **392,671** | **-** | **3,952,324** | **1,312,026** | **145,883** | **63,960** | **-** | **1,521,869** | **487,283** | **1,176** | **2,280** | **-** | **490,739** |
| **Receivables from banks** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |

***All amounts are expressed in thousands of RSD unless otherwise stated***

## *4. FINANCIAL RISK MANAGEMENT (continued)*

### 4.3. Credit Risk (continued)

### Concentration Risk

| **31 December 2022** | **Receivables from Stage 1 and Stage 2 clients** | | | | | **Receivables from Stage 3 clients** | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Serbia** | **Montenegro** | **BiH** | **EU** | **Other** | **Serbia** | **Montenegro** | **BiH** | **EU** | **Other** |
| **Total retail** | **1,851,427** | **-** | **-** | **3,978** | **7** | **75,016** | **-** | **-** | **-** | **-** |
| Housing loans | 1,439,933 | - | - | 3,978 | - | 45,583 | - | - | - | - |
| Cash and consumer loans | 217,385 | - | - | - | - | 11,540 | - | - | - | - |
| Credit cards | 4,385 | - | - | - | - | 7 | - | - | - | - |
| Current account overdrafts | 3,477 | - | - | - | 7 | 102 | - | - | - | - |
| Other | - | - | - | - | - | - | - | - | - | - |
| **Retail** | **1,665,180** | **-** | **-** | **3,978** | **7** | **57,232** | **-** | **-** | **-** | **-** |
| **Entrepreneurs** | **186,247** | **-** | **-** | **-** | **-** | **17,784** | **-** | **-** | **-** | **-** |
| **Corporate** | **4,955,205** | **-** | **-** | **-** | **-** | **314,003** | **-** | **-** | **-** | **-** |
| Accommodation and food services | 8,542 | - | - | - | - | - | - | - | - | - |
| Administrative and support services | 189,428 | - | - | - | - | 483 | - | - | - | - |
| Agriculture, forestry and fishery | 244,367 | - | - | - | - | 143,999 | - | - | - | - |
| Art, entertainment and recreation | 38,674 | - | - | - | - | - | - | - | - | - |
| Construction | 576,818 | - | - | - | - | 102,303 | - | - | - | - |
| Financial activities and insurance activities | 11,554 | - | - | - | - | - | - | - | - | - |
| Information and communication | 22,714 | - | - | - | - | - | - | - | - | - |
| Manufacturing industry | 2,095,350 | - | - | - | - | 18,185 | - | - | - | - |
| Professional, scientific, innovation and technical activities | 104,490 | - | - | - | - | - | - | - | - | - |
| Real estate business | - | - | - | - | - | - | - | - | - | - |
| Transport and warehousing | 194,073 | - | - | - | - | 17,379 | - | - | - | - |
| Wholesale and retail, repairs | 1,268,271 | - | - | - | - | 31,269 | - | - | - | - |
| Other | 200,923 | - | - | - | - | 384 | - | - | - | - |
| **Total** | **6,806,632** | **-** | **-** | **3,978** | **7** | **389,019** | **-** | **-** | **-** | **-** |
| **Receivables from banks** | **1,299,373** | **-** | **-** | **157,559** | **88,753** | **-** | **-** | **-** | **-** | **-** |

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.3. Credit Risk (continued)

### Concentration risk (continued)

| 31 December 2021 | Receivables from Stage 1 and Stage 2 clients | | | | | Receivables from Stage 3 clients | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Serbia | Montenegro | BiH | EU | Other | Serbia | Montenegro | BiH | EU | Other |
| **Total retail** | **2,134,964** | **-** | **-** | **4,394** | **32,214** | **131,156** | **-** | **-** | **-** | **-** |
| Housing loans | 1,521,466 | - | - | 4,394 | 32,212 | 59,876 | - | - | - | - |
| Cash and consumer loans | 296,241 | - | - | - | - | 35,808 | - | - | - | - |
| Credit cards | 5,741 | - | - | - | 2 | 149 | - | - | - | - |
| Current account overdrafts | 4,511 | - | - | - | - | 86 | - | - | - | - |
| Other | - | - | - | - | - | - | - | - | - | - |
| **Retail** | **1,827,958** | **-** | **-** | **4,394** | **32,214** | **95,919** | **-** | **-** | **-** | **-** |
| **Entrepreneurs** | 307,006 | - | - | - | - | 35,237 | - | - | - | - |
| **Corporate** | **6,368,598** | **-** | **-** | - | - | **448,196** | **-** | **-** | **-** | **-** |
| Accommodation and food services | 14,916 | - | - | - | - | 2,207 | - | - | - | - |
| Administrative and support services | 177,024 | - | - | - | - | 6,193 | - | - | - | - |
| Agriculture, forestry and fishery | 469,373 | - | - | - | - | 126,251 | - | - | - | - |
| Art, entertainment and recreation | 35,559 | - | - | - | - | - | - | - | - | - |
| Construction | 931,226 | - | - | - | - | 53,199 | - | - | - | - |
| Financial activities and insurance activities | 38,073 | - | - | - | - | - | - | - | - | - |
| Information and communication | 21,031 | - | - | - | - | - | - | - | - | - |
| Manufacturing industry | 2,079,449 | - | - | - | - | 242,443 | - | - | - | - |
| Professional, scientific, innovation and technical activities | 170,675 | - | - | - | - | - | - | - | - | - |
| Real estate business | 395,080 | - | - | - | - | - | - | - | - | - |
| Transport and warehousing | 274,764 | - | - | - | - | 4,196 | - | - | - | - |
| Wholesale and retail, repairs | 1,576,214 | - | - | - | - | 13,045 | - | - | - | - |
| Other | 185,213 | - | - | - | - | 660 | - | - | - | - |
| **Total** | **8,503,563** | **-** | **-** | **4,394** | **32,214** | **579,352** | **-** | **-** | **-** | **-** |
| **Receivables from banks** | **9,866** | **-** | **-** | **317,827** | **133,514** | **-** | **-** | **-** | **-** | **-** |

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.4. Market Risk

Market risks are the possibility of negative effects on the financial result and capital of the bank based on market price fluctuations. Basic market risks to which the Bank is exposed include rate risk, FX risk and other market risks.

#### Interest Rate Risk

The Bank is exposed to changes in the prevailing level of market interest rates that affect its financial position and cash flows. As a result of such changes, the interest margin may increase, decrease and cause losses in the event of unexpected changes. Interest rates are based on market interest rates and they are regularly adjusted by the Bank.

The risk management activity aims to optimize net income from interest, maintain the market interest rate at a consistent level in line with the Bank's business strategy, the Bank's Management manages maturity compliance of assets and liabilities based on macro and micro economic forecasts, forecasting liquidity conditions and forecasting interest rate trends.

The Bank has implemented internal procedures that define the system and methodologies for interest rate risk management, competencies and responsibilities of system participants, but also controls that are undertaken in order to operate the system as efficiently as possible.

The subject of interest rate risk management are all interest rate sensitive balance sheet items included in the banking book that may cause a negative effect on the Bank's result and capital due to changes in interest rates.

The Bank can be exposed to various forms of interest rate:

- Maturity mismatch risk and repricing risk, as well as price risk. This risk arises from the difference between the maturity date (for fixed rates) and the price change date (for variable rates) for the Bank's assets, liabilities and off-balance sheet items;
- Yield curve risk - risk that arises due to changes in the shape and slope of the yield curve, when unforeseen shifts in the curve have adverse effects on revenue or basic economic value;
- Basis risk - due to different reference interest rates for interest rate sensitive positions with similar characteristics in terms of maturity, i.e. re-pricing;
- Optionality risk - due to options embedded in interest rate sensitive positions (loans with the possibility of early withdrawal, different types of bonds or bills containing the option to buy or sell, different types of maturity deposits that give depositors the right to withdraw funds at any time, often without paying any penalties).

In order to manage interest rate risk exposure, the Bank uses the GAP interest rate methodology.

Analysis of interest rate risk exposure involves analysing the balance and changes in on-balance sheet assets, liabilities and off-balance sheet items. The Bank identifies interest rate risk exposure by determining the mismatch of positions in major currencies (RSD, EUR, USD, CHF) and in total (at the consolidated level) for all currencies with which it operates.

Analysing the positions of balance sheet assets and liabilities implies determining interest rate sensitive items classified according to the period of interest rate re-formation, i.e. determining the expected schedule of future cash flows.

Analysis of off-balance sheet items (swaps, forwards) involves identifying potential changes in positions, which occur as a cause of changes in interest rates in the market.

The analysis of interest rates implies continuous monitoring and adjustment of transactions to the conditions of changes in market interest rates.

*All amounts are expressed in thousands of RSD unless otherwise stated*

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.4. Market Risk (continued)

### Interest Rate Risk (continued)

| As at 31 December 2022 | up to 1 month | 1-3 months | 3-12 months | 1-5 years | over 5 years | Interest insensitive positions | Total |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Cash and funds held with central bank | 857,185 | - | - | - | - | 1,298,900 | 2,156,085 |
| Securities | - | - | - | 942,997 | 2,717,282 | - | 3,660,279 |
| Loans and receivables from banks and other financial institutions | 1,401,223 | - | - | - | - | 140,876 | 1,542,099 |
| Loans and receivables from clients | 1,759,487 | 2,267,204 | 2,365,439 | 176,836 | 3,956 | 387,136 | 6,960,059 |
| Receivables from derivatives intended for hedging | - | - | - | - | - | - | - |
| Other assets | - | - | - | - | - | 608,851 | 608,851 |
| **Total assets** | **4,017,895** | **2,267,204** | **2,365,439** | **1,119,833** | **2,721,239** | **2,435,763** | **14,927,373** |
| **LIABILITIES** | | | | | | | |
| Deposits and other liabilities to banks, other financial institutions and the central bank | 234,645 | - | 11,868 | 1,309 | - | 10,287 | 258,109 |
| Deposits and other liabilities to other clients | 1,823,213 | 885,397 | 2,757,575 | 493,983 | - | 6,356,815 | 12,316,984 |
| Liabilities based on derivatives intended for hedging | - | - | - | - | - | - | - |
| Other liabilities | - | - | - | - | - | 188,328 | 188,328 |
| **Total liabilities** | **2,057,858** | **885,397** | **2,769,443** | **495,292** | **-** | **6,555,430** | **12,763,421** |
| **GAP (Assets - Liabilities):** | **1,960,036** | **1,381,806** | **(404,004)** | **624,541** | **2,721,239** | **(4,119,667)** | **2,163,952** |

| As at 31 December 2021 | up to 1 month | 1-3 months | 3-12 months | 1-5 years | over 5 years | Interest insensitive positions | Total |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Cash and funds held with central bank | 719,269 | - | - | - | - | 1,379,322 | 2,098,591 |
| Securities | - | - | - | 1,156,470 | 2,958,757 | - | 4,115,227 |
| Loans and receivables from banks and other financial institutions | 4,703 | - | - | - | - | 455,947 | 460,651 |
| Loans and receivables from clients | 2,998,422 | 2,650,600 | 2,398,876 | 195,493 | 1,191 | 667,646 | 8,912,229 |
| Receivables from derivatives intended for hedging | - | - | - | - | - | - | - |
| Other assets | - | - | - | - | - | 492,477 | 492,477 |
| **Total assets** | **3,722,394** | **2,650,600** | **2,398,876** | **1,351,963** | **2,959,948** | **2,995,393** | **16,079,175** |
| **LIABILITIES** | | | | | | | |
| Deposits and other liabilities to banks, other financial institutions and the central bank | 203,926 | 1,140 | 412,576 | 706,670 | - | 9,457 | 1,333,769 |
| Deposits and other liabilities to other clients | 2,139,811 | 1,181,461 | 2,825,158 | 1,897,659 | - | 3,746,364 | 11,790,453 |
| Liabilities based on derivatives intended for hedging | - | - | - | - | - | - | - |
| Other liabilities | - | - | - | - | - | 168,932 | 168,932 |
| **Total liabilities** | **2,343,737** | **1,182,601** | **3,237,734** | **2,604,329** | **-** | **3,924,753** | **13,293,154** |
| **GAP (Assets - Liabilities):** | **1,378,656** | **1,468,000** | **(838,858)** | **(1,252,366)** | **2,959,948** | **(929,360)** | **2,786,021** |

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.4. Market Risk (continued)

### Interest Rate Risk (continued)

Limits for GAP interest rates are defined by the Decision of the Managing Board and they are monitored regularly.
As an integral part of interest rate risk assessment, the Bank conducts stress tests of the effects of changes in interest rates. In determining the exposure to interest rate risk in the banking book and the limit of this risk, the Bank assesses the effects of interest rate changes on the Bank's financial result (income statement) and the Bank's economic value, applying the standard interest rate shock test according to the nature and level of risks to which it is exposed. The standard interest rate shock represents a positive and a negative parallel shift in interest rates by 200 base points (1bp = 0.01%). In the current structure of interest rate GAPs (observed at the consolidated level, which includes major currencies, namely EUR, RSD, CHF and USD), increasing the interest rate by 200 basis points would change the economic value of capital by 18.39% (2021: 15.52%), i.e. it would increase its value by RSD 486.289 thousand (2021: increase of RSD 508.536 thousand).

**As at 31 December 2022**

| | 0-1m | 1-3m | 3-6m | 6-12m | 1-2y | 2-3y | 3-4y | 4-5y | 5-7y | 7-10y | 10-15y | 15-20y | > 20y | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sensitive assets | 4,017,895 | 2,267,204 | 2,320,865 | 44,574 | 59,440 | 27,816 | 949,035 | 1,322 | 835,638 | 1,464,764 | 108,159 | 394,899 | 0 | 12,491,609 |
| Sensitive liabilities | 2,058,256 | -885,436 | -532,489 | -2,237,015 | -418,234 | -76,641 | 91,559 | -402 | 112,016 | 448,450 | -95,690 | 27,922 | 0 | -5,624,215 |
| **GAP** | **1,959,638** | **1,381,767** | **1,788,377** | **-2,192,441** | **-358,794** | **-48,825** | **1,040,594** | **920** | **947,653** | **1,913,215** | **12,470** | **422,821** | **0** | **6,867,395** |
| Basel 2 Sensitivity coefficients (200 bp changes of interest rates) | 0.08% | 0.32% | 0.72% | 1.43% | 2.77% | 4.49% | 6.14% | 7.71% | 10.15% | 13.26% | 17.84% | 22.43% | 26.03% | |
| **Effects** | **1,568** | **4,422** | **12,876** | **-31,352** | **-9,939** | **-2,192** | **63,892** | **71** | **96,187** | **253,692** | **2,225** | **94,839** | **0** | **486,289** |
| Regulatory capital | | | | | | | | | | | | | | 2,644,150 |
| **Total effects/Regulatory capital (max. 20%)** | | | | | | | | | | | | | | **18.39%** |

**As at 31 December 2021**

| | 0-1m | 1-3m | 3-6m | 6-12m | 1-2y | 2-3y | 3-4y | 4-5y | 5-7y | 7-10y | 10-15y | 15-20y | > 20y | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sensitive assets | 3,781,185 | 2,650,600 | 2,349,940 | 48,936 | 51,786 | 59,552 | 14,586 | 1,158,410 | 626,060 | 158,815 | 1,818,687 | 424,016 | 0 | 13,142,573 |
| Sensitive liabilities | -2,402,671 | -1,182,611 | -1,018,639 | -2,219,183 | -2,484,570 | -114,588 | -4,664 | -563 | 0 | 0 | 0 | 0 | 0 | -9,427,489 |
| **GAP** | **1,378,514** | **1,467,989** | **1,331,301** | **-2,170,247** | **-2,432,784** | **-55,036** | **9,922** | **1,157,847** | **626,060** | **158,815** | **1,818,687** | **424,016** | **0** | **3,715,084** |
| Basel 2 Sensitivity coefficients (200 bp changes of interest rates) | 0.08% | 0.32% | 0.72% | 1.43% | 2.77% | 4.49% | 6.14% | 7.71% | 10.15% | 13.26% | 17.84% | 22.43% | 26.03% | |
| **Effects in (RSD thousand)** | **1,103** | **4,698** | **9,585** | **-31,035** | **-67,388** | **-2,471** | **609** | **89,270** | **63,545** | **21,059** | **324,454** | **95,107** | **0** | **508,536** |
| Regulatory capital | | | | | | | | | | | | | | 3,276,278 |
| **Total effects/Regulatory capital (max. 20%)** | | | | | | | | | | | | | | **15.52%** |

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.4. Market Risk (continued)

*LIBOR rate reform*

In accordance with the implementation of further activities related to the reform of LIBOR rates, defined through the European Union Regulation No 2016/1011, the European Parliament adopted two new Regulations in 2021 prescribing replacement rates for CHF LIBOR and EONIA rates. By EU Regulation 2021/1847 of 14 October 2021, CHF LIBOR rates with maturities of 1, 3, 6 and 12 months are replaced by SARON compounded rates of appropriate maturity with the addition of Spread Adjustment Values. By EU Regulation 2021/1848 of 21 October 2021, the EONIA rate is replaced by the ESTR rate, also with the addition of Spread Adjustment Values.

Since the Bank has, in accordance with the Law on conversion of housing loans indexed in Swiss francs from 2019, converted the majority of loans previously indexed in Swiss francs into debt indexed in euros, the current exposure of the Bank to interest rates related to CHF can be treated as negligible in terms of its materiality. The Bank has not contracted interest rates on loans to clients who would be based on the EONIA market rate. Also, in the interest structure of deposits, the Bank does not have deposits of clients with the agreed variable interest rate in CHF or EUR, therefore it is not exposed to risk that may arise from the substitution of LIBOR rates with new interest rates.

**Foreign Exchange Risk**

Foreign currency risk is the risk of adverse effects on the Bank's financial result and capital due to changes in the exchange rate, and the Bank is exposed to it on the basis of positions held in the banking book and trading book.

Foreign currency risk management is based on the prescribed methodology of the National Bank of Serbia. The Bank creates a foreign exchange position in all cases when it conducts transactions denominated in foreign currency or in dinars with indexed foreign currency clause, which includes the following transactions:

- Placing and repayment of loans to foreign currency clients or dinars with indexed foreign currency clause
- Formation of sources of funds from clients in foreign currency or in dinars with indexed foreign currency clause
- Performing foreign exchange (FX) trading on behalf of the Bank and FX trading with clients
- Formation of other receivables and liabilities in foreign currency based on other business activities

Long / short foreign currency position is the sum of all net long / short positions in individual currencies. Higher book value than these positions represents the total net open foreign exchange position. The maximum regulatory allowable indicator of the Bank's foreign exchange risk is 20% of the Bank's capital on a daily basis.

The Bank regularly monitors its exposure to foreign currency risk by complying with limits prescribed by the NBS, as well as internally prescribed limits. The Bank actively manages foreign currency risk through prudent assessment of open foreign currency positions by applying foreign currency swaps and observing risk limitations prescribed by the NBS and limitations contained in internal enactments adopted by the Bank’s management.

Table in the text below shows summarized exposure to foreign exchange risk on 31 December 2022. The table also includes assets and liabilities according to their carrying values denominated in relevant currencies.

*All amounts are expressed in thousands of RSD unless otherwise stated*

# 4. FINANCIAL RISK MANAGEMENT (continued)

## 4.4. Market Risk (continued)

## FX Risk (continued)

| As of 31 December 2022 | USD | EUR | CHF | Other currencies | Total | RSD | Total |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Cash and funds held with central bank | 26,878 | 1,100,567 | 4,293 | 253 | 1,131,991 | 1,024,094 | 2,156,085 |
| Securities | 144,445 | 501,688 | - | - | 646,133 | 3,014,146 | 3,660,279 |
| Loans and receivables from banks and other financial institutions | 1,476,016 | 54,146 | - | 11,937 | 1,542,099 | - | 1,542,099 |
| Loans and receivables from clients | 293 | 4,711,727 | 6,279 | - | 4,718,298 | 2,241,761 | 6,960,059 |
| Receivables from derivatives intended for hedging | - | - | - | - | - | - | - |
| Other assets | - | 1,705 | - | - | 1,705 | 18,864 | 20,569 |
| **Total assets** | 1,647,631 | 6,369,833 | 10,572 | 12,190 | 8,040,226 | 6,298,864 | 14,339,090 |
| **LIABILITIES** | | | | | | | |
| Deposits and other liabilities to banks, other financial institutions and the central bank | - | 248,185 | - | - | 248,185 | 9,924 | 258,109 |
| Deposits and other liabilities to other clients | 1,588,062 | 6,473,764 | 14,593 | 63,625 | 8,140,044 | 4,176,940 | 12,316,984 |
| Liabilities based on derivatives intended for hedging | - | - | - | - | - | - | - |
| Other liabilities | 882 | 48,106 | 1,247 | 68 | 50,302 | 138,025 | 188,328 |
| **Total liabilities** | 1,588,944 | 6,770,054 | 15,840 | 63,692 | 8,438,531 | 4,324,890 | 12,763,421 |
| **Net foreign currency position** | **58,687** | **(400,221)** | **(5,268)** | **(51,502)** | **(398,305)** | **1,973,975** | **1,575,669** |

| As of 31 December 2021 | USD | EUR | CHF | Other currencies | Total | RSD | Total |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Cash and funds held with central bank | 8,099 | 1,215,781 | 12,442 | 217 | 1,236,540 | 862,051 | 2,098,591 |
| Securities | 158,815 | 541,462 | - | - | 700,278 | 3,414,950 | 4,115,227 |
| Loans and receivables from banks and other financial institutions | 15,105 | 407,826 | 28,951 | 8,769 | 460,650 | - | 460,650 |
| Loans and receivables from clients | 276 | 4,770,497 | 6,378 | - | 4,777,151 | 4,135,078 | 8,912,229 |
| Receivables from derivatives intended for hedging | - | - | - | - | - | - | - |
| Other assets | - | 1,888 | - | - | 1,888 | 11,626 | 13,514 |
| **Total assets** | 182,295 | 6,937,454 | 47,771 | 8,985 | 7,176,506 | 8,423,705 | 15,600,212 |
| **LIABILITIES** | | | | | | | |
| Deposits and other liabilities to banks, other financial institutions and the central bank | 103,930 | 715,874 | - | - | 819,804 | 513,965 | 1,333,769 |
| Deposits and other liabilities to other clients | 50,913 | 6,885,991 | 46,910 | 1,208 | 6,985,022 | 4,805,431 | 11,790,412 |
| Liabilities based on derivatives intended for hedging | - | - | - | - | - | - | - |
| Other liabilities | 819 | 58,767 | 1,188 | 68 | 60,843 | 108,090 | 168,932 |
| **Total liabilities** | 155,662 | 7,660,632 | 48,098 | 1,277 | 7,865,669 | 5,427,485 | 13,293,154 |
| **Net foreign currency position** | **26,633** | **(723,178)** | **(327)** | **7,709** | **(689,163)** | **2,996,220** | **2,307,057** |

*All amounts are expressed in thousands of RSD unless otherwise stated*

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.4. Market Risk (continued)

### FX Risk (continued)

The impact of decrease foreign exchange rates on the Bank's net result:

| | Balance of open foreign currency positions | | RSD depreciation effect of 10% | |
|---|---|---|---|---|
| | **Dec 2022** | **Dec 2021** | **Dec 2022** | **Dec 2021** |
| EUR | (400,221) | (723,178) | (34,019) | (61,470) |
| CHF | (5,268) | (327) | (448) | (28) |
| USD | 58,687 | (26,633) | 4,988 | 2,264 |
| Other currencies (long pos.) | 1,757 | 7,937 | 149 | 675 |
| Other currencies (short pos.) | 65,417 | 229 | 5,560 | 19 |

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.5. Fair value of financial assets and liabilities

Fair value specified in financial statements is the amount for which an asset may be exchanged, or for which a liability may be settled, between informed, willing parties in an independent transaction.

Fair value is calculated by using market information available on the enforcement date, as well as individual method of Bank's assessment.

The fair value of a financial instrument shown at its nominal value is approximately equal to its book value. This includes cash and receivables and liabilities without a defined maturity or fixed interest rate. For other receivables and liabilities, expected future cash flows are discounted to their present value using current interest rates. Bearing in mind that the variable interest rate agreed for most financial assets and liabilities of the Bank, changes in prevailing interest rates lead to changes in the agreed rates.

Quoted market prices are used for securities traded. The fair value of other securities is calculated as the net present value of expected future cash flows.

The fair value of irrevocable credit commitments and contingent liabilities are the same as their book values.

**Assessment of financial instruments**

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

- Level 1: quoted market prices (unadjusted) in active markets for identical instrument.
- Level 2: Level 2: Valuation techniques based on observable inputs other than quoted prices included in level 1, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments that are valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques that use significant 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 impact on the valuation of the instrument. 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.

The fair value of financial assets and financial liabilities traded in active markets is based on quoted market prices or prices quoted by dealers. For all other financial instruments the Bank determines fair value by using valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparing to similar instruments for which there is an observable market price and other evaluation models. Assumptions and inputs used in valuation techniques include free from risk and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond prices and equity securities, foreign exchange rates, equity and equity-indexed prices and expected price fluctuations and correlations. he objective of valuation techniques to determine the fair value which reflects the price of the financial instrument at the reporting date, which would be defined by the market participants in the free and independent transactions.

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.5. Fair value of financial assets and liabilities (continued)

### Assessment of financial instruments (continued)

The Bank uses widely accepted models of evaluation to determine the fair value of financial instruments. Securities of the Ministry of Finance of the Republic of Serbia denominated in RSD and EUR are revalued at the prevailing price on the secondary market.

The table below shows fair value of financial instrument recognized at fair value in financial statements.

| As of 31 December 2022 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| - according to fair value through other comprehensive income | | 3,660,279 | | 3,660,279 |
| **Total** | **-** | **3,660,279** | **-** | **3,660,279** |

| As of 31 December 2021 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| - according to fair value through other comprehensive income | | 4,115,227 | | 4,115,227 |
| **Total** | **-** | **4,115,227** | **-** | **4,115,227** |

During 2022 and 2021, there were no changes of levels nor reclassifications between fair valuation levels.

The following table shows the fair value of financial instruments that are not measured at fair value and analyses them by level in the fair value hierarchy within which the measurement of fair value is located:

| | 31 December 2022 | | 31 December 2021 | |
|---|---|---|---|---|
| **Financial (monetary) assets** | **Book value** | **Fair value** | **Book value** | **Fair value** |
| Cash and funds held with central bank | 2,156,085 | 2,156,085 | 2,098,591 | 2,098,591 |
| Loans and receivables from banks and other financial institutions | 1,542,099 | 1,542,099 | 460,650 | 460,650 |
| Loans and receivables from clients | 6,960,059 | 6,488,779 | 8,912,229 | 8,656,095 |
| Other assets | 608,851 | 608,851 | 370,633 | 370,633 |
| **Total** | **11,267,094** | **10,795,814** | **11,842,103** | **11,585,969** |
| **Financial (monetary) liabilities** | | | | |
| Deposits and other liabilities to banks, other financial institutions and the central bank | 258,109 | 257,659 | 1,333,769 | 1,325,432 |
| Deposits and other liabilities to other clients | 12,316,984 | 11,959,574 | 11,790,412 | 11,709,199 |
| Other liabilities | 188,328 | 188,328 | 168,932 | 168,932 |
| **Total** | **12,763,421** | **12,405,561** | **13,293,113** | **13,203,563** |

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.5. Fair value of financial assets and liabilities (continued)

### Assessment of financial instruments (continued)

| As of 31 December 2022 | Fair value Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and funds held with central bank | 2,156,085 | - | - | 2,156,085 |
| Loans and receivables from banks and other financial institutions | - | - | 1,542,099 | 1,542,099 |
| Loans and receivables from clients | - | - | 6,488,779 | 6,488,779 |
| Other assets | - | - | 608,851 | 608,851 |
| **Total** | **2,156,085** | **-** | **8,639,729** | **10,795,814** |
| **LIABILITIES** | | | | |
| Deposits and other liabilities to banks, other financial institutions and the central bank | - | - | 257,659 | 257,659 |
| Deposits and other liabilities to other clients | - | - | 11,959,574 | 11,959,574 |
| Other liabilities | - | - | 188,328 | 188,328 |
| **Total** | **-** | **-** | **12,405,561** | **12,405,561** |

| As of 31 December 2021 | Fair value Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and funds held with central bank | 2,098,591 | - | - | 2,098,591 |
| Loans and receivables from banks and other financial institutions | - | - | 460,650 | 460,650 |
| Loans and receivables from clients | - | - | 8,656,095 | 8,656,095 |
| Other assets | - | - | 370,633 | 370,633 |
| **Total** | **2,098,591** | **-** | **9,487,378** | **11,585,969** |
| **LIABILITIES** | | | | |
| Deposits and other liabilities to banks, other financial institutions and the central bank | - | - | 1,325,432 | 1,325,432 |
| Deposits and other liabilities to other clients | - | - | 11,709,199 | 11,709,199 |
| Other liabilities | - | - | 168,932 | 168,932 |
| **Total** | **-** | **-** | **13,203,563** | **13,203,563** |

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.5. Fair value of financial assets and liabilities (continued)

**Assessment of financial instruments (continued)**

The following is a description of the methodology and assumptions used to determine fair values of financial instruments that have not been recorded at fair value in the financial statements.

*Assets for which fair value approximates to book value*

For financial assets and liabilities that are liquid or have short-term maturities (less than one year) it is assumed that the book value approximates fair value. This assumption also applies to deposits on requirements, savings accounts without a specific maturity and financial instruments with variable rate.

*Fixed-rate financial instruments*

The fair value of financial assets and liabilities with fixed rates recorded at amortized cost are estimated by using market interest rates plus current credit risk. The estimated fair value of deposits with a fixed rate based on the discounted cash flows using prevailing interest rates on the debt on the money market with similar credit risk and maturity.

### 4.6. The risks of exposure to a single party or a group of related parties

The Bank’s exposure to a single party represents the total amount of receivables and off-balance sheet items relating to that party or a group of related parties (loans, investments in debt securities, equity shares, guarantees issued, avals, etc.).
The exposure risk, i.e. exposure concentration, is the Bank’s exposure towards:

- One party or a group of related parties (two or more persons or legal entities related by shares);
- Two or more retail or corporate entities related in the manner that deterioration or improvement of the financial position of one party affects the financial position of the other,
- A retailer who is an authorised representative of a corporate entity,
- Two or more retailers or corporate entities related by their membership in legal entities’ management bodies, including their respective family members;
- Family members of a natural person who are members of management bodies of two corporate entities at the same time;
- A party related to the Bank (members of the Banking Group the member of which is the Bank; members of the management bodies of the Bank and of the Banking Group and their respective family members; parties with share in the capital of the Bank or the Banking Group and their respective family members; legal entities in which all the above mentioned parties own a control package)

The main goal of the exposure risk management is to eliminate the risk bearing exposure of the Bank’s assets to one party, group of related parties or parties related to the Bank. This goal can be achieved by strict compliance with and the application of the Bank’s credit policy in relation to acceptance and approval of clients requests in order to identify related parties and monitor the Bank’s exposure limits towards them.

**Bank’s exposure**

- ✓ Large Bank’s exposure is an exposure to a single party or a group of related parties amounting to no less than 10% of the Bank’s capital,
- ✓ Towards a single party or a group of related parties may not exceed 25% of the capital of the Bank.

The total of all the Bank's large exposures may not exceed 400% of the Bank’s capital. The Bank has adopted limits defined by NBS in line with the Decision on managing risks and it operates in accordance with them.

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.7. The risks of investing into other entities and fixed assets

The Bank's investment risk is the risk related to the Bank's investment in a single retail / corporate entity operating outside the financial sector and the risk of the Bank's investment in fixed assets.

Managing this risk implies measuring, monitoring and controlling:

1. The amount of the Bank's investment (the Bank acquires the right to shares or share in capital) in any retail/corporate entity operating outside the financial sector that may not exceed 10% of the Bank's capital,
2. The amount of the Bank's investment in its own fixed assets
3. The total amount of the Bank's investment (the sum of items 1 and 2) that may not exceed 60% of the Bank's capital,
4. Managing Board quarterly reporting of movements in indicators of items 1 to 3
5. Managing Board suggestions relating to corrective measures in order to maintain the investment risk within the prescribed limits.

Limits of Bank's investments:

- The Bank's investments in a single entity operating outside the financial sector may not exceed 10% of the Bank's capital; the limit relates to the investment based on which the Bank acquires the right to shares or share in capital of the entity operating outside the financial sector
- The total amount of the Bank's investments in entities operating outside the financial sector and in fixed assets may not exceed 60% of the Bank's capital.

The Bank has adopted the limits defined by the NBS in accordance with the Decision on Risk Management and operates accordingly.

### 4.8. Risks related to the country of origin of the entity towards which the Bank is exposed

The risk related to the country of origin of the retail/corporate entity to which the Bank is exposed (country risk) is the risk of adverse effects on the Bank's financial results that may occur due to the Bank's inability to collect its receivables from retail/corporate entity domiciled in a foreign country due to political, economic and social conditions in that country.

The reasons that lead to country risk exposure are as follows:

- Political reasons - significant political changes in a country due to which a debtor is unable to fulfil its obligations to the Bank on a regular basis (change of government, significant political change, political turmoil, wars, catastrophes, etc.)
- Economic reasons - extremely negative economic events in a country due to which foreign debt repayment is seriously questioned or completely hindered.

Country risk is reflected through:

- Risk of non-payment - relates to cases in which debtor is unable to fulfil its obligations to the Bank on a regular basis due to political and economic reasons.
- Transfer risk - represents the possibility that solvent debtor from a foreign country is unable to pay its debt to the Bank in the specified currency due to certain irregularities in that country.
- Guarantee risk - the risk that has occurred as a result of a guarantee issued to an entity in a foreign country for payment to be effected in a third country.

The main goal of the country risk management is to protect the entire Bank's portfolio from possible risk bearing and uncollectible receivables from debtors from countries at risk.

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.9. Operational risk (also including the legal risk, and the risk of inadequate management of information and other technologies significant for the Bank's business)

Operational risk is defined as the risk of negative effects on the Bank’s financial results and share capital arising from the employee omission, illegal acts, inadequate internal procedures and processes, inadequate management of the Bank’s information and other systems and unforeseeable external events.

The bank implemented a system of procedures and methodize in order to identify, estimate, control and manage operative risks to which it is exposed during its operation.

The main method for identifying and estimating operational risks is RCSA- the process of risk self-estimation and the control with which all the processes and activities in the bank are enveloped. Taking into account the frequency and impact of potential events, as well as the established controls, risk owners assess the level of risk on an A-D scale.

Events from operational risk are stated in the loss base, and by:

- Business line
- Cause of event
- Type of event
- Type of loss

The base of events is dominated by potential losses from lawsuits against the Bank. Accordingly, the Bank has taken appropriate measures and provided funds to cover losses from legal risk. Analysis of exposure to operational risk is also represented through the introduction of new services and products, and new activities in the Bank, e.g. implementation of mobile banking services, implementation of new AML software, risk assessment in moratorium, as well as considering new activities so that the Bank could achieve the necessary digitization level.

The Bank uses Key Risk Indicators (continued: KRI) as the means of estimation, monitoring and control of operational risk, as well as a preventive mechanism used to prevent losses based on operational risk which is used in the decision making process in order to improve the performance of working processes and the efficiency of controls. Key indicators provide information on changes in exposure toward operational risk and represent the mechanism for proactive reactions to those changes. During 2022, there was no exceedance of the defined exposure levels.

The whole framework of operational risk is based on established limits for operational risks which are based on tracking the levels of total operational risk events compared to the minimal capital requirement, as well as the level of the maximum individual event compared to the capital requirement for operational risks.

#### Information Risks

The risk management process of the ICT system is established within the framework of comprehensive risk management in the Bank. IT risks are classified as operational risks and are defined as the possibility of negative effects on the financial result and capital, the achievement of business goals, operations in accordance with regulations and the Bank's reputation due to inadequate management of the information system or other weaknesses in that system that negatively affect its functionality or security, that is, threatens the continuity of the Bank's operations.

The Bank's information and communication technology system (ICT system) was established as an integral solution with the tendency to support all business processes. The ICT system is a technological-organizational unit that includes: a) electronic communication networks in the sense of the law governing electronic communications; b) devices or groups of interconnected devices such that within the device, that is, within at least one of the group of devices, automatic data processing is performed using a computer program; c) data that is maintained, stored, processed, searched or transmitted using the means mentioned under (a) and (b) for the purpose of their operation, use, protection or maintenance; d) the organizational structure through which this system is managed. e) all types of system and application software and software development tools.

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.9. Operational risk (also including the legal risk, and the risk of inadequate management of information and other technologies significant for the Bank's business) (continued)

Users of the ICT system are all persons authorized to use the ICT system (employees of the Bank, employees of service providers who access the Bank's ICT system, Bank clients who access the Bank's ICT system through electronic interactive communication channels, etc.). Responsibilities have been formally established in terms of managing and monitoring the operation of the system, as well as reporting to the Bank's management on the state, performance, security and possible problems in the functioning of the IS.

ICT system risk management is also established through the Bank's internal acts, policies and procedures related to the development and maintenance of the ICT system, its management, use, protection and monitoring. Activities related to the engagement of third parties related to the Bank's ICT system are also included.

ICT system risk assessment provides a structural qualitative assessment of the operating environment. These include sensitivity, threats, vulnerabilities, risk and protection.  The assessment is taken into account when making decisions on establishing cost-effective safeguards to mitigate threats and abuse vulnerabilities.

ICT system risk assessment is performed using a methodology based on identified resources through a tabular presentation of identified risks (incident scenarios for potential threats to exploit vulnerabilities). As there is a different impact of risk on confidentiality, integrity and availability, this methodology involves calculating a unique impact on the asset taking into account all three factors. According to the performed risk assessment, the Bank’s management decides which risk levels are acceptable, and which will require introduction of additional controls.

The Bank has a register of information goods, owners, users are defined, as well as the classification of information goods according to their importance for business, i.e. the degree of sensitivity and criticality, taking into account the possible consequences of breach of confidentiality.

The security of the Bank's information system is organized on several levels. The first level of security is physical security, which refers to the control of access to the Bank's facilities, as well as the control of access to central locations. The second level is logical security at the level of operating systems, computer network and network components, while the third level is logical control of access to application solutions and databases. Also, data security is ensured by additional activities such as the formation of regular copies of data from the system and the existence of a plan to continue operations due to adverse events and the backup location of the Bank. The bank performs regular tests of BCP and DR locations.

he framework defines and regulates protection measures, basic principles, manner and procedures for achieving and maintaining an adequate level of security, as well as powers and responsibilities, respecting the principles of internationally recognized standards and recommendations of good practice such as ISO / IEC 27000 series standards for information security, ISO / ISC 20000 and ITIL for IT services management as well as COBIT as a framework for corporate governance and IT management, in accordance with the Law on Information Security, accompanying Regulations of this Law and the NBS Decision on minimum standards of financial institution information system management.

The ultimate goal of this policy is to define information security and protection in the information security management system in order to:
- ensure confidentiality, integrity, availability, authenticity, provability, irrefutability and reliability in the information system,
- ensure the continuity of critical business processes,
- reduce the potential impact of the incident on security and the risk of material and non-material damage through preventive action.

*All amounts are expressed in thousands of RSD unless otherwise stated*

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.10. Capital Risk Management

The Bank's objectives when managing capital are to safeguard the Bank's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividends paid to shareholders, issue new shares or convert portion of liabilities to subordinated debt.

Under the NBS regulations, the Bank is required to:

- maintain the prescribed minimum monetary share capital of EUR 10 million in RSD counter value at the NBS middle exchange rate;
- maintain the minimum capital adequacy ratio, against the risk bearing assets, of 8%

The Bank's Financial Control Department performs the control of capital based on the capital adequacy ratio and to the end of 2022 is:

| | **As of 31 December 2022** |
|---|---:|
| Paid in share capital | 5,671,608 |
| Share premium | 2,877,486 |
| Reserves from profit, other reserves and reserves for general bank risks | 151,672 |
| Losses from previous years | (5,604,554) |
| Current year loss | - |
| Intangible assets | **(46,764)** |
| Regulatory adjustments to the value of the elements of the basic share capital (additional value adjustments) | **(3,782)** |
| Revaluation reserves and other unrealized gains / (losses) | **96,242** |
| Gross amount of receivables from debtors - natural persons (except farmers and entrepreneurs), with full application of point 13. Under 13) of the Decision on capital adequacy | **(4,641)** |
| **Basic share capital** | **3,137,267** |
| **Additional share capital** | **-** |
| ***Share capital*** | **3,137,267** |
| ***Supplementary capital*** | **-** |
| **Total capital, balance as at 31 December** | **3,137,267** |
| **Capital adequacy ratio, as at 31 December** | **37.95%** |

*All amounts are expressed in thousands of RSD unless otherwise stated*

## 4. FINANCIAL RISK MANAGEMENT (continued)

### 4.10. Capital Risk Management (continued)

At the end of 2021, the capital adequacy ratio was as follows:

| | **As of 31 December 2021** |
|---|---|
| Paid in share capital | 5,671,608 |
| Share premium | 2,877,486 |
| Reserves from profit, other reserves and reserves for general bank risks | 151,672 |
| Losses from previous years | (5,634,130) |
| Current year loss | - |
| Intangible assets | (43,759) |
| Regulatory adjustments to the value of the elements of the basic share capital (additional value adjustments) | (4,226) |
| Revaluation reserves and other unrealized gains / (losses) | 260,180 |
| Gross amount of receivables from debtors - natural persons (except farmers and entrepreneurs), with full application of point 13. Under 13) of the Decision on capital adequacy | (4,296) |
| **Basic share capital** | **3,274,535** |
| **Additional share capital** | **-** |
| ***Share capital*** | **3,274,535** |
| ***Supplementary capital*** | **-** |
| **Total capital, balance as at 31 December** | **3,274,535** |
| **Capital adequacy ratio, as at 31 December** | **32.79%** |

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Bank makes estimates and assumptions that will affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Deteriorating operating conditions for borrowers may have an impact on Management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management have properly reflected revised estimates of expected future cash flows in their impairment assessments.

The preparation of financial statements in accordance with IFRS requires management to use the best estimates and reasonable assumptions that affect the application of accounting policies, the presented amounts of assets and liabilities, as well as income and expenses.

Areas that demand the greatest degree of reasoning, which may significantly affect the amounts presented in the Bank's financial statements, are presented below.

***(a) Classification and valuation and impairment of financial assets***

***Losses due to impairment of the value of loans***

The expected credit loss model is based on judgment because it requires an estimate of a significant increase in credit risk and the measurement of expected losses without some more detailed guidance. In terms of a significant increase in credit risk, the Bank has set out specific valuation rules that include quantitative and qualitative criteria. Measurement of expected credit loss involves complex models that rely on historical default and loss rates, their extrapolation in case of insufficient data, individual estimations of credit loss-adjusted cash flows, and probability of scenario realization including forward-looking information.

The following components have a major impact on expected credit losses:

- determining the level of assessment of expected credit loss on an individual or collective basis;
- the definition of default applied by the Bank;
- development and application of internal credit assessment models, which assign PDs to individual credit risk classes;
- development and application of internal models used to assess non-performance exposures (“EADs”) for financial instruments and credit commitments;
- assessment of loss due to default (“LGD”), including judgments made in the assessment of collateral;
- criteria for assessing whether there has been a significant increase in credit risk;
- election of future macroeconomic scenarios and weighting of their probabilities.

Detailed disclosure of the identification of a significant increase in credit risk, including collective, individual credit, foresight techniques used to measure the expected loss and default definition, and other aspects of credit risk assessment are given in Note 4.3.

ECL on individual significant placements are based on estimates of discounted future cash flows of individual placements, takin into account the repayment and realization of any assets that serve as collateral for these placements. An increase or decrease of 10% of losses incurred in comparison with estimated future discounted cash flows of individually significant placements, which could arise from differences in amounts and timing of cash flows, would result in an increase or decrease in the value adjustment in the amount of RSD 60,830 thousand (2021: RSD 45,265 thousand).

*All amounts are expressed in thousands of RSD unless otherwise stated*

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### *(a) Classification and valuation and impairment of financial assets (continued)*

The Bank used forward-looking information to measure expected credit losses. he most significant projected assumptions for the future that correlate with the level of expected credit losses and their assigned weights were as follows as at 31 December 2022.

The ARDL model (autoregressive distributed lag model) was used for forward looking PD. The Model takes into account predictions of the most prestigious institutions such as the European Central Bank, International Monetary Fund etc. for assessing macroeconomic variables entering the model. These predictions are the basis for the first scenario. The second scenario is a pessimistic scenario which stresses value from the first scenario and worsens macroeconomic forecasts, while the third scenario presents an optimistic scenario and to a lesser extent improves estimates of macroeconomic variables. All variables in the models were selected based on their economic significance (taking into account the relevant economic literature), as well as on the basis of their statistical significance in the model.

**Consumer and cash loans**

The regression for Consumer and cash loans includes macroeconomic variables: 6m Belibor and seasonally adjusted real wages.

| *Variables* | *Scenario* | *Assigned weight* | *Realized DR 2022* | *Projected PD 2022* |
|---|---|---|---|---|
| ***6m Belibor, real dinar wages, turnover in retail trade and the interaction of the high inflation regime and 6m Belibor*** | Starting | 25% | 0.94% | 0.55% |
| | Pessimistic | 50% | 0.94% | 1.15% |
| | Optimistic | 25% | 0.94% | 0.52% |

The table shows the weighted values of the projected PD.

**Credit cards**

The regression for Credit Cards includes macroeconomic variables: Exchange rate EUR / RSD, 6m Belibor and seasonally adjusted real earnings.

| *Variables* | *Scenario* | *Assigned weight* | *Realized DR 2022* | *Projected PD 2022* |
|---|---|---|---|---|
| ***industrial production of the processing industry, real dinar earnings and 6m Belibor*** | Starting | *25%* | *0.24%* | *0.43%* |
| | Pessimistic | *50%* | *0.24%* | *0.95%* |
| | Optimistic | *25%* | *0.24%* | *0.37%* |

The table shows the weighted values of the projected PD.

**Entrepreneurs**

Regression for Entrepreneurs include macroeconomic variables: 6m Euribor, change in RSD / EUR exchange rate, real effective exchange rate and industrial production.

| *Variable* | *Scenario* | *Assigned weight* | *Realized DR 2022* | *Projected PD 2022* |
|---|---|---|---|---|
| ***share of imports of goods and services in GDP*** | Starting | 25% | 0.10% | 1.08% |
| | Pessimistic | 50% | 0.10% | 2,48% |
| | Optimistic | 25% | 0.10% | 0.97% |

The table shows the weighted values of the projected PD.

*All amounts are expressed in thousands of RSD unless otherwise stated*

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### *(a) Classification and valuation and impairment of financial assets (continued)*

**Legal entities**

The regression for legal entities includes macroeconomic variables: 6m Euribor, change in RSD/EUR exchange rate, real effective exchange rate, industrial production and share of corporate loans in GDP.

| *Variable* | *Scenario* | *Assigned weight* | *Realized DR 2022* | *Projected PD 2022* |
|---|---|---|---|---|
| ***6m Euribor, effective real exchange rate and aggregate loans to corporate in % of GDP*** | Starting | 25% | 2.81% | 0.88% |
| | Pessimistic | 50% | 2.81% | 1.93% |
| | Optimistic | 25% | 2.81% | 0.84% |

The table shows the weighted values of the projected PD.

**Housing loans**

Macroeconomic variables are included in the regression for legal entities: Change in the nominal exchange rate against the euro, nominal dinar earnings, the six-month Euribor and the interaction of the high inflation regime and own arrears

| *Variable* | *Scenario* | *Assigned weight* | *Realized DR 2022* | *Projected PD 2022* |
|---|---|---|---|---|
| ***Change in the nominal exchange rate against the euro, nominal dinar earnings, the 6m Euribor and the interaction of the high inflation regime and own arrears*** | Starting | 25% | 2.81% | 0.88% |
| | Pessimistic | 50% | 2.81% | 1.93% |
| | Optimistic | 25% | 2.81% | 0.84% |

The table shows the weighted values of the projected PD.

**Overdrafts**

Macroeconomic variables are included in the regression for legal entities: real dinar wages, 6m Belibor and the consumer sentiment indicator.

| *Variable* | *Scenario* | *Assigned weight* | *Realized DR 2022* | *Projected PD 2022* |
|---|---|---|---|---|
| ***real dinar earnings, 6m Belibor and the consumer sentiment indicator*** | Starting | 25% | 0.22% | 0.39% |
| | Pessimistic | 50% | 0.22% | 0.87% |
| | Optimistic | 25% | 0.22% | 0.26% |

The table shows the weighted values of the projected PD.

Based on these scenarios with defined weights, the bank calculated the Z-shift for each homogeneous group, which led to increase in expected credit losses by RSD 33,292 thousand.

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

### *(a) Classification and valuation and impairment of financial assets (continued)*

### *Significant Increase in Credit Risk (SICR)*

In order to determine whether there has been a significant increase in credit risk, the Bank compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition.

If 10% of loans and advances to customers classified as Stage 1 as at 31 December 2022 are measured by applying the ECL lifetime (for Stage 2), the expected impairment loss would be higher by RSD 4,070 thousand (31 December 2021: higher by RSD 5,765 thousand).

### *Business model assessment*

The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Bank considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimising potential losses due to credit deterioration are considered consistent with the “hold to collect” business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the “hold to collect” business model, provided that they are infrequent or insignificant in value, both individually and in aggregate. The Bank assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Bank’s control, is not recurring and could not have been anticipated by the Bank, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

The “hold to collect and sell" business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model’s objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets.

The residual category includes those portfolios of financial assets, which are managed with the objective of realising cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

### *(a) Classification and valuation and impairment of financial assets (continued)*

***Assessment whether cash flows are solely payments of principal and interest (SPPI)***

Determining whether financial assets cash flows are solely payments of principal and interest requires judgement.

The Bank identified and considered contractual terms that change the timing or amount of contractual cash flows. The SPPI criterion is met if a loan allows early settlement and the prepayment amount substantially represents principal and accrued interest, plus a reasonable additional compensation for the early termination of the contract. The asset's principal is the fair value at initial recognition less subsequent principal repayments, i.e. instalments net of interest determined using the effective interest method. As an exception to this principle, the standard also allows instruments with prepayment features that meet the following condition to meet SPPI: (i) the asset is originated at a premium or discount, (ii) the prepayment amount represents contractual amount and accrued interest and a reasonable additional compensation for the early termination of the contract, and (ii) the fair value of the prepayment feature is immaterial at initial recognition.

The Bank's loans include cross-selling clauses that represent a reduction in the interest rate upon the customer entering into other contracts with the Bank or achieving certain criteria, such as maintaining a minimum turnover on current bank accounts held with the Bank. The cash flows are SPPI if such clauses merely reduce the Bank's overall profit margin on the instrument and there are no other features inconsistent with a basic loan arrangement.

The Bank considered examples in the standard and concluded that features that arise solely from legislation and that are not part of the contract, that is, if legislation changed, the features would no longer apply, are not relevant for assessing whether cash flows are SPPI. The Bank's loan agreements allow adjusting interest rates in response to certain macro-economic or regulatory changes. Management applied judgement and assessed that competition in the banking sector and the practical ability of the borrowers to refinance the loans would prevent it from resetting the interest rates at an above-market level and hence cash flows were assessed as being SPPI.

***Modification of financial assets.***

When financial assets are contractually modified (e.g. renegotiated), the Bank assesses whether the modification is substantial and should result in derecognition of the original asset and recognition of a new asset at fair value. This assessment is based on quantitative and qualitative factors, described in the relevant accounting policy and the qualitative factors require significant judgment. In particular, the Bank applies judgment in deciding whether credit impaired renegotiated loans should be derecognized and whether the new recognized loans should be considered as credit impaired on initial recognition. The derecognition assessment depends on whether the risks and rewards, that is, the variability of expected (rather than contractual) cash flows, change as a result of such modifications. Management determined that risks and rewards did not change as a result of modifying such loans and therefore in substantially all such modifications, the loans were neither derecognized nor reclassified out of the credit-impaired stage.

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

### *(a) Classification and valuation and impairment of financial assets (continued)*

### *Write-off policy*

Financial assets are derecognized, in whole or in part, when the Bank has exhausted all practical recovery efforts and concluded that there are no reasonable expectations of recovery. Determining cash flows for which there is no reasonable expectation of recovery requires assessment. Management has considered the following indicators that there is no reasonable expectation of recovery:

- The decision of the National Bank of Serbia on the accounting write-off of the bank's balance sheet assets stipulates that the Bank is obliged to write off the low-collectability balance sheet assets by transferring the balance sheet assets to the bank's off-balance sheet records. Pursuant to the aforementioned decision, the bank is obliged to write off the problem loan in the event that the amount of impairment of the loan is calculated, which the bank has recorded in favor of the value adjustment of 100% of its gross book value. With these placements, it is evident that there is very little possibility of collection or no source of collection of receivables at all. The possibility of collection is assessed on the basis of the status of proceedings against the client and other participants in the placement.
- In accordance with applicable collection procedures and international financial reporting standards, a bank may partially write off receivables by transferring the uncollectible portion of receivables from the balance sheet to off-balance sheet records. This move recognizes partial non-collectability and reduces the balance receivable to the amount of expected collection, without affecting the legal position of the bank as a creditor, since the claim remains fully recognized and recorded in the bank's books (both on- balance sheet and off-balance sheet records). The decision on partial write-off is made in accordance with the competencies of the Committee for Problematic Placements and based on the analysis of the possibility of voluntary or forced collection, previously conducted procedures, the relationship between the value of receivables and collateral, and available legal remedies in favor of the Bank. If these arguments confirm the partial non-collectability, a part of the claim can be written off.
- If the cost of conducting enforcement proceedings (especially court proceedings) is higher than the amount of the claim, the receivables may be written off when the collection methods are exhausted or become inexpedient by initiating court/enforcement proceedings.

### *(b) Fair value of securities*

The fair value of financial instruments traded in an active market at the balance sheet date is based on quoted market prices of supply or demand, without any deduction for transaction costs. The fair value of financial instruments not quoted in an active mark.et is determined using appropriate valuation techniques, which include net present value techniques, comparison with similar instruments for which there are market prices and other relevant models.

When market inputs are not available, they are determined by valuations that include some degree of judgment in estimating fair value. Valuation models reflect the current market situation at the measurement date and do not have to represent the market conditions before or after the measurement date. Therefore, valuation techniques are revised periodically to adequately reflect current market conditions.

More detailed disclosures are provided in Note 4.5 (fair valuation and FV levels).

### *(c) Estimate of the fair value of buildings and investment property and foreclosed assets*

The Bank receives independent appraisals for its investment property and foreclosed assets at least annually, and for business premises (classified as property, plant and equipment) at least every four years.

At the end of each reporting period, management updates its estimate of the fair value of each property, taking into account the most recent independent valuations. Management determines the value of assets within the range of reasonable fair value estimates.

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

### *(c) Estimate of the fair value of buildings and investment property and foreclosed assets (continued)*

The best evidence of fair value is current prices in an active real estate market. If current price information is not available, management reviews information from a variety of sources, including:

- current active market prices for properties of different nature or recent prices for similar properties in less active markets, adjusted to reflect these differences,
- discounted cash flow projections on reliable estimates of future cash flows,
- capitalized revenue forecasts based on the estimated net income of the real estate market and the capitalization rate derived from market evidence analysis.

### *(d) Recognition of deferred tax assets*

Deferred tax assets represent income taxes that may be collected through future reductions in taxable profit. Deferred tax assets are recorded if the achievement of the relevant tax benefits is probable. The future taxable profit and the amount of tax benefits that are probable in the future are based on the medium-term business plan prepared by management, as well as on the subsequent extrapolation of the results of the same plan. The Bank did not recognize deferred tax assets for tax losses carried forward.

### *(e) Provisions for litigation*

The Bank is subject to a number of claims incidental to the normal conduct of its business, relating to and including commercial, contractual and employment matters, which are handled and defended in the ordinary course of business. The Bank routinely assesses the likelihood of any adverse judgments or outcomes to these matters as well as ranges of probable and reasonable estimated losses. A number of these cases relate to claims for disputed clauses in loan agreements, such as those relating to loan origination fees and insurance premiums collected by the Bank from individuals as borrowers. In estimating the provision, the Bank assesses the probability of any adverse outcomes on these matters, and for those with a probable negative outcome, calculates the provision based on the actual receivable plus the best estimate of default interest and legal costs.

Reasonable estimates include judgment made by management after considering information including notifications, settlements, estimates performed by legal department, available facts, identification of other potentially responsible parties and their ability to contribute as well as prior experience.

A provision for litigation is recognized when it is probable that an obligation exists for which a reliable estimate can be made after careful analysis. The required provision may change in the future due to new events and as additional information becomes available.

Matters that are either contingent liabilities or do not meet the recognition criteria for provision are disclosed, unless the possibility of transferring economic benefits is remote. Refer to Note 29 for further information about the Bank's contingent liabilities in respect of litigations and related provisions.

*All amounts are expressed in thousands of RSD unless otherwise stated*

## 6. INTEREST INCOME AND EXPENSES

| | 2022 | 2021 |
|---|---|---|
| **Interest income based on EIR** | | |
| Based on loans | 387,461 | 386,494 |
| Based on deposits | 5,012 | 1,941 |
| Based on securities and REPO transaction | 162,705 | 139,792 |
| Based on foreign currency loans | 3,657 | 3,131 |
| Based on foreign currency deposits | 20,773 | 2 |
| Based on foreign currency securities | 15,937 | 15,598 |
| Based on SWAP transactions | 0 | 80 |
| **Total:** | **595,545** | **547,038** |
| **Interest expense** | | |
| Based on deposits | 51,010 | 48,267 |
| Based on securities | 31,904 | 16,955 |
| Based on other liabilities | 15,822 | 1,329 |
| Based on foreign currency borrowings | 4,867 | 9,414 |
| Based on foreign currency deposits | 59,974 | 68,916 |
| Based on foreign currency securities | 176 | 1,777 |
| Based on other foreign currency liabilities | 977 | 1,410 |
| **Total:** | **164,730** | **148,068** |
| **Net interest income** | **430,815** | **398,970** |

Total interest income and expense accounted for using the effective interest method presented in the table relate to financial assets and liabilities that are not carried at fair value through profit and loss statement.

Interest income from loans in dinars in the amount of RSD 387,461 thousand (2021: RSD 386,494 thousand), also includes income from suspended interest in the amount of RSD 38,539 thousand (2021: RSD 33,674 thousand).

Income from interest from securities in the amount of RSD 162,705 thousand (2021: RSD 139,792 thousand), mostly refers to income from interest from government bonds. in the amount of RSD 162,493 thousand.

Interest expenses on deposits in dinars in the amount of RSD 51,010 thousand (2021: RSD 48,267 thousand), mainly refer to interest expenses on short-term deposits of other companies in the amount of RSD 19,616 thousand, to interest expenses on demand deposits of households in the amount of RSD 9,597 thousand and on interest expenses on short-term local self-government deposits in the amount of RSD 16,380 thousand.

Interest expenses from securities in dinars in the amount of RSD 31,904 thousand (2021: RSD 16,955 thousand) consist of expenses from the RS bond premium in dinars, while interest expenses based on other obligations in dinars in the amount of RSD 15,822 thousand (2021: RSD 1,329 thousand) consists of interest on repo loans in the amount of RSD 6,467 thousand and interest on SWOP transactions in the amount of RSD 9,332 thousand.

Interest expenses on deposits in foreign currency in the amount of RSD 59,974 thousand (2021: RSD 68,916), mostly refers to interest expenses on long-term savings deposits of retails for 25 months in foreign currency in the amount of RSD 24,104 thousand, while the amount of RSD 18,508 thousand refers to interest expenses on savings and other term foreign currency deposits of retails, and the amount of RSD 13,528 thousand refers to interest from retail on avista foreign currency savings.

Interest expenses on loans in foreign currency in the amount of RSD 4,867 thousand (2021: RSD 9,414 thousand), were generated on the basis and at rates that are explained in more detail in Note 27.

*All amounts are expressed in thousands of RSD unless otherwise stated*

## 6. INTEREST INCOME AND EXPENSES (continued)

| **Interest income** | **2022** | **2021** |
|---|---|---|
| Corporate | 257,387 | 253,649 |
| *- interest* | 241,512 | *238,134* |
| *- fees* | 15,875 | *15,515* |
| Retail | 80,685 | 84,056 |
| *- interest* | 80,534 | *83,865* |
| *- fees* | 151 | *191* |
| Foreign entities | 2,175 | 1,508 |
| *- interest* | 2,175 | *1,508* |
| *- fees* | - | - |
| National Bank of Serbia | 12,517 | 962 |
| Republic of Serbia | 178,528 | 155,127 |
| Entrepreneurs | 13,312 | 18,001 |
| *- interest* | 12,646 | *16,824* |
| *- fees* | 689 | *1,177* |
| Banks and other financial institutions | 12,379 | 61 |
| Retail fee previously written off | 5,974 | 2,684 |
| Corporate fee previously written off | 31,859 | 30,010 |
| Entrepreneurs fee previously written off | 706 | 980 |
| **Total** | **595,545** | **547,038** |

| **Interest expense** | **2022** | **2021** |
|---|---|---|
| Corporate | 22,199 | 27,427 |
| Retail | 67,899 | 75,112 |
| Entrepreneurs | 697 | 142 |
| Republic of Serbia | 32,080 | 18,731 |
| Banks and other financial institutions | 15,103 | 10,061 |
| Public sector | 17 | 23 |
| Foreign entities | 427 | 708 |
| National Bank of Serbia | 6,467 | 859 |
| Leasing | 18,863 | 13,595 |
| Other clients | 977 | 1,410 |
| **Total** | **164,730** | **148,068** |
| **Interest income** | **430,815** | **398,970** |

## 7. FEE AND COMMISSION INCOME AND EXPENSE

| | **2022** | **2021** |
|---|---|---|
| Fee and commission income | 512,678 | 135,281 |
| Fee and commission income in foreign currency | 10,426 | 7,884 |
| **Total:** | **523,104** | **143,165** |
| Fee and commission expense | 7,207 | 7,131 |
| Fee and commission expense in foreign currency | 19,065 | 13,389 |
| **Total:** | **26,272** | **20,520** |
| **Net fee and commission income** | **496,832** | **122,645** |

Fees and commissions income in dinars in the amount of RSD 512,678 thousand (2021: RSD 135,281 thousand) mostly refer to fees from retails for carrying out foreign exchange operations in the amount of RSD 196,067 thousand (2021: RSD 141 thousand); fees for purchase and sale of foreign currency from other clients in the amount of RSD 185,363 thousand (2021: RSD 19,892 thousand); for banking services from corporate for payment transactions in the amount of RSD 43,323 thousand (2021: RSD 39,886 thousand); fees for banking services from companies based on guarantees, letters of intent, etc. in the amount of RSD 29,132 thousand (2021: RSD 23,859 thousand); fees for banking services from entrepreneurs for payment transactions in the amount of RSD 11,394 thousand (2021: RSD 11,787 thousand).

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 7. FEE AND COMMISSION INCOME AND EXPENSE (continued)

| | 2022 | 2021 |
|---|---|---|
| **Income from fees for banking services** | | |
| - payment cards | 13,818 | 10,064 |
| - domestic payment operations (companies, bank, retail) | 58,451 | 53,102 |
| - commissions for issued guarantees | 34,594 | 29,612 |
| - banking services | 21,435 | 18,456 |
| - foreign currency payment operations | 8,336 | 7,489 |
| - other fees and commissions | 1,724 | 1,855 |
| - exchange operations | 196,195 | 251 |
| - buying and selling of foreign currency | 185,363 | 19,892 |
| - other – early repayment | 3,188 | 2,444 |
| **Total income** | **523,104** | **143,165** |
| **Expenses from fees for banking services** | | |
| - payment cards | 8,240 | 6,839 |
| - domestic payment operations | 5,286 | 5,055 |
| - foreign currency payment operations | 10,961 | 6,830 |
| - broker services | 0 | 111 |
| - other fees and commissions | 984 | 1,038 |
| - exchange operations | 0 | 31 |
| - buying and selling of foreign currency | 801 | 616 |
| **Total expenses:** | **26,272** | **20,520** |
| **Net gains from fees and commissions** | **496,832** | **122,645** |

## 8.NET GAINS FROM DERECOGNITION OF THE FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

| | 2022 | 2021 |
|---|---|---|
| Gains from the sale of bonds at FVOCI of Republic of Serbia | 5,565 | 92,217 |
| Losses from the sale of bonds at FVOCI of the Republic of Serbia | - | - |
| **Net gain:** | **5,565** | **92,217** |

## 9. NET (LOSS) / GAIN FROM RISK PROTECTION

| | 2022 | 2021 |
|---|---|---|
| Gain from the change in the value of derivatives intended for risk protection | - | 3,218 |
| Loss on the basis of changes in the value of derivatives intended for risk protection | - | (823) |
| **Net (loss)/gain based on protection from risk** | **-** | **2,395** |

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 10. NET FOREIGN EXCHANGE GAINS AND CURRENCY CLAUSE EFFECTS

| | 2022 | 2021 |
|---|---|---|
| ***Foreign exchange gains based on:*** | | |
| Foreign currency deposits and loans | 388,404 | 21,737 |
| Foreign currency accounts | 127,091 | 9,264 |
| Transactions with derivatives | 33,694 | 3,352 |
| Cash and deposits held with NBS | 4,866 | 3,610 |
| Payment card transactions | 15,832 | 2,271 |
| Other | 1,452,402 | 141,297 |
| Contracted currency clause | 8,654 | 2,698 |
| Based on securities | 29,095 | 22,270 |
| **Total** | **2,060,038** | **206,499** |
| ***Foreign exchange losses based on:*** | | |
| Foreign currency deposits and loans | 310,051 | 44,343 |
| Foreign currency accounts | 178,931 | 4,902 |
| Transactions with derivatives | 92,602 | 4,523 |
| Cash and deposits held with NBS | 5,671 | 2,110 |
| Payment card transactions | 14,559 | 2,098 |
| Other | 1,456,863 | 141,151 |
| Contracted currency clause | 18,535 | 2,574 |
| Based on securities | 21,237 | 9,199 |
| **Total** | **2,098,449** | **210,900** |
| **Foreign exchange gains/(losses), net** | **(38,411)** | **(4,401)** |

## 11. NET GAIN / (LOSS) FROM IMPAIRMENT OF FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH INCOME STATEMENT

| | 2022 | 2021 |
|---|---|---|
| Impairment loss on balance sheet assets | (606,891) | (346,645) |
| Income from reversal of impairment of balance sheet assets | 458,460 | 282,766 |
| Provision for off-balance sheet items | (88,045) | (32,063) |
| Income from reversal of provisions for off-balance sheet items | 60,820 | 21,732 |
| Expenses from write-off of uncollectible receivables | (488) | (2,331) |
| Income from collected receivables previously written-off | 105,490 | 79,762 |
| Impairment of financial assets valued at FY through OCI | (822) | (4,002) |
| Reversal of impairment of financial asset valued through OCI | 2,064 | 3,082 |
| **Net (expense)/income:** | **(69,412)** | **2,301** |

Movements on the accounts of impairment of balance assets in 2022 were as follows:

| | Loans to clients | Receivables for interest and fees | Other receivables | Total |
|---|---|---|---|---|
| Opening balance 01 Januiary 2022 | **205,826** | **3,900** | **6,489** | **216,215** |
| Reclassified | (1,071) | 1,071 | | - |
| New impairment allowance | 465,232 | 19,263 | 122,397 | 606,891 |
| Decreases | (316,055) | (17,451) | (124,954) | (458,460) |
| Transfer to off-balance sheet items | (115,338) | - | - | (115,338) |
| **Balance at the year end** | **238,594** | **6,783** | **3,931** | **249,308** |

*All amounts are expressed in thousands of RSD unless otherwise stated*

## 11. NET INCOME / (EXPENSE) FROM IMPAIRMENT OF FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH INCOME STATEMENT (continued)

Movements on the accounts of impairment of balance assets in 2021 were as follows:

| | Loans to clients | Receivables for interest and fees | Other receivables | Total |
|---|---|---|---|---|
| Opening balance 01 Januiary 2021 | **270,895** | **7,206** | **2,785** | **280,886** |
| New impairment allowance | 328,670 | 5,624 | 12,351 | 346,645 |
| Reversal of impairment allowances | (268,845) | (3,841) | (10,080) | (282,766) |
| Transfer to off-balance | (123,931) | (2,500) | (1,156) | (127,587) |
| Write-offs | (963) | - | - | (963) |
| **Balance at the year end** | **205,826** | **6,489** | **3,900** | **216,215** |

## 12. OTHER OPERATING INCOME

| | 2022 | 2021 |
|---|---|---|
| Rent income | 15,014 | 10,489 |
| Income from sales of assets from collection of receivables | 14,360 | 5,825 |
| Income from sales of investment property | 88 | 3,671 |
| **Total** | **29,462** | **19,985** |

## 13. SALARIES, SALARY COMPENSATIONS AND OTHER PERSONAL EXPENSES

| | 2022 | 2021 |
|---|---|---|
| Costs of salaries | 194,960 | 183,553 |
| Costs of employee compensations | 34,530 | 38,194 |
| Taxes for salaries and wages | 28,364 | 27,379 |
| Contributions for salaries and wages | 56,401 | 53,557 |
| Compensations for temporary and occasional work | 2,244 | 991 |
| Other personal expenses | 39,664 | 13,983 |
| Net expense/income for provisions for unused days of annual leave and retirement | 3,153 | (11,014) |
| **Total** | **359,316** | **306,643** |

## 14. DEPRECIATION COSTS

| | 2022 | 2021 |
|---|---|---|
| Intangible assets | 22,813 | 23,563 |
| Fixed assets | 29,297 | 24,968 |
| Right of use of assets | 17,133 | 17,585 |
| **Total** | **69,243** | **66,116** |

*All amounts are expressed in thousands of RSD unless otherwise stated*

## 15. OTHER INCOME

| | 2022 | 2021 |
|---|---|---|
| Income from derecognition of provisions for litigation | 37,883 | 117,815 |
| Income from sale of fixed assets | 0 | 87 |
| Income on the basis of changes in value of fixed assets acquired by collecting receivables and investment property | 9,559 | 8,279 |
| Income from balances on closed customer accounts | 34 | 4,902 |
| Deferred income from previous years | 0 | 1,100 |
| Other income | 3,705 | 5,949 |
| Income from legal actions finalised in favour of the Bank | 3,214 | - |
| Other income from previous year | 1,916 | 3,581 |
| **Total** | **56,311** | **141,713** |

## 16. OTHER EXPENSES

| | 2022 | 2021 |
|---|---|---|
| Costs of materials | 21,224 | 16,594 |
| Costs of production services | 18,848 | 16,391 |
| Non-material costs (without taxes and contributions) | 263,076 | 224,139 |
| Taxes | 16,554 | 13,040 |
| Contributions | 51,636 | 50,128 |
| Provisions for liabilities (Note 28) | 72,718 | 10,140 |
| Shortages and damages | 103 | 2 |
| Other expenses | 19,765 | 39,690 |
| Losses on the basis of changes in value of fixed assets acquired by collecting receivables and investment property | 8,937 | 4,478 |
| **Total** | **472,861** | **374,602** |

Cost of material amounting to RSD 21,224 thousand (2021: RSD 16,594 thousand) and mostly refer to electricity and heating costs in the amount of RSD 12,263 thousand (2021: RSD 11,161 thousand).

Of the total costs of production services in the amount of RSD 18,848 thousand (2021: RSD 16,391 thousand), the amount of RSD 12,080 thousand (2021: RSD 10,522 thousand) is cost of electronic communications and automatic data processing.

Intangible costs in the amount of RSD 263,076 thousand (2021: RSD 224,139 thousand) are mostly made up of the amount of RSD 38,974 thousand (2021: RSD 38,069 thousand) which refers to the costs of bank deposit insurance premiums; an amount of RSD 51,241 thousand (2021: RSD 39,693 thousand) related to service services-software maintenance; the amount of RSD 23,494 thousand (2021: RSD 20,938 thousand) related to the costs of maintaining software applications; the amount of RSD 17,452 thousand (2021: RSD 13,949 thousand) related to service services - IT equipment.

Other expenses amounting to RSD 19,765 thousand (2021: RSD 39,690 thousand) mostly refer to lost disputes, and related to fees for loans of legal and natural persons in the amount of RSD 12,429 thousand,

Expenditures from changes in the value of fixed assets acquired through the collection of receivables and investment real estate, of RSD 8,937 thousand, refer to the posting of valuations by authorized appraisers, in December 2022, namely expenditures of new valuations of acquired assets of RSD 7,158 thousand and investment real estate of RSD 1,779 thousand.

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 17. INCOME TAX

Total tax (expense)/income consists of the following taxes:

| | 2022 | 2021 |
|---|---|---|
| Income tax | - | - |
| Deferred tax credit (Note 29) | 8,290 | 1,112 |
| **Total tax income** | **8,290** | **1,112** |

Current income tax on the Bank's profit before tax differs from the theoretical amount that would result from the use of weighted average tax rate and would be as follows:

| | 2022 | 2021 |
|---|---|---|
| Gain/ (Loss) prior to taxation | 9,843 | 28,464 |
| Income tax per rate of 15% | (1,476) | (4,270) |
| Tax effects of income and expenses not recognized for tax purposes | 17,497 | 46,079 |
| Tax effect of unrecognized tax losses carried forward | (16,021) | (41,809) |
| Tax effect of temporary differences | 8,290 | 1,112 |
| **Income tax presented in the income statement** | **8,290** | **1,112** |

The Bank did not recognize potential deferred tax assets based on unused amounts of tax losses carried forward. The table below shows tax losses and the amount of unused tax credit per year:

| Tax period of unused tax credit inception | Tax loss | Amount of unused tax credit | Last tax period in which unused tax credit may be used |
|---|---|---|---|
| 2019 | 322,724 | 48,408 | 2024 |
| 2020 | 225,890 | 33,884 | 2025 |
| 2021 | 288,514 | 43,277 | 2026 |
| **TOTAL** | **837,128** | **125,569** | |

## 18. CASH AND BALANCES WITH THE CENTRAL BANK

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Giro account | 923,372 | 741,034 |
| Cash on hand in RSD | 100,500 | 120,987 |
| Receivables for calculated interest, fee and commission per cash funds held with Central Bank | 2 | 2 |
| Cash on hand in foreign currency | 126,788 | 338,955 |
| Obligatory foreign currency reserve held with NBS | 1,002,450 | 897,585 |
| Receivables for interest on avista deposits with NBS in foreign currency | 2,633 | 28 |
| Accruals for cash and assets with the NBS | 220 | - |
| Accrued receivables for interest for avisa deposits with NBS in foreign currency | 120 | - |
| **Total** | **2,156,085** | **2,098,591** |

The Bank calculates and allocates the obligatory reserve with the National Bank of Serbia in the amount and in the manner determined by the Decision on obligatory reserve of banks with the National Bank of Serbia (Official Gazette RS No. 76/2018.). The obligatory reserve in dinars is allocated to the gyro account and is therefore not separately disclosed.

The obligatory reserve with the NBS represents the minimum reserve of dinar and foreign currency funds allocated in accordance with the Decision of the NBS and can be used for liquidity if necessary.

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 18. CASH AND BALANCES WITH THE CENTRAL BANK (continued)

The obligatory reserve in dinars is calculated by the Bank on liabilities in dinars, loans and securities, as well as in other dinars liabilities other than dinars deposits received on transactions performed by the Bank in the name and on behalf of third parties which do not exceed the number of placements provided by the Bank given from those deposits.

The National Bank of Serbia pays interest on the amount of the average daily balance of the allocated RSD obligatory reserve in the accounting period, which does not exceed the amount of the RSD obligatory reserve at the interest rate of 0.75% annually.

The Bank calculates its foreign currency obligatory reserve on liabilities for foreign currency deposits, loans and securities and other foreign currency liabilities, as well as on deposits, loans and other foreign currency received from abroad in the operations performed by the Bank on behalf and for the account of third parties.

The National Bank of Serbia does not pay interest on the amount of realized average balance of allocated foreign currency reserves.

The tablebelow shows summary of cash and cash equivalents disclosed in cash flow statements:

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| **In RSD** | | |
| Current and gyro account | 923,372 | 741,034 |
| Petty cash | 100,500 | 120,987 |
| **In FC** | | |
| Foreign currency account | 140,739 | 453,565 |
| Petty cash | 126,788 | 338,955 |
| **Total cash** | **1,291,399** | **1,654,541** |
| *Less: Allowances for impairment* | *954* | *547* |
| **Balance as of 31 December** | **1,290,445** | **1,653,994** |

## 19. SECURITIES

| | 2022 | 2021 |
|---|---|---|
| Securities in RSD | 2,756,297 | 3,166,329 |
| Securities in foreign currency | 647,556 | 696,126 |
| Premium/(discount) | 256,426 | 252,772 |
| **Total** | **3,660,279** | **4,115,227** |

Securities measured in the bank’s balance relate to securities at fair value through other comprehensive income and consist entirely of long-term bonds of the Republic of Serbia.

Movement of impairment allowance is shown in the table below:

Impairment allowance of securities measured at fair value through other comprehensive income.

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Balance as at Jan 01 | 7,742 | 6,793 |
| Increase | 876 | 4,047 |
| Decrease | (2,099) | (3,098) |
| **Total impairment allowance** | **6,519** | **7,742** |

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 20. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL ORGANIZATIONS

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Bank foreign currency account | 134,417 | 450,796 |
| Funds on the account with the domestic bank intended for the purchase of securities | 3,547 | 2,219 |
| Avista deposits with NBS in foreign currency | 1,283,831 | - |
| Bank's foreign currency account with CRHOV | 1,820 | 3 |
| Other earmarked deposits in foreign currency | 7,625 | 7,632 |
| Short-term deposits with other foreign banks in foreign currency | 110,743 | |
| Interest receivables from banks in foreign currency | 116 | |
| **Total** | **1,542,099** | **460,650** |

Movement of impairment allowance is shown in the table below:

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Balance on 1 January | 558 | 185 |
| Increase | 163,046 | 1,998 |
| Reduction | (160,017) | (1,625) |
| **Total correction** | **3,587** | **558** |

## 21. LOANS AND RECEIVABLES FROM CUSTOMERS

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| **Receivables in dinars** | | |
| For accrued interest on loans, deposits and other placements | 19,901 | 23,625 |
| For the calculated fee and commission on loans, deposits and other placements | 2,657 | 1,341 |
| *Value adjustment demand. for accrued interest, fees and commissions on loans, deposits and other placements* | *(2,668)* | *(1,558)* |
| For accrued interest on loans, deposits and other placements in foreign currency | 3 | 261 |
| Loans on transaction accounts | 45,025 | 32,955 |
| Consumer loans | 956 | 856 |
| Liquidity and working capital loans | 4,190,932 | 5,605,517 |
| Investment loans | 1,016,184 | 1,202,425 |
| Housing loans | 1,472,160 | 1,595,880 |
| Cash loans | 209,717 | 306,388 |
| Other loans | 34,114 | 114,987 |
| *Value adjustment of loans granted in dinars* | *(235,750)* | *(204,740)* |
| Accrued receivables for interest from loans, deposits and other placements | 126,623 | 114,137 |
| Deferred maturities and interest- moratorium | 29,016 | 56,581 |
| Boundary fee - moratorium | 0 | 792 |
| *Value adjustment of accrued expenses and deferrals in dinars* | *(873)* | *(992)* |
| Loans to pay for imports of goods and services from abroad in foreign currency | 60,531 | 75,755 |
| *Value adjustment of long-term loans for import of goods and services from abroad in foreign currency* | *(286)* | *(5)* |
| Accrued receivables for interest for loans, deposits and other placements in foreign currency | 10,473 | 10,438 |
| Accrued income for receivables stated at amortized value using the effective interest rate | (18,656) | (22,414) |
| **Total** | **6,960,059** | **8,912,229** |

Movement of impairment allowance is shown in the table below:

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Balance on 1 January | 207,294 | 275,886 |
| Increase | 465,865 | 342,995 |
| Reduction | (433,582) | (411,587) |
| **Total correction** | **239,577** | **207,294** |

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 21. LOANS AND RECEIVABLES FROM CUSTOMERS (continued)

Changes in loans and receivables from customers in 2022 are as follows:

| | Short-term loans | | Long-term loans | | Total 2022 | Total 2021 |
|---|---|---|---|---|---|---|
| | **IN RSD** | **In foreign currency** | **IN RSD** | **In foreign currency** | | |
| **Opening balance 01 January** | | | | | | |
| Interest and fee receivables | 3,465 | - | 21,501 | 261 | 25,227 | 34,945 |
| New calculation | 98,300 | 938 | 315,743 | 3,417 | 418,398 | 434,729 |
| Repayments | (93,303) | (938) | (323,147) | (3,675) | (421,063) | (444,446) |
| *Impairment of receivables for interest and fees* | *(2,063)* | *0* | *(606)* | - | *(2,668)* | *(1,558)* |
| Accrued interest receivables calculated for loans, deposits and other placements | 146,143 | 10,279 | 9,496 | 193 | 166,111 | 181,155 |
| Deferred income for receivables stated at amortized cost | (14,798) | - | (3,859) | - | (18,657) | (22,414) |
| *Impairment allowance of accruals in RSD* | *(598)* | - | *(275)* | - | *(873)* | *(992)* |
| **Net interest and fees on 31.12.** | **137,146** | **10,279** | **18,853** | **196** | **166,474** | **181,419** |
| **Placements to clients on 01 January** | 926,444 | - | 7,932,563 | 75,755 | 8,934,763 | 9,666,247 |
| New placements | 2,775,404 | 0 | 5,859,508 | 125,285 | 8,672,192 | 7,731,989 |
| Deferred fee for guarantees | - | - | - | - | - | 792 |
| Wite-offs | - | - | (405) | - | (405) | (205) |
| Repayments | (2,325,918) | - | (8,198,507) | (140,509) | (10,576,929) | (8,463,268) |
| *Impairments and provisions* | *(66,894)* | - | *(168,856)* | *(286)* | *(236,036)* | *(204,745)* |
| **Net placements as of 31 December** | **1,309,036** | **-** | **5,424,303** | **60,245** | **6,793,585** | **8,730,810** |
| **Loans and receivables from customers on 31 December** | **1,446,182** | **10,279** | **5,443,157** | **60,441** | **6,960,059** | **8,912,229** |

| | Companies | Entrepreneurs | Retails | Foreign persons | Other customers | Total 2022 | Total 2021 |
|---|---|---|---|---|---|---|---|
| Interest receivables in RSD | 16,096 | 1,148 | 2,567 | 90 | 0 | **19,901** | **23,625** |
| Fee receivables in RSD | 129 | 71 | 1,799 | 51 | 608 | **2,658** | **1,342** |
| *Value adjustment of interest and fee receivables in RSD* | *(2,326)* | *(112)* | *(204)* | - | *(26)* | ***(2,668)*** | ***(1,558)*** |
| Interest receivables in foreign currency | 3 | - | - | - | - | **3** | **261** |
| Accrued interest receivables calculated on the basis of loans, deposits and other placements | 11,928 | 1,209 | 25,984 | 263 | 126,727 | **166,111** | **181,156** |
| *Value adjustment of accruals in RSD* | *(229)* | *(27)* | *(534)* | - | *(83)* | ***(873)*** | ***(991)*** |
| Deferred income for receivables stated at amortized cost by applying the effective interest rate | (14,527) | (793) | (3,337) | - | | **(18,657)** | **(22,414)** |
| Short-term loans | | | | | | | |
| - in RSD | 1,278,060 | 93,912 | 3,958 | | | **1,375,930** | **926,444** |
| Long-term loans | | | | | | | |
| -in RSD | 3,739,815 | 158,325 | 1,668,517 | 26,502 | | **5,593,159** | **7,932,562** |
| -in foreign currency | 60,531 | | | | | **60,531** | **75,755** |
| *Loan value adjustment* | *(201,626)* | (15,082) | (19,328) | - | | ***(236,036)*** | ***(204,745)*** |
| Deferral of fees under guarantees | - | - | - | - | - | **-** | **792** |
| **Total net** | **4,887,854** | **238,651** | **1,679,422** | **26,906** | **127,226** | **6,960,059** | **8,912,229** |

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 21. LOANS AND RECEIVABLES FROM CUSTOMERS (continued)

The concentration of gross credit risk exposure by sectors is given in the following table:

| | **31 December 2022** | **31 December 2021** |
|---|---|---|
| Accommodation and catering services | 21,450 | 37,902 |
| Administrative and support service activities | 189,912 | 183,217 |
| Agriculture, forestry and fishing | 389,476 | 597,627 |
| Arts, entertainment and recreation | 38,674 | 35,559 |
| Construction | 700,770 | 1,022,333 |
| Financial and insurance activities | 11,554 | 38,073 |
| Information and communication | 22,714 | 21,031 |
| Manufacturing industry | 2,177,575 | 2,356,212 |
| Professional, scientific, innovation and technical activities | 107,321 | 173,592 |
| Real estate business | - | 395,080 |
| Traffic and storage | 213,901 | 281,981 |
| Wholesale and retail trade, repair | 1,375,966 | 1,800,763 |
| Mining | 21,288 | 23,030 |
| Other service activities | 20,745 | 19,648 |
| Health and social care | - | 6,065 |
| Water supply | 12,570 | 16,383 |
| Education | 23,758 | 30,910 |
| Electricity supply | 23,299 | 8,798 |
| Public administration and defence; compulsory social security | 122,266 | 110,833 |
| Loans to individuals - housing loans | 1,489,493 | 1,617,949 |
| Placements to individuals - cash and consumer loans | 228,925 | 332,049 |
| Loans to individuals - credit cards | 4,392 | 5,892 |
| Placements to individuals - overdraft | 3,587 | 4,596 |
| **Placements to customers, gross** | **7,199,636** | **9,119,523** |

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 22. INTANGIBLE ASSETS

| | |
|---|---|
| **Balance on 1 January 2021** | **352,681** |
| New purchases | 35,447 |
| **Balance on 31 December 2021** | **388,128** |
| **Value adjustment** | |
| **Balance on 1 January 2020** | **320,806** |
| Depreciation | 23,563 |
| **Adjustment balance on 31 December 2021** | **344,369** |
| **Balance on 1 January 2022** | **388,128** |
| New purchases | 18,051 |
| Write-offs | (57) |
| Intangible assets in preparation | 7,767 |
| **Balance on 31 December 2022** | **413,889** |
| **Value adjustment** | |
| **Balance on 1 January 2022** | |
| Depreciation | 22,813 |
| Write-off | (57) |
| **Adjustment balance on 31 December 2022** | **367,125** |
| **Net current value 31 December 2021** | **43,759** |
| **Net current value 31 December 2022** | **46,764** |

*All amounts are expressed in thousands of RSD unless otherwise stated*

## 23. PROPERTY, PLANT AND EQUIPMENT

| | Construction facilities | Equipment and other fixed assets | Leasehold improvements | Fixed assets in preparation | Right to use lease assets | Total |
|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | |
| **Opening balance as of 01 January 2021** | **479,373** | **347,652** | **14,020** | **-** | **88,318** | **929,363** |
| Additions | - | 3,153 | - | 19,097 | 713 | 22,963 |
| Increase in value – appraisal | 31,634 | - | - | - | - | 31,634 |
| Transfer from item preparation | - | 6,970 | - | (6,970) | - | - |
| Sales | - | (1,770) | - | - | - | (1,770) |
| Disposals | - | (6,448) | - | - | (734) | (7,182) |
| **Balance on 31 December 2021** | **511,007** | **349,557** | **14,020** | **12,127** | **88,297** | **975,008** |
| **Accumulated depreciation** | | | | | | |
| **Opening balance as of 01 January 2021** | **194,828** | **280,219** | **13,228** | | **30,560** | **518,835** |
| Charges in the year | 6,232 | 18,525 | 211 | | 17,585 | 42,554 |
| Sales | | (1,770) | | | | (1,770) |
| Disposals | - | (6,448) | - | | (734) | (7,182) |
| **Balance on 31 December 2021** | **201,060** | **290,526** | **13,439** | | **47,412** | **552,437** |
| **Net current value 1 January 2021** | **284,544** | **67,434** | **792** | | **57,758** | **410,528** |
| **Net current value 31 December 2021** | **309,946** | **59,031** | **581** | **12,127** | **40,886** | **422,571** |

| | Construction facilities | Equipment and other fixed assets | Leasehold improvements | Fixed assets in preparation | Right to use lease assets | Total |
|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | |
| **Opening balance as of 01 January 2022** | **511,007** | **349,557** | **14,020** | **12,127** | **88,297** | **975,008** |
| Additions | - | 7,061 | - | 806 | 5,071 | 12,938 |
| Changes in contracts | - | - | - | - | (5,603) | (5,603) |
| Transfer from item preparation | - | 12,933 | - | (12,933) | - | - |
| Disposals | - | (40,646) | - | - | - | (40,646) |
| **Balance on 31 December 2022** | **511,007** | **328,905** | **14,020** | **-** | **87,765** | **941,697** |
| **Accumulated depreciation** | | | | | | |
| **Opening balance as of 01 January 2022** | **201,060** | **290,526** | **13,439** | | **47,412** | **552,437** |
| Charges in the year | 6,643 | 22,443 | 211 | | 17,133 | 46,430 |
| Changes in contracts | | | | | (5,603) | (5,603) |
| Disposals | - | (40,646) | - | | - | (40,646) |
| **Balance on 31 December 2022** | **207,703** | **272,323** | **13,650** | | **58,942** | **552,618** |
| **Net current value 1 January 2022** | **309,947** | **59,031** | **581** | **12,127** | **40,886** | **422,571** |
| **Net current value 31 December 2022** | **303,304** | **56,582** | **370** | **-** | **28,823** | **389,079** |

There are no registered mortgages over the construction facilities as collateral for loan repayment.

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 23. PROPERTY, PLANT AND EQUIPMENT (continued)

Lease costs amount to RSD 21,555 thousand (2021: RSD 22,551 thousand) and are stated over the cost of depreciation of lease rights in the amount of RSD 17,133 thousand, interest in the amount of RSD 977 thousand, VAT costs in the amount of RSD 3,518 thousand and FX gains in RSD 74 thousand. The standard stipulates that total costs during the lease period will be the same as before the application of IFRS 16, but they will be higher in the initial periods and will decrease later.

The table below shows lease summary as of 31 December 2022:

| | Name of the lessor | Contract no. | Months until expiration | Monthly lease mount - EUR | Discount rate | Net assets | Lease liability |
|---|---|---|---|---|---|---|---|
| 1 | Hidrozavod, Petra Drapšina 56, Novi Sad | D-262 from 04.04.14 | 16 | 2,900.00 | 2.84 | 5,106 | 5,637 |
| 2 | Stojan Ristić, Generala Bože Jankovića 2, Niš | D-135 from 29.01.15 | 25 | 2,500.00 | 2.94 | 6,757 | 7,088 |
| 3 | Marko Purković, Bulevar Mihaila Pupina 16d, Zemun | D-03 from 12.01.19 | 24 | 3,000.00 | 2.94 | 7,793 | 8,106 |
| 4 | Karavidić, Masarikova 9 Šabac | 02-235 from 27.05.08 | 5 | 2,000.00 | 2.74 | 1,112 | 1,314 |
| 5 | Matijević, Gradsko šetalište bb, Čačak | D-179 from 04.06.10 | 29 | 1,250.00 | 2.99 | 3,830 | 4,039 |
| 6 | Asseco, smeštaj DR opreme, Katanićeva, Beograd | 02-1340/10 from 19.11.10 | 30 | 1,200.00 | 2.65 | 4,226 | 4,283 |
| | | | | | | **28,823** | **30,468** |

*All amounts are expressed in thousands of RSD unless otherwise stated*

## 24. INVESTMENT PROPERTY

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Investment property | 268,786 | 209,661 |
| **Total:** | **268,786** | **209,661** |

At the end of 2022, the value of all investment properties that were in stock was reduced to the value estimated by authorized Coreside appraisers. The following table shows movement of investment property item during 2022.

| | Carrying amount as of 01 January 2022 | Movements in the year | Note | Correction of appraisal value | Carrying amount as of 31 December 2022 |
|---|---|---|---|---|---|
| Business facility for storage and storage of fruit and vegetables with processing in Šimanovci | 164,732 | - | | 8,905 | 173,637 |
| Family residential building-Zmajevo | 941 | - | | 115 | 1,056 |
| Building in Kosjerić, Street Kneza Miloša 461 m2 and other auxiliary unregistered buildings. (land 3409 m2+73 m2) | 10,947 | (10,947) | Property sale | - | - |
| Residential building and land, Stepojevac | 33,041 | - | | 514 | 33,554 |
| Administrative building, sawmill halls, auxiliary buildings, Morović | - | 41,742 | Transfer to acquired property | 25 | 41,767 |
| Equipment in Morović | - | 20,550 | Transfer to acquired property | (1,779) | 18,772 |
| **Total** | **209,661** | **51,345** | | **7,780** | **268,786** |

The costs of property tax, as well as the costs of tax on the transfer of absolute rights, are borne by the Bank. The net income from lease of property classified as investment for the year 2022 is RSD 11,696 thousand (2021: RSD 8,672 thousand), while total income from the lease in 2022 is RSD 15,014 thousand (2021: RSD 10,488 thousand).

Net income from investment real estate in 2022 is shown in the table below.

| | Carrying amount as of 31 December 2022 | | Total costs | Realised lease income | Net income |
|---|---|---|---|---|---|
| Business facility for storage and storage of fruit and vegetables with processing in Šimanovci | 173,637 | Annex dtd. 25.09.2014 | 924 | 7,200 | 6,276 |
| Family residential building-Zmajevo | 1,056 | Lease Agreement D-607 dtd. 29.11.2018. | 5 | 74 | 69 |
| Building in Kosjerić, Street Kneza Miloša 461 m2 and other auxiliary unregistered buildings. (land 3409 m2+73 m2) | - | Lease Agreement 187 dtd. 06.07.2021 | 69 | 106 | 37 |
| Residential building and land, Stepojevac | 33,554 | Lease Agreement 107 dtd. 24.06.2020 | 171 | 1,145 | 974 |
| Administrative building, sawmill halls, auxiliary buildings, Morović | 60,539 | Lease Agreement D-0050 dtd. 02.02.2022 | 329 | 3,171 | 2,842 |
| | **268,786** | | **1,497** | **11,696** | **10,198** |

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 24. INVESTMENT PROPERTY (continued)

Book value of investment property at the beginning and end of the period:

| | |
|---|---|
| **Balance on 1 January 2021** | **254,443** |
| Value correction - appraisals/investment | (466) |
| Sale | (50,758) |
| Transfer to assets acquired through debt collection | (86,909) |
| Transfer from assets acquired through debt collection | 44,574 |
| **Balance on 31 December 2021** | **209,661** |
| **Balance on 1 January 2022** | **209,661** |
| Value correction - appraisals/investment | 7,780 |
| Sale | (10,947) |
| Transfer from assets acquired through debt collection | 62,292 |
| **Balance on 31 December 2022** | **268,786** |

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 25. OTHER ASSETS

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Receivables for fee | 6,645 | 5,978 |
| *Impairment of receivables for fees and commissions, receivables by Sales and other receivables from ordinary activities in RSD* | *(3,141)* | *(2,342)* |
| Receivables from advances given for working capital | 5,253 | 9,398 |
| Receivables from advances paid for permanent investments | 13,907 | - |
| Receivables from employees | 564 | 233 |
| Receivables from prepaid taxes and contributions | 39 | 123 |
| Other receivables from operating activities | 10,570 | 12,169 |
| Transition and temporary accounts | 2,381 | (200) |
| Accounts receivable | 1,357 | 1,148 |
| *Impairment of other receivables* | *(2,935)* | *(5,935)* |
| Receivables from advances paid for working capital In foreign currency | 36,298 | 13,287 |
| Receivables from employees in FC | 4 | 4 |
| Accounts receivable in FC | 1,726 | 1,885 |
| *Impairment of other receivables in FC* | *(25)* | - |
| Other investments | 476 | 476 |
| *Impairment of investments in RSD* | *(17)* | *(8)* |
| Deferred other costs | 8,340 | 3,132 |
| Other accruals | 9,432 | 9,984 |
| *Impairment of accruals in RSD* | *(21)* | *(79)* |
| Assets acquired by collection od receivables | 517,998 | 447,493 |
| **Total** | **608,851** | **496,746** |

Receivables for advances paid for working capital in FC in the amount of RSD 36,298 thousand (31 December 2021: RSD 13,287 thousand), refer to advance holds with Bank Intesa for use of Visa and Master cards.

In addition, the amount of assets acquired through collection of receivables, which at the end of 2022 amount to RSD 517,998 thousand (31 December 2021: RSD 447,493 thousand), is the result of the following changes: during the year a new acquisition was made in the amount of RSD 205,504 thousand, reclassification to the item investment properties in the amount of RSD 61,672 thousand, sales in RSD 66,168 thousand, and decrease in value due to appraisal in RSD 7,159 thousand.

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 25. OTHER ASSETS (continued)

Carrying amount of acquired assets at the beginning and end of the period:

| | |
|---|---|
| **Balance on 1 January 2021** | **474,129** |
| Value-estimation adjustment | 4,267 |
| Sales | (164,938) |
| Additions | 91,700 |
| Transfer from investment property | 86,909 |
| Transfer to investment property | (44,574) |
| **Balance on 31 December 2021** | **447,493** |
| **Balance on 1 January 2022** | **447,493** |
| Value-estimation adjustment | (7,159) |
| Sales | (66,168) |
| Additions | 205,504 |
| Transfer from investment property | - |
| Transfer to investment property | (61,672) |
| **Balance on 31 December 2022** | **517,998** |

*All amounts are expressed in thousands of RSD unless otherwise stated*

## 25. OTHER ASSETS (continued)

The table below shows summary of properties recorded as asset acquired through the collection of receivables as of 31 December 2022:

| Acquisition date | Property item | Outcome of appraisal | As of 31 December 2022 |
|---|---|---|---|
| 17.03.2016 | Apartment in family residential building no. 1. floor. lot. 3319/1, LN 7228. MC Valjevo, 23 Prešernova street | - | 2,822 |
| 01.07.2016 | Residential and commercial building, MC Čačak, cad. lot. 4554/2-THREE OBJECTS | (20) | 9,151 |
| 08.05.2016 | LN 4425. MC Padina, plot 2873/79, 13/B Sportska street | (2) | 939 |
| 29.11.2013 | Property 15 Kralja Petra street, Stari Grad, Belgrade - business premises of the bb catering business in the attic of a commercial building (No. building 1 built in 1902 MC Stari Grad | - | 82,190 |
| 30.04.2013 | Residential building, Stepojevac | (491) | 9,151 |
| 31.03.2017 | Family building 84 M2 Grocka, 11 Dimitrija Tucovića street | (7) | 3,167 |
| 21.12.2012 | HYLA/Agreement on sale of movable and immovable property dated 26.12.2011 OV3 No. 267/2011 | (3,160) | 51,692 |
| 04.08.2017 | Family residential building, 20 Bore Atanackovića street, Valjevo | (4) | 1,877 |
| 19.09.2019 | Family residential building - basic area 102 m2, gross area 270 m2 - ownership of 1/2 ideal parts, Bogojević, Arilje | - | 2,763 |
| 21.11.2019 | Equipment - Pellet press, dryer, hot water boiler..., MC Novo Selo | (695) | 5,632 |
| 05.12.2019 | Agricultural buildings 3,578 m2, cold store 1,616 m2, MC Zdravčići | (896) | 86,232 |
| 06.10.2020 | Refrigerator and Equipment according to specification 101 items Zdravčići | (984) | 14,079 |
| 28.11.2019 | Land, cold storage and equipment for freezing and storing fruit according to specification - Nomil | (70) | 31,677 |
| 21.12.2021 | Land under the building 13a and 93m2, III class vineyard 11a and 20m2, cold storage, all courtesy of M. Orešković MC Tavankut | - | 31,935 |
| 21.01.2022 | Land under building 1 are 25m2, orchard 11 ares 20m2, building 5 ares, Orchard and fields according to specification, total 55 items | | 6,314 |
| 13.05.2022 | Business building with 8 offices, production hall, compressor station, Bela Crkva | (830) | 150,899 |
| 07.09.2022 | Vagar's house, locker room facility, 2 freezing tunnels..., Bela Crkva | - | 11,077 |
| 23.12.2022 | Pasture 15ha and 29 ares, land 3ha | - | 16,401 |
| | **TOTAL** | **7,159** | **517,998** |

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 26. DEPOSITS AND OTHER LIABILITIES TO BANKS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Transaction deposits | 7,058 | 5,277 |
| Other deposits | 1,309 | 506,661 |
| Other financial liabilities | 964 | 964 |
| Liabilities based on fees and commissions on loans, deposits and other financial liabilities | 457 | 365 |
| Accrued liabilities for accrued interest on loans, | 136 | 599 |
| deposits and other financial liabilities | 0 | 98 |
| Loans per repo transactions | 1,624 | 458 |
| Liabilities based on interest on loans, deposits and other financial liabilities | 246,513 | 112,157 |
| Transaction deposits in foreign currency | 0 | 705,493 |
| Other deposits in foreign currency | 48 | 1,697 |
| **Total** | **258,109** | **1,333,769** |

Within other deposits in foreign currency, out of amount RSD 246,513 thousand (31 December 2021: RSD 112,157 thousand), the largest part refers to deposit from Sprska banka (EUR 2,000 thousand).

The table below shows the structure and terms of the deposit.

| Dta eof Agreement | Currency | Amount in currency | Amount in RSD thousand | Maturity date | Period of cancelation term | Interest rate in% |
|---|---|---|---|---|---|---|
| 29.12.2022 | EUR | 2,000,000 | 234,644 | 05.1.2023 | 7D | 1.90 |
| **Total USD** | | **2,000,000** | | | | |
| **Total in RSD thousand** | | | **234,644** | | | |

During the year, the Bank had a long-term loan from Expobank CZ in the amount of EUR 6,000 thousand. The original long-term loan agreement was signed on 14 August 2009 with Cyprus Popular Bank Ltd. Later, the creditors changed on various grounds, but the original long-term loan, which was reported as such to the NBS, did not change, only the data on the creditor changed and the amounts were annexed. The last creditor is Expobank CZ a.s. which, on the basis of the contract on the purchase of the bank, took over the receivables on the basis of long-term loans from the previous creditor. During 2021, the contractual obligation was reduced to the amount of EUR 6,000,000. The loan was fully repaid on 12 September 2022.

*All amounts are expressed in thousands of RSD unless otherwise stated*

## 27. DEPOSITS AND OTHER LIABILITIES TO OTHER CUSTOMERS

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Transaction deposits | 2,691,048 | 2,309,955 |
| Savings deposits | 589,523 | 688,053 |
| Deposits on loans | 24,341 | 17,651 |
| Dedicated deposits | 146,952 | 82,791 |
| Other deposits | 718,100 | 1,700,841 |
| Liabilities based on interest on loans, deposits and other financial liabilities | 825 | 997 |
| Accrued interest on loans, deposits and other financial liabilities | 6,150 | 5,102 |
| Transaction deposits In foreign currency | 3,304,487 | 1,350,162 |
| Savings deposits In foreign currency | 3,742,312 | 4,377,519 |
| Deposits on loans in foreign currency | 338,133 | 354,924 |
| Dedicated deposits In foreign currency | 404,582 | 323,983 |
| Other deposits In foreign currency | 226,013 | 481,569 |
| Other financial liabilities In foreign currency | 72,457 | 43,413 |
| Accrued interest on loans, deposits and other financial liabilities in foreign currency | 52,060 | 53,452 |
| **Total** | **12,316,984** | **11,790,412** |

Transaction deposits are non-interest bearing.
Interest rate on avista deposits in RSD was in range of 1.00% - 3.00%.
Interest rate on short-term deposits in RSD was in range of 1.25% - 5.5%.
Interest rate on long-term deposits in RSD was in range of 3.50% - 4.0%.
Interest rate on avista deposits in EUR was in range of 0.50% - 1.50%.
Interest rate on short-term deposits in EUR was in range of 0.25% - 3.00%.
Interest rate on long-term deposits in EUR was in range of 2.00% - 2.50%.
Interest rates on short-term and long-term deposits in USD, GBP amount to 0.1%.

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 27. DEPOSITS AND OTHER LIABILITIES TO OTHER CUSTOMERS (continued)

| | Companies | Entrep-reneurs | Public sector | Retails | Foreign persons | Other customers | Total 2022 | Total 2021 |
|---|---|---|---|---|---|---|---|---|
| **Transaction deposits** | | | | | | | | |
| - in RSD | 1,833,742 | 232,157 | 11,360 | 156,228 | 345,927 | 111,635 | **2,691,049** | **2,309,954** |
| - In foreign currency | 276,811 | 30,632 | - | 805,622 | 2,191,150 | 272 | **3,304,487** | **1,350,162** |
| **Savings deposits** | | | - | | | | | |
| Short-term deposits: | | | | | | | | |
| - in RSD | - | - | - | 557,983 | 10,000 | - | **567,983** | **671,869** |
| - In foreign currency | - | - | - | 1,763,940 | 204,624 | - | **1,968,564** | **1,849,065** |
| Long-term deposits: | | | | | | | | |
| - in RSD | - | - | - | 21,540 | - | - | **21,540** | **16,184** |
| - In foreign currency | - | - | - | 1,747,937 | 25,811 | - | **1,773,748** | **2,528,454** |
| **Deposits on loans** | | | | | | | | |
| Short-term deposits: | | | | | | | | |
| - in RSD | - | - | - | - | - | - | **-** | **3,900** |
| - In foreign currency | - | - | - | 26,645 | - | - | **26,645** | **58,017** |
| Long-term deposits: | | | | | | | | |
| - in RSD | 3,900 | - | - | 20,441 | - | - | **24,341** | **13,751** |
| - In foreign currency | 62,554 | - | - | 248,934 | - | - | **311,488** | **296,908** |
| **Dedicated deposits** | | | | | | | | |
| Short-term deposits: | | | | | | | | |
| - in RSD | 70,394 | - | - | 212 | - | - | **70,606** | **52,583** |
| - In foreign currency | 10,696 | - | - | - | - | - | **10,696** | **870** |
| Long-term deposits: | | | | | | | | |
| - in RSD | 76,346 | - | - | - | - | - | **76,346** | **30,208** |
| - In foreign currency | 393,886 | - | - | - | - | - | **393,886** | **323,113** |
| **Other deposits** | | | | | | | | |
| Short-term deposits: | | | | | | | | |
| - in RSD | 348,689 | 32,271 | 300,001 | - | - | - | **680,961** | **1,627,588** |
| - In foreign currency | 157,205 | 47,750 | - | - | - | - | **204,955** | **435,392** |
| Long-term deposits: | | | | | | | | |
| - in RSD | 37,139 | - | - | - | - | - | **37,139** | **73,253** |
| - In foreign currency | 21,058 | - | - | - | - | - | **21,058** | **46,177** |
| **Total** | **3,292,422** | **342,809** | **300,105** | **5,349,482** | **2,777,512** | **123,162** | **12,185,492** | **11,687,448** |
| **Other financial liabilities** | | | | | | | | |
| - in RSD | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| - In foreign currency | **72,457** | **-** | **-** | **-** | **-** | **-** | **72,457** | 43,413 |
| **Interest liabilities** | | | | | | | | |
| - in RSD | **825** | **-** | **-** | **-** | **-** | **-** | **825** | 997 |
| - In foreign currency | **-** | **-** | **-** | **-** | **-** | **-** | **-** | - |
| **Accrued interest on loans, deposits and other financial liabilities** | | | | | | | | |
| - in RSD | **4,279** | **268** | **-** | **1,480** | **123** | **-** | **6,150** | 5,102 |
| - In foreign currency | **1,085** | **-** | **-** | **50,638** | **337** | **-** | **52,060** | 53,452 |
| **Total** | **78,646** | **268** | **-** | **52,118** | **460** | **-** | **131,492** | **102,964** |
| **Total deposits and other liabilities** | **3,371,068** | **343,077** | **300,105** | **5,401,600** | **2,777,972** | **123,162** | **12,316,984** | **11,790,412** |

Short-term savings deposits of retails and foreign persons in foreign currency, in the amount of RSD 1,968,564 thousand, refer to: avista savings deposits of natural persons in foreign currency in the amount of RSD 8,698 thousand (31 December 2021: RSD 9,842 thousand), up to one month RSD 44,280 thousand (31 December 2021: RSD 0), up to three months in the amount of RSD 63,896 thousand (31 December 2021: RSD 2,554 thousand), up to four months in the amount of RSD 795 thousand (31 December 2021: RSD 795 thousand), up to six months in the amount of RSD 43,498 thousand (31 December 2021: RSD 34,375 thousand), up to 9 months in the amount of RSD 87,059 (31 December 2021: RSD 6,673) and up to one year in the amount of RSD 1,720. 338 thousand (31 December 2021: RSD 1,794,826 thousand).

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 27. DEPOSITS AND OTHER LIABILITIES TO OTHER CUSTOMERS (continued)

Long-term savings deposits of retails and foreign persons in foreign currency, in the amount of RSD 1,773,748 thousand (31 December 2021: RSD 2,528,454 thousand), have significantly decreased compared to last year and refer to: household deposits in foreign currency for 13 months they amount to RSD 2,410 thousand (31 December 2021: RSD 2,402 thousand), for 15 months they amount to RSD 13,367 thousand (31 December 2021: RSD 15,143 thousand) and for 25 months they amount to RSD 1,757,971 thousand (31 December 2021: RSD 2,481,514 thousand).

## 28. PROVISIONS

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Provisions for litigation | 98,189 | 63,353 |
| Provisions for losses on off-balance sheet assets | 46,520 | 18,401 |
| Provisions for pensions | 3,107 | 4,724 |
| Vacation provisions | 10,484 | 7,988 |
| **Total** | **158,300** | **94,466** |

Provisions for legal costs in the amount of RSD 98,189 thousand (31 December 2021: RSD 63,353 thousand), which refer possible liabilities arising from outcomes of legal actions, were increased to the greatest extent due to the lawsuit initiated against the Bank by the bankruptcy manager of Sinergy Timber, for refuting the legal actions of the public executor during the execution procedure for the collection of claims of the client in question, in which the Bank took over real estate because there were no other buyers. The provision set aside on this basis amounts to RSD 52,381 thousand. Separate provisions related to lawsuits for loan processing fees and NKOSK amount to RSD 31,518 thousand. The bank, similarly, to other banks on the market, is the subject of various court disputes related to certain fees in credit agreements. For such cases, the Bank created a provision (included in the above amount) of RSD 2,233 thousand. Currently, it is not possible to accurately determine the outcome of all these lawsuits. The Bank's management estimates that there will be no materially significant losses based on the outcome of ongoing court disputes, above the amount for which the provision was made.

As of 31 December 2022, provisions for pensions in the amount of RSD 3,107 thousand (31 December 2021: RSD 4,724 thousand) were made in accordance with IAS 19.

Movements on provisioning accounts during 2022:

| | Provisions for pensions | Vacation provisions | Provisions for legal costs | Provisions for losses on off-balance sheet assets |
|---|---|---|---|---|
| Balance on 01.01.2022 | **4,724** | **7,988** | **63,353** | **18,401** |
| Provisions during the year | - | 10,484 | 72,719 | 64,365 |
| Cancellation provisions/cancellation income | (1,617) | (7,988) | (37,883) | (36,246) |
| **Balance on 31 December 2022** | **3,107** | **10,484** | **98,189** | **46,520** |

Movements on provisioning accounts during 2021:

| | Provisions for pensions | Vacation provisions | Provisions for legal costs | Provisions for losses on off-balance sheet assets |
|---|---|---|---|---|
| Balance on 01.01.2021 | **4,429** | **15,232** | **171,028** | **8,416** |
| Provisions during the year | 295 | 7,988 | 10,140 | 30,170 |
| Cancellation provisions/cancellation income | - | (15,232) | (117,815) | (20,185) |
| **Balance on 31 December 2021** | **4,724** | **7,988** | **63,353** | **18,401** |

*All amounts are expressed in thousands of RSD unless otherwise stated*

## 29. DEFERRED TAX ASSETS AND LIABILITIES

Deferred taxes are calculated on temporary differences using the liability method, using the effective tax rate of 15% (31 December 2021: 15%).

Deferred tax assets and liabilities are "offset" when there is a legally enforceable right to "offset" current tax assets with current tax liabilities and when deferred income tax applies to the same fiscal authority.

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Deferred tax assets | 121,164 | 36,327 |
| Deferred tax liabilities | - | (24,324) |
| **Net deferred tax assets** | **121,164** | **12,003** |

Movements on deferred tax assets and liabilities are given in the following table:

| | Tax credits-provisions for litigation | Tax credits-provisions on the basis of IAS 19 | Tax credits-depreciation of acquired assets | Tax depreciation | Fair value of securities | Total |
|---|---|---|---|---|---|---|
| Balance on 01.01.2021 | **25,654** | **664** | **-** | **(14,993)** | **(19,583)** | **(8,258)** |
| Charged/credited to P/L | (16,151) | 44 | 26,116 | (8,897) | - | 1,112 |
| Charged/credited to OCI | - | - | - | (4,745) | 23,894 | 19,149 |
| Balance on 31 December 2021 | **9,503** | **708** | **26,116** | **(28,635)** | **4,311** | **12,003** |
| Charged/credited to P/L | 5,225 | (242) | (2,719) | 6,027 | - | 8,291 |
| Charged/credited to OCI | - | - | - | - | 100,870 | 100,870 |
| **Balance on 31 December 2021** | **14,728** | **466** | **23,397** | **(22,608)** | **105,181** | **121,164** |

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 30. OTHER LIABILITIES

| | 31 December 2022 | 31 December 2021 |
|---|---:|---:|
| **Other liabilities in RSD** | | |
| Liabilities for fees and commissions on other liabilities | 8 | 8 |
| Payables | 16,961 | 11,563 |
| Liabilities for advances received | 1,273 | 183 |
| Other liabilities from business operations | 73,248 | 36,068 |
| Liabilities for calculation | 17,738 | 16,581 |
| Liabilities for temporary and occasional jobs | 1,115 | 1,117 |
| Other liabilities towards employees | 389 | 278 |
| Liabilities for value added tax | 2,729 | 1,393 |
| Liabilities for taxes and contributions | 642 | 989 |
| Accrued liabilities for other accrued expenses | 9,212 | 23,072 |
| Deferred interest income | 3,463 | 3,463 |
| Deferred other income | 9,270 | 10,695 |
| Other accruals | 1,977 | 2,679 |
| Liabilities for fees and commissions on other liabilities in FC | 47 | - |
| Accounts payable in foreign currency | 2,031 | 904 |
| Liabilities for leases in FC | 30,468 | 43,188 |
| Other liabilities from business operations in FC | 16,911 | 16,726 |
| Liabilities for calculation in FC | 846 | 25 |
| **Total** | **188,328** | **168,932** |

Other liabilities from business operations in the amount of RSD 73,248 thousand (31 December 2021: RSD 36,068 thousand) mostly refer to liabilities for calculated costs in the amount of RSD 53,165 thousand (31 December 2021: RSD 15,257) and liabilities for transferred assets of natural persons from closed accounts in the amount of RSD 8,577 thousand (31 December 2021: RSD 8,545 thousand).

Liabilities in calculation in the amount of RSD 17,738 thousand (31 December 2021: RSD 16,581 thousand) mostly refer to advance payments for retails loans in the amount of RSD 7,292 thousand (31 December 2021: RSD 9,206 thousand) and payments for company loans in the amount of RSD 6,581 thousand (31 December 2021: RSD 3,942 thousand).

Other liabilities from business operations in foreign currency in the amount of RSD 16,911 thousand (31 December 2021: RSD 16,726 thousand) mostly refer to transfer of funds from closed accounts of natural persons and legal entities in foreign currency in the amount of RSD 13,877 thousand (31 December 2021: RSD 13,780 thousand).

Lease liabilities are detailed in Note No. 23

*All amounts are expressed in thousands of RSD unless otherwise stated*

## 31. EQUITY

Within the item of equity, the Bank presents share capital, issue premium, accumulated loss, profit reserves, other reserves and revaluation reserves.

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| Share capital - ordinary shares | 5,671,608 | 5,671,608 |
| Issue premium | 2,877,487 | 2,877,487 |
| Profit for the current year | 18,133 | 29,576 |
| Loss of previous years | (5,604,554) | (5,634,131) |
| Profit reserves | 103,228 | 103,228 |
| Other reserves | 48,445 | 48,445 |
| Revaluation reserves | (282,902) | 287,645 |
| **Total** | **2,831,445** | **3,383,858** |

Other reserves relate to special reserves from profit for estimated losses on balance sheet assets in the amount of RSD 38,782 thousand and off-balance sheet items in the amount of RSD 9,663 thousand which were formed in the earlier period.

Negative revaluation reserves in the amount of RSD 282,902 thousand (31 December 2021: RSD 287,645 thousand) were generated by negative effect of change in fair value from financial assets in the amount of RSD 694,687 thousand (31 December 2021: RSD 20,996 thousand). Also, within the revaluation reserves are shown reserves from change in value of fixed assets in the amount of RSD 319,890 thousand (31 December 2021: RSD 319,890 thousand), loss from calculation of deferred tax for increase in value of fixed assets through revaluation reserves in the amount of RSD 9,098 thousand (31 December 2021: RSD 9,098 thousand), actuarial loss in the amount of RSD 4,188 thousand (31 December 2021: RSD 6,462 thousand), and gain from calculation of deferred tax for the fair value of property in the amount of RSD 105,181 thousand (31 December 2021: RSD 4,311 thousand).

| | 31 December 2022 | | 31 December 2021 | |
|---|---|---|---|---|
| | **Share capital** | **% of equity** | **Share capital** | **% of equity** |
| Igor Vladimirovich Kim | 4,097,772 | 72.25 | 4,097,772 | 72.25 |
| German Alekseevich Tsoy | 1,012,914 | 17.86 | 1,012,914 | 17.86 |
| Kirill Vladimirovich Nifontov | 180,357 | 3.18 | 180,357 | 3.18 |
| Morelam OOO | 156,536 | 2.76 | 156,536 | 2.76 |
| Expobank LLC | 86,775 | 1.53 | 86,775 | 1.53 |
| John MC Naughton | 79,403 | 1.40 | 79,403 | 1.40 |
| Ernst Voldemarovich Bekker | 28,358 | 0.50 | 28,358 | 0.50 |
| Borislav Strugarević | 28,358 | 0.50 | 28,358 | 0.50 |
| Dmitriy Sergeevich Ganushkin | 1,135 | 0.02 | 1,135 | 0.02 |
| **Total** | **5,671,608** | **100.00** | **5,671,608** | **100.00** |
| Other | - | - | - | - |
| **Total share capital** | **5,671,608** | **100.00** | **5,671,608** | **100.00** |

## 31. EQUITY (continued)

*a) Share capital and issue premium*

Foreign natural persons are the owners of 95.21% of the Bank's equity, and the total value of share capital with issue premium as of 31 December 2022 is RSD 8,549,095 thousand and there were no changes compared to 2021.

*b) Revaluation reserves*

Revaluation reserves show the effects of changes in the fair value of fixed assets, as well as changes in the fair value of securities.

*c) Profit reserves*

Profit reserves are formed in accordance with the law for estimated losses, reserves for general banking risks and other reserves from profit distribution, in accordance with the Articles of Association and other acts of the Bank.

*d) Profit from the current period*

The profit from current year in the amount of RSD 18,133 thousand (2021: profit RSD 29,576 thousand) represents the difference between realized expenses and income of the accounting period and the created profit from the calculation of deferred taxes in the amount of RSD 8,290 thousand. loss of previous years was covered in accordance with the law, with the Statute and the Bank's Founding Agreement, where it is stated that the loss in the Bank's operations is covered in the following order:

1. From the realized income of current operations;
2. From the Bank's reserve funds; i
3. From the funds of the share capital of the Bank, i.e. the role of shareholders, if the funds referred to in items 1 and 2 are not sufficient.

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 32. COMPLIANCE WITH INDICATORS OF THE NATIONAL BANK OF SERBIA

The bank is obliged to conduct its operations in accordance with the provisions of the Law on Banks and other regulations of the National Bank of Serbia. According to the annual account for 2022, the Bank achieved the following indicators:

| Business indicators | Prescribed | Actual in 2022 |
|---|---|---|
| Equity | Min. EUR 10,000,000 | **26,740,563** |
| Bank investments | Maks. 60% | 20.98% |
| The sum of the Bank's large exposures, including: | Maks 400% | 24.55% |
| - sum of large exposures to one person or group of related parties | | 24.55% |
| - sum of exposures to persons related to the Bank | | - |
| Average monthly liquidity ratio: | | |
| - in the first month of the reporting period | Min. 1.00 | 3.01 |
| - in the second month of the reporting period | Min. 1.00 | 2.96 |
| - in the third month of the reporting period | Min. 1.00 | 3.20 |
| Foreign exchange risk indicator | Max 20% | 10.74 |

As of 31 December 2022, the Bank had all indicators harmonized.

## 33. RELATED PARTY TRANSACTIONS

| | 31 December 2022 | | 31 December 2021 | |
|---|---|---|---|---|
| **Assets** | **Bank shareholders** | **Other related parties** | **Bank shareholders** | **Other related parties** |
| Foreign currency accounts | 13,997 | - | 133,514 | 1,713 |
| Compensation claims on loans and deposits | 1,190 | 5 | - | - |
| Housing loans | - | 5,429 | - | 5,825 |
| Cash loans | - | 282 | - | 726 |
| Other loans | 11 | 23 | - | - |
| Deferred interest receivables calculated on the basis of loans, deposits and other placements | - | 22 | - | 13 |
| **Total assets** | **15,197** | **5,761** | **133,514** | **8,277** |

The foreign currency account with balance of RSD 13,997 thousand refers to the funds on the nostro account opened by the Bank with Expobank LLC in Moscow.

Housing loans in the amount of RSD 5,429 thousand (31 December 2021: RSD 5,825 thousand) are loans given to employees who are considered related parties under the applicable Banking Law. The approved loans were given on market terms.

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 33. RELATED PARTY TRANSACTIONS (continued)

| | 31 December 2022 | | 31 December 2021 | |
|---|---|---|---|---|
| | **Bank shareholders** | **Other related parties** | **Bank shareholders** | **Other related parties** |
| **Liabilities** | | | | |
| Transaction deposits in dinars | 5,305 | 4,348 | 437 | 4,419 |
| Transaction deposits In foreign currency | 5,516 | 193,656 | 943 | 1,722 |
| Savings deposits and RSD | 12,962 | - | 6,354 | - |
| Savings deposits In foreign currency | 65,877 | 14,112 | 69,138 | 20,694 |
| Deposits based on loans in RSD | 210 | 126 | 210 | 126 |
| Loans received In foreign currency | - | - | - | 705,493 |
| Accrued costs and deferred revenue | - | - | - | 1,670 |
| **Total liabilities** | **89,870** | **212,241** | **77,082** | **734,124** |

Revenues and expenses from related party relations were:

| | 31 December 2022 | | 31 December 2021 | |
|---|---|---|---|---|
| | **Bank shareholders** | **Other related parties** | **Bank shareholders** | **Other related parties** |
| **Expenses** | | | | |
| Interest costs from deposits of natural persons | 1,365 | 175 | 1,147 | 206 |
| Interest costs from loans in foreign currency | - | 4,867 | - | 9,414 |
| Interest costs from deposits in foreign currency | - | - | - | 83 |
| Fees costs and other expenses | 1,570 | 726 | - | - |
| Expenses from FC transactions | 72,636 | 557 | - | - |
| **Total** | **75,571** | **6,325** | **1,147** | **9,703** |

| | **Bank shareholders** | **Other related parties** | **Bank shareholders** | **Other related parties** |
|---|---|---|---|---|
| **Income** | | | | |
| Interest income for loans granted | - | 852 | - | 500 |
| Fees income | 78 | 966 | - | - |
| Other income | 27 | - | - | - |
| Income from FC transactions | 25,874 | 130 | | - |
| **Total** | **25,979** | **1,947** | | **500** |

The above tables show balances of assets, liabilities, income and expenses incurred in transactions with the following other related parties: Morelam Holdings Limited, Expobank CZ, Astra Premier LTD, members of Managing Board, as well as part of the Bank's management (Executive Board and members of other boards) . As of 31 December 2022, the bank granted the following loans to management and Directors:

| | **31 December 2022** | **31 December 2021** |
|---|---|---|
| *Credits to directors and management* | | |
| *At the beginning of the year* | 16,189 | 26,174 |
| Impairment due to changes in management | - | (7,699) |
| Loans approved during the year | 800 | - |
| Repayments during the year and revaluation of placements | (2,523) | (2,286) |
| Interest income | 475 | 500 |
| Interest charged | (475) | (500) |
| **At the end of the year** | **14,466** | **16,189** |

During 2022, in accordance with the Methodology for calculating the impairment, a correction in the amount of RSD 33 thousand (2021: RSD 16 thousand) was allocated for these loans.

***All amounts are expressed in thousands of RSD unless otherwise stated***

## 33. RELATED PARTY TRANSACTIONS (continued)

***Management earnings data***

During 2022, members of the Executive Board earned gross earnings in the amount of RSD 32,665 thousand (2021: RSD 36,774 thousand), while other key management personnel earned gross earnings in the amount of RSD 62,891 thousand (2021: RSD 66,767 thousand) .

During 2022, members of the Management Board received gross fees in the amount of RSD 9,553 thousand (2021: RSD 9,524 thousand).

## 34. COMPLIANCE OF RECEIVABLES AND LIABILITIES

The provisions of Article 18 of the Law on Accounting ("Official Gazette" of RS 73/2019, 44/2021) prescribe the obligation to reconcile mutual claims and obligations with customers. Reconciliation is performed at least once a year, before preparing financial statements. In accordance with the Bank's internal procedures, 31 October of the current year is set as the date for reconciling receivables and liabilities with customers.

As of 31 October 2022, there were no materially significant disputed liabilities and receivables. The Bank sent 2,052 IOS to legal entities, 1,454 IOS to Entrepreneurship, 21 banks and financial institutions and 22 non-residents, to confirm the Bank's claims and liabilities. The effect of sending is as follows:

| | Number of sent IOS's | Receivable | Liability |
|---|---|---|---|
| Total sent receivables/liabilities: | 3,549 | 13,518,685 | 6,275,227 |
| Confirmed | 373 | 6,897,568 | 1,925,453 |
| Not returned/moved/unknown address | 3,172 | 6,620,890 | 4,349,748 |
| Disputed | 4 | 227 | 26 |

## 35. FOREIGN CURRENCY EXCHANGE RATE

The exchange rates of the most significant currencies used in the conversion of balance sheet items include:

| | 31 December 2022 | 31 December 2021 |
|---|---|---|
| EUR | 117.3224 | 117.5821 |
| USD | 110.1515 | 103.9262 |
| CHF | 119.2543 | 113.6388 |
| RUB | 1.5292 | 1.3925 |

## 36. EVENTS AFTER THE REPORTING PERIOD

On 30 December 2022, the Bank signed Sales and Purchase Agreement with a new investor on acquisition of shares, after which it proceeded to obtain necessary approvals for the finalization process. As of the issuance of the Report, the Bank received approval of the Commission for the Protection of Competition.

There were no significant events after the reporting period that would require disclosure in the notes to the financial statements of the Bank for the year 2022.

Signed on behalf of Expobank A.D., Beograd:

| | |
|---|---|
| Dragana Vujinovic<br>Financial Control Manager | Borislav Strugarevic<br>Chairman of the Executive Board |

# Content

# Bank's ID

| | | |
|---|---|---|
| 1 | Business name: | **Expobank A.D. Beolgrad** |
| 2 | Seat and address: | **Belgrade, Dalmatinska 22** |
| 3 | Registration number: | **07534183** |
| 4 | TIN: | **100003148** |
| 5 | Web-site: | **http://www.expobank.rs/** |
| 6 | e-mail: | **office@expobank.rs** |
| 7 | No. and date of Decision of registering in the register of business entities: | **BD 498 of 14.02.2005** |
| 8 | Activity: | **6419 – Other monetary intermediaries** |
| 9 | Number of employees: | **138** |
| 10 | Number of shareholders: | **9 shareholders** |
| 11 | Place of insight into the Shareholder Register: | **Central Securities, Depository and Clearing House of the Republic of Serbia, www.crhov.rs** |
| 12 | Code of activity: | **6419 – Other monetary assets** |
| 13 | Social networks: | |
| 14 | Auditor for 2022 | MOORE |

# Address of the Chairman of the Executive Board

*Dear business partners, colleagues, and shareholders,*

*I would like to inform that Expobanka a.d. Belgrade ended the year 2022 with a positive business net result. The Bank's operations and results are an integral part of this report. The basic tasks related to the growth of profitability and liquidity have been achieved. Strict cost control, control and improvement of the portfolio structure continued, along with active work on reducing NPLs and engaging non-performing assets.*

*The new geopolitical circumstances and the pressures they brought contributed to the mobilization of all available resources of the Bank with the aim of adapting to the new environmental and business conditions. The expertise and openness of the Bank's business team towards new knowledge and skills, in the newly created circumstances, contributed to the expansion of Bank's business, which is best reflected in growth of the satisfied clients.*

*The Bank's strategic goals in the coming period are expanding the network of correspondent banks, improving the client base, adapting products to client needs and digitalization."*

*Sincerely yours,*
*Borislav Strugarevic,*
*Executive Board Chairman*

# Address of the Deputy Chairman of the Executive Board

*Dear clients, partners, and shareholders,*

*During 2022, we continued with the business philosophy of being a financial consultant and partner to our clients. Existing clients stayed with us, and during 2022 the Bank acquired new clients, also satisfied with our solutions.*

*Of course, the year 2022 in terms of international payments and the macroeconomic situation demanded that we respond even more quickly and flexibly to the changes that have occurred.*

*As a strategic goal, the Bank maintained a high level of liquidity and capital adequacy ratio. The Bank consistently continues its conservative policy on the asset side.*

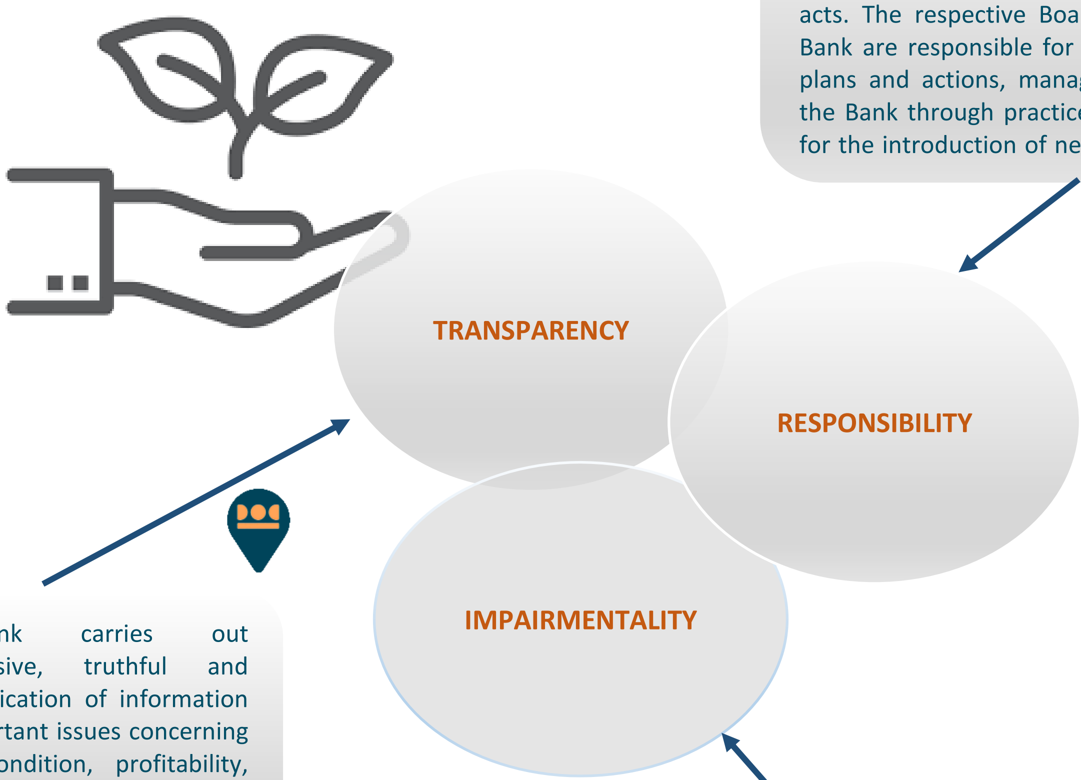
*In 2022, our team gained invaluable experience and we look to the future with a lot of confidence and are sure that we will be able to be a reliable financial partner to our clients in a changing reality."*

*Sincerely yours,*
*Aleksandr Kashtalap,*
*Deputy Chairman of the Executive Board*

## Corporate Governance Principle

**129**
active
empoyees

Responsibility is one of the most important ethical principles, and it implies that the Bank's boards are responsible, and answer to the shareholders for their decisions and acts. The respective Boards of the Bank are responsible for strategies, plans and actions, management of the Bank through practice, but also for the introduction of new changes




The Bank carries out comprehensive, truthful and timely publication of information on all important issues concerning financial condition, profitability, ownership and management structure.

The applied corporate governance framework protects the rights of shareholders and ensures equal treatment of all shareholders, including minority ones.

# Bank's Assembly

The Assembly of the Bank consists of the Bank's shareholders. Shareholders of the Bank on 31.12.2022:

| No. | Shareholder's name | Number of shares | % stake |
|---|---|---|---|
| 1 | Igor Vladimirovich Kim | 8,195,544 | 72.25 |
| 2 | German Alekseevich Tsoy | 2,025,829 | 17.86 |
| 3 | Kirill Vladimirovich Nifontov | 360,714 | 3.18 |
| 4 | Morelam OOO | 313,073 | 2.76 |
| 5 | Expobank JSC | 173,551 | 1.53 |
| 6 | John MC Naughton | 158,805 | 1.4 |
| 7 | Ernst Voldemarovich Bekker | 56,716 | 0.5 |
| 8 | Borislav Strugarević | 56,716 | 0.5 |
| 9 | Dmitriy Sergeevich Ganushkin | 2,269 | 0.02 |
| | Value of share capital (in thousands of dinars): | | **8,549,095** |
| | Number of issued shares (ordinary and preference shares, with ISIN number and CFI code): | Ordinary shares: ISIN:RSCEBAE31481 CFI:ESVUFR, 11.343.217 shares; | |
| | Data on subsidiaries (up to five most important consolidation entities) - business name, registered office and business address: | / | |
| | Business name, registered office and business address of the auditing company that audited the last financial report: | MOORE STEPHENS Revizija i računovodstvo d.o.o. Beograd, Studentski trg 4/V, 11070 Beograd, Serbia | |
| | Business name of the organised market where shares are included: | / | |

# Managing Board

The Managing Board of the Bank consists of five members, including the Chairman, two of whom are independent from the Bank.

| | | |
|---|---|---|
| **1** | **Name, surname and place of residence** | **Kirill Nifontov, Russian Federation** |
| | Education | Master of Economics |
| | Current employment (company's business name and position) | Member of MB, Expobank Russian Federeation |
| | Number and percentage of shares possessed in the joint stock company | 360,714; 3.18% of shares of Expobank A.D. Beograd |
| **2** | **Name, surname and place of residence:** | **Dragiša Lekić, Republic of Serbia** |
| | Education: | BSc in Economics |
| | Current employment (company's business name and position): | Preduzeće za inženjering, projektovanje i konsalting „REPS“ d.o.o. Beograd, member and representative |
| | Number and percentage of shares possessed in the joint stock company: | No shares in the Company |
| **3** | **Name, surname and place of residence:** | **Alexey Fedotkin, Russian Federation** |
| | Education: | Master of Economics |
| | Current employment (company's business name and position): | Deputy Chairman of the Executive Board of Expobank, Russian Federation |
| | Number and percentage of shares possessed in the joint stock company: | No shares in the Company |
| **4** | **Name, surname and place of residence:** | **Milovan Popović, Republic of Serbia** |
| | Education: | Master of Economics |
| | Current employment (company's business name and position): | Društvo za reviziju „BDO“ d.o.o. Beograd, member and representative |
| | Number and percentage of shares possessed in the joint stock company: | No shares in the Company |
| **5** | **Name, surname and place of residence:** | **John McNaughton, Russian Federation** |
| | Education: | Faculty diploma, Department of Information and Political Science |
| | Current employment (company's business name and position): | Member of MB, Russian Federation |
| | Number and percentage of shares possessed in the joint stock company: | 158,805; 1.40% shares in Expobank A.D. Beograd |

# Executive Board

## Borislav Strugarević
## Chairman of the Executive Board

Borislav Strugarević earned his BSc in economics degree from the Faculty of Economics, University of Belgrade, and has over 20 years of experience in the banking sector. He has been the President of the Executive Board since September 2014.

## Aleksandr Kashtalap
## Deputy Chairman of the Executive Board

Aleksandr Kashtalap graduated and received his master's degree from the Faculty of Economics, University of Novosibirsk. Since August 2019, he has been a member of the Executive Board of Expobank Beograd, where he has held the position of Deputy Chairman since July 2021.

# Other Boards

## The Bank's operations are also supported by other boards/committees:

1. Assets and Liabilities Management Committee (ALCO)
2. Bank's Business Monitoring Committee (Audit Committee)
3. Credit Board
4. Bank Debt Collection Board

**Dragana Vujinovic**
**Manager of Financial Control Sector**
**Secretary of ALCO and member of the Debt Collection Committee of the Bank**

*"A key challenge in financial management is flexibility in highly volatile market conditions." In the current macroeconomic circumstances, the Bank must be ready to respond to higher levels of risk, but also to the opportunities presented to it."*

**Lidija Vladisavljevic**
**Risk Management Sector Manager**
**Member of ALCO and the Debt Collection Board of the Bank**

*"An adequate risk management system is important element in ensuring the stability of the Bank and the profitability of its operations." In today's banking, challenging and changing environment, a very important decision is which types of risk and how much risk to take in order to achieve the expected return on the one hand and maintain stability in business on the other hand."*

**Milan Blagojevic**
**Treasury Manager**
**Member of ALCO**

*"Successful management of currency and interest risks implies the existence of: a clearly defined management process, a developed information system, as well as a plan to secure liquid funds for unpredictable and emergency situations." The Bank must be ready to effectively respond to all challenges on the financial market while maintaining liquidity at a high level. "*

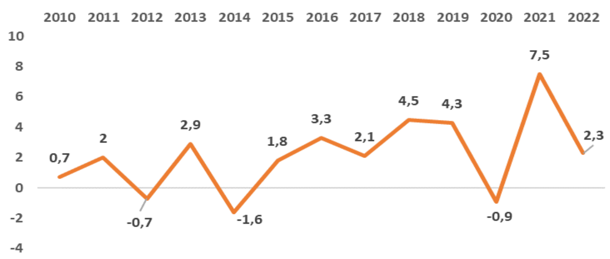
# Macroeconomic environment and banking sector

## Macroeconomic indicators

### Gross domestic product

From the impact of the global pandemic, the Republic of Serbia managed to recover during 2021, realizing a growth of the gross domestic product in the amount of 7.5%. However, after the recovery in 2021, several domestic and international factors caused the economy to slow down (the rapid rise in interest rates after inflation got out of control as well as the escalation of geopolitical conditions on European soil). According to preliminary estimates of the Republic Institute of Statistics, the expected GDP growth for 2022 is 2.3%. GDP growth is the result of growth in industrial production, service sectors and an increase in net taxes, while a decline in construction and agriculture was recorded.

GDP (%)




### Foreign direct investments

FDI inflow continued to grow during 2022 and amounted to EUR 4.4 billion (2021: EUR 3.9 billion), reaching a level of around 7% of GDP. The largest number of FDI was directed to the automotive, metal and food industries.

In the period 2019-2021. In 2008, the largest part of FDI inflows came from EU countries (57%), but with the growing participation of Asian countries (mainly China) and European countries outside the EU such as Russia, Turkey and Switzerland.

This level of investment contributed to the increase in employment, the growth of production and exports of the processing industry.

### Foreign trade

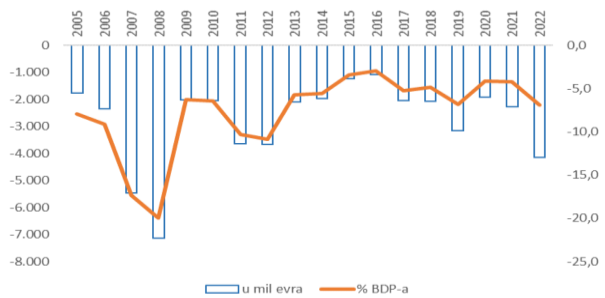
During 2022, there was increase in the export of goods by 28%. The growth of exports of the processing industry had a dominantly positive effect on export growth. A significant contribution to total merchandise exports came from mining exports. The growth of the export of services in 2022 was 42.1% and was driven by the export of tourism and ICT services.

On the other hand, the import of goods recorded a growth of 34.1%. The biggest contribution came from the increase in the import of means of reproduction, a third of which is the result of higher imports of energy products. During 2022, there was a growth in the import of capital equipment, consumer goods, as well as the import of services (37%), primarily driven by transport and tourist services.

### Fiscal result and deficit of current balance

Serbia's current deficit amounted to 4.1 billion euros in 2022, half of which was realized in the first four months of the year as a result of high import prices of energy sources. The current deficit was fully covered by foreign direct investments. In 2023, a deficit of 6.9% of GDP is expected.

Current account of payment balance




### Unemployment rate

According to data from the Labor Force Survey at the end Q3 2022, the unemployment rate was 8.9%, which is below the value in the same period of 2021 when it was 10.5% and below the average for the entire year 2021 of 11% .

In Q3 2022, the employment rate was 50.8%, recording a slight increase compared to the same period of the previous year (Q3 2021: 50%).

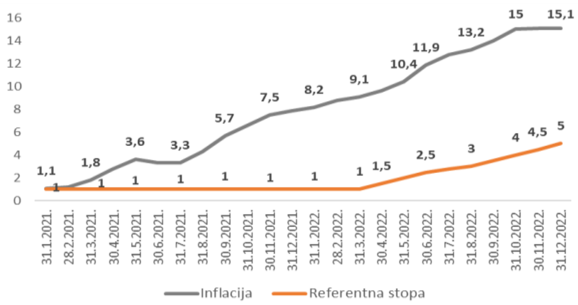
Average net earnings in the period January-November 2022 amounted to RSD 74,078 (EUR 631) and increased nominally by 13.9%, and in real terms by 2% compared to the same period in 2021.

### Inflation

Average inflation in 2022 was 11.9%, while year-on-year inflation in December 2022 reached 15.1%. The increase in inflation in 2022 was largely contributed by increases in food and energy prices.

Inflation and benchmark interest rate (%)

### Benchmark interest rate



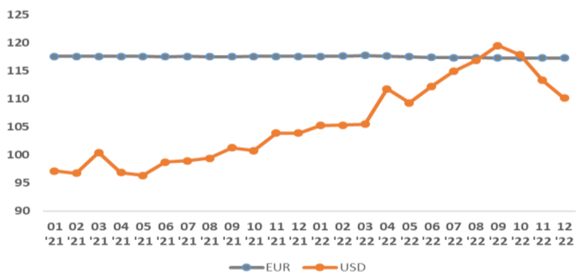

During 2022, the National Bank of Serbia continuously tightened the monetary policy, increasing the reference interest rate by 0.25% and 0.5% to the level of 5%. The National Bank of Serbia decided to increase the reference interest rate nine times in the period from April to December 2022, in response to increased cost pressures from the domestic and international environment..

### Exchange rate

The EUR/RSD exchange rate at the end of 2022 was 117.32 and compared to the end of 2021 (117.58), recorded appreciation of 0.2%. The first half of 2022 was marked by depreciation pressures, associated with higher energy imports and the growth of risk aversion after the outbreak of the conflict in Ukraine.

Since May, the National Bank of Serbia has made a net purchase of foreign currency at the MTD, thus compensating for the net sales from the first four months, so that during the year 2022 it has net purchased 1 billion euros. During 2022, the dinar remained relatively unchanged against the euro, while it depreciated against the USD by 6.0%.

Movements in exchange rate EUR and USD



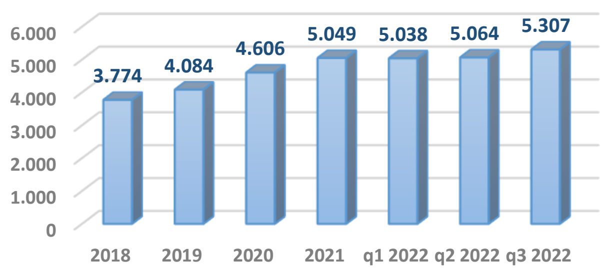
## Banking sector

Consolidations on the banking market occurred in recent years led to decrease in the number of banks, so that in November 2022, 21 banks operated, while the number of employees in the banking sector was 22,154. The share of banks in the majority ownership of foreign persons was 83.9% (2021: 87%).

Total assets reached the amount of RSD 5,307.1 billion, and total capital amounted to RSD 713.3 billion at the end of September 2022.

The balance sheet assets of the banking sector during the first nine months of 2022 increased by 5.1% compared to the end of 2021, while the total capital remained at approximately the same level.

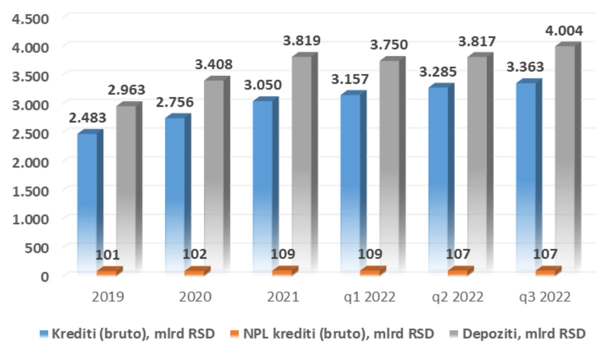
Total Net Assets of Banking Sector (RSD bln.)




Total gross loans increased by 10.3% during the first nine months of 2022 compared to the end of 2021, while the amount of NPL remained unchanged. The NPL ratio was 3.2% at the end of Q3 2022, maintaining a downward trend compared to the end of 2021 when it was 3.6%.

Deposits received at the end of Q3 2022 amounted to 4,003.8 billion dinars, and recorded a growth of 5.1% compared to the end of 2022, making it still the primary source of financing for banks in Serbia.

Gross loans, NPL, deposits (RSD bln.)



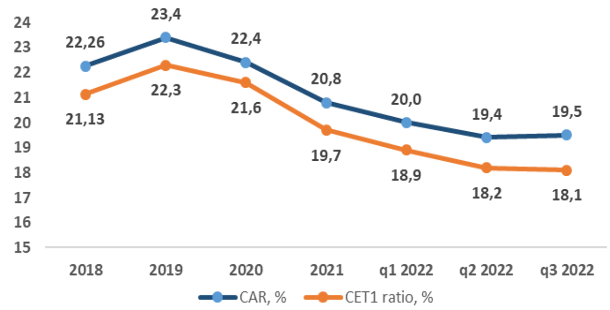

The tightening of monetary policies of central banks during 2022 was accompanied by increase in benchmark interest rates, which consequently led to increase in interest rates.

The average interest rate on new dinar household loans in December 2022 was 12.3%, which is an increase of 49% compared to the end of 2021, when the average interest rate on household loans on the banking market was 8.25%. Interest rates on new loans to the economy recorded a growth of 97%, so that they rose from the level of 2.98 in December 2021 to the level of 5.86%.

Interest rates on euro-indexed loans on the domestic market also recorded an increase, so in one year, interest rates on new loans to the economy increased from 2.42% to 5.01%, while interest rates on new loans to households increased from level from 3.38% to 5.93%.

The banking sector of Serbia is adequately capitalized both in terms of the achieved capital adequacy indicator and in terms of the regulatory capital structure.

Capital adequacy (%)



# Financial Performance

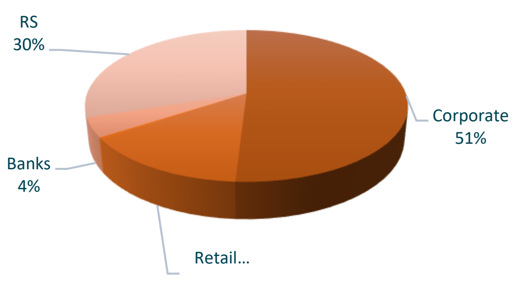
### Income statement for period 01.01.- 31.12.2022

| INCOME/EXPENSES | 2022 | 2021 |
|---|---|---|
| Interest income | 595,545 | 547,038 |
| Interest expenses | 164,730 | 148,068 |
| **Net interest income** | **430,815** | **398,97** |
| Fee and commission income | 523,104 | 143,165 |
| Fee and commission expenses | 26,272 | 20,520 |
| **Net income from fees and commissions** | **496,832** | **122,645** |
| Net gain / (loss) on derecognition of financial instruments valued at FV | 5,565 | 92,217 |
| Net gain / (loss) based on protection from risks | 0 | 2,395 |
| Net (cost) / income from exchange rate differences and the effects of the contracted currency clause | -38,411 | -4,401 |
| Net income / (cost) based on impairment of financial assets not valued at FV through Income statement | -69,412 | 2,301 |
| Net loss on derecognition of FI valued at amortised cost | 101 | - |
| Other operating income | 29,462 | 19,985 |
| **TOTAL NET OPERATING INCOME** | **854,952** | **634,112** |
| Costs of salaries, fringe benefits and other personal expenses | 359,316 | 306,643 |
| Depreciation expenses | 69,243 | 66,116 |
| Other income | 56,311 | 141,713 |
| Other expenses | 472,861 | 374,602 |
| **PROFIT/(LOSS) BEFORE TAX** | **9,843** | **28,465** |
| Profit /(loss) on a deferred tax basis | **8,290** | **1,112** |
| **NET PROFIT/(LOSS) OF THE CURRENT YEAR** | **18,133** | **29,576** |

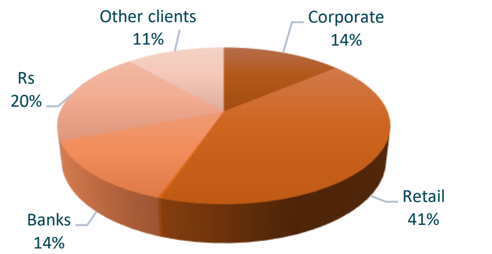
During 2022, there was an increase in net interest income by 7.98%. Interest income grew by 8.87% mainly because of the growth of interest income based on RS bonds, deposits with other banks and partly due to the increase in interest rates on loans in the last quarter of 2022, as a result of the increase in reference interest rates. The bank generated interest income from bonds purchased from the RS in the amount of RSD 178,528 thousand, which is 29.98% of total interest income (2021: RSD 155,127 thousand or 28.36%).

During 2022, interest expenses recorded an increase of 11.3%, to the greatest extent as a result of increase in interest expenses on the basis of company deposits, as well as on the basis of business with banks and securities.

Sector structure of interest income




Sectoral structure of interest expenditure




Net income from fees and commissions, in the amount of RSD 496,832, recorded increase of 305% compared to 2021. The largest part of income from fees was realized on the basis of banking services to the population for the performance of foreign exchange operations in the amount of RSD 196,067 thousand, as well as fees for banking services for the purchase and sale of foreign currency in the amount of RSD 185,363 thousand (2021: RSD 19,892), which makes a total of 72.92 % of total fee income.

More significant income was also generated based on income from fees for banking services from other companies based on guarantees, guarantees, letters of intent, etc., which at the end of the year amounted to RSD 29,132 thousand (2021: RSD 23,859 thousand). Income from fees for the performance of other banking services from the population in dinars, amounting to RSD 7,213 thousand, as well as income from fees in payment transactions in the amount of RSD 11,394 thousand remained at approximately the same level as the previous year.

During this year, a significant expense was recorded from exchange rate differences and the effects of the contracted currency clause in the amount of RSD 38,411 thousand (2021: RSD 4,401 thousand).

In accordance with the prudent and conservative credit risk management policy, a value adjustment was made for all potential credit losses based on all known and foreseeable risks. This year, the bank realized a significant expense based on the impairment of financial assets and credit risk off-balance sheet items in the amount of RSD 69,412 thousand (2021: net income RSD 2,301 thousand).

In the Other income from business relationship, income from rent has increased, and this year it amounts to RSD 14,975 thousand, while in 2021 that income amounted to RSD 10,488 thousand. Also, the Bank generated income of RSD 14,360 thousand from the sale of assets acquired through the collection of receivables.

Other income recorded a decrease compared to last year by the amount of RSD 85,402 thousand, i.e. by 60.26%, and the main reason for the decrease is the smaller amount of unused provisions for court disputes in the amount of RSD 37,883 thousand (2021: RSD 117,815 thousand).

As part of other expenses, an increase was recorded in the amount of RSD 98,259 thousand, i.e. by 26.23%, and the largest share in the growth of expenditures has an additional provision for court disputes in the amount of RSD 72,718 thousand.

Rent costs amount to RSD 21,555 thousand (2021: RSD 22,551 thousand), and are shown through the amortization of lease rights in the amount of RSD 17,133 thousand, interest in the amount of RSD 977 thousand, VAT cost in the amount of RSD 3,518 thousand and positive exchange rates the difference in the amount of RSD 74 thousand

## Balance sheet for period 01.01.- 31.12.2022

| ASSETS | 31.12.2022 | shares | 31.12.2021 | shares |
|---|---|---|---|---|
| Cash and funds at the central bank | 2,156,085 | 13.69% | 2,098,591 | 12.51% |
| Securities | 3,660,279 | 23.24% | 4,115,227 | 24.54% |
| Loans and receivables from banks and other financial organizations | 1,542,099 | 9.79% | 460,65 | 2.75% |
| Loans and receivables from customers | 6,960,059 | 44.18% | 8,912,229 | 53.14% |
| Receivables financial derivatives intended for hedging | - | - | - | - |
| Intangibles | 46,764 | 0.30% | 43,759 | 0.26% |
| Property, plant and equipment | 389,079 | 2.47% | 422,571 | 2.52% |
| Investment property | 268,786 | 1.71% | 209,661 | 1.25% |
| Current tax assets | - | - | - | - |
| Deferred tax assets | 121,164 | 0.77% | 12,003 | - |
| Other means | 608,851 | 3.86% | 496,746 | 2.96% |
| **Total assets** | **15,753,166** | **100.00%** | **16,771,437** | **100.00%** |
| **LIABILITIES** | | | | |
| Deposits and other liabilities towards banks, other financial organizations and the central bank | 258,109 | 2.00% | 1,333,769 | 9.96% |
| Deposits and other liabilities towards other clients | 12,316,984 | 95.32% | 11,790,412 | 88.07% |
| Liabilities from financial derivatives intended for hedging | - | - | - | - |
| Subordinated liabilities | - | - | - | - |
| Provisions | 158,3 | 1.23% | 94,466 | 0.71% |
| Deferred tax liabilities | - | - | 0 | 0.00% |
| Other liabilities | 188,328 | 1.46% | 168,932 | 1.26% |
| **Total liabilities** | **12,921,721** | **100.00%** | **13,387,579** | **100.00%** |
| **EQUITY** | | | | |
| Share capital | 8,549,095 | 301.93% | 8,549,095 | 252.64% |
| Loss | -5,586,421 | -197.30% | -5,604,554 | -165.63% |
| Reserves | -131,229 | -4.63% | 439,318 | 12.98% |
| **Total equity** | 2,831,445 | 17.97% | 3,383,858 | 20.18% |
| **LIABILITIES AND EQUITY** | **15,753,166** | | **16,771,437** | |

## Assets

During 2022, balance sheet assets decreased by 6.07%. The biggest changes in the Bank's assets in 2022 compared to 2021 relate to: significant increase in loans and receivables from banks and other financial organizations by 234.77% (RSD 1,081,449 thousand), decrease in exposure to principals by 21.90% (RSD 1,952,170 thousand), as well as increase in investment properties by 28.20% (RSD 59,125 thousand).

The table below shows movements in loans and receivables from customers by sector:

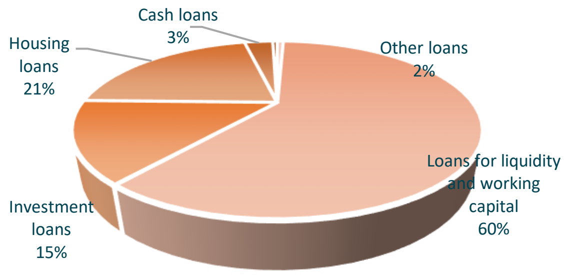
| SECTOR | 2022 | shares % | 2021 | shares % |
|---|---|---|---|---|
| Corporate | 4,873,953 | 70.03 | 6,490,242 | 72.82 |
| Entrepreneurs | 237,543 | 3.41 | 327,451 | 3.67 |
| Retails | 1,702,025 | 24.45 | 1,889,911 | 21.21 |
| Interest and fees | 19,312 | 0.28 | 23,669 | 0.27 |
| Other | 127,226 | 1.83 | 180,956 | 2.03 |
| **Total:** | **6,960,059** | **100.00%** | **8,912,229** | **100.00%** |

In 2022, compared to the previous year, there was decrease in exposure to all the listed sectors. The largest percentage reduction of 27.46% refers to entrepreneurs, but the biggest impact on the Bank's assets was the reduction of receivables from corporate in the amount of 24.9% (RSD 1,616,289 thousand). Placements to retails are lower by 9.94% (RSD 187,886 thousand). Because of the amount of the aforementioned reductions, the share of exposure to corporate decreased by 2.8%, while the share of exposure to retails increased by 3.24%.

Short-term loans granted to retails for a period of 6 months to 1 year, with annual interest rates ranging from 12.5% to 14.5% for placements in dinars and from 10.5% to 11.5% for placements with currency clause indexed in euros. The interest rate on allowed overdrafts on citizens' accounts is from 21% to 24% on an annual basis. The nominal interest rate on receivables for use of credit cards during 2022 was in the range of 19.56% to 26.08% on an annual basis.
The average interest rate for newly approved housing loans in December was 7.73%.

Within newly approved loans, the largest share was long-term investment loans with a currency clause with an average interest rate in December of 6.63%, as well as long-term loans for working capital with a currency clause with an average interest rate in December of 6.79%.

Placements to clients (%)



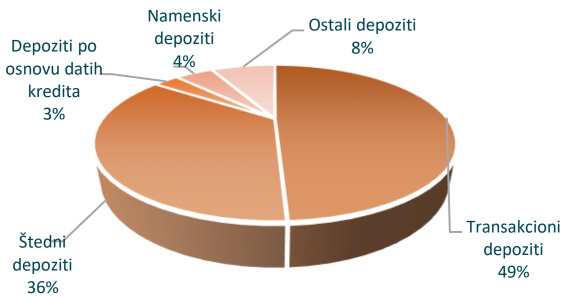

Increase in loans and receivables from banks and other financial organizations in 2022 was largely caused by increase in demand deposits in USD with the NBS, which as of 31.12.2022 amounted to 1.28 billion dinars.

Increase in investment property is mostly caused by decision to reclassify the item from assets acquired through collection of receivables.

## Liabilities and equity

Changes in the Bank's liabilities mainly refer to increase in customer deposits by 4.47%, but also significant decrease in deposits and other liabilities to banks, other financial organizations and the central bank by 80.65% (RSD 1,075,660 thousand).

Deposits to clients (%)




The provisions increased by 67.57%, (RSD 63,834 thousand), which was mostly due to increase in provisions for legal costs. Separate provisions related to lawsuits for loan processing fees and NKOSK amount to RSD 31,518 thousand. The bank, similarly to other banks on the market, is the subject of various court disputes related to certain fees in credit agreements. For such cases, the Bank created a provision (included in the above amount) of RSD 2,233 thousand. Currently, it is not possible to accurately determine the outcome of all these lawsuits. The Bank's management estimates that there will be no materially significant losses based on the outcome of ongoing court cases, above the amount for which the provision was made.

In the structure of customer deposits, retails account for 64.1%, while 35.9% refer to corporate.

To the greatest extent, population made term deposits for a period of up to one year in foreign currency. Average rate to new term deposits of up to one year in foreign currency in December it was 2.92%.

Most of the corporate's deposits are demand deposits in dinars. Most of the companies made term deposits in dinars for a period of up to one year. Average interest rate on newly termed dinar deposits up to one year in December amounted to 4.42%.

## Risk management policy

The Bank continuously identifies, assesses, monitors and controls risks in accordance with national and international banking and accounting regulations, ensuring an integrated, prudent and consistent risk management system. By its acts, the Bank's Managing Board has established an adequate risk management system and internal control system, which includes various corporate bodies and management committees: Managing Board, Executive Board, Audit Committee, Assets and Liabilities Management Committee (ALCO), Credit Committee.

The functioning of the system is regulated by policies and procedures adopted individually for each materially significant type of risk.
In accordance with the adopted strategic goals of the Bank's operations and the bases for their realization, the Bank has defined the goals for the needs of continuous risk management (credit, market, interest rate, currency, operating), as follows:

- ✓ Achieving and maintaining the status of a stable and reputable financial institution, specialising in supporting the population, small and medium enterprises,
- ✓ maintaining the trust of its clients and ensuring the security and profitability of their investments,
- ✓ providing assistance to clients in their business, development, business projects,
- ✓ growth in the volume of balance sheet assets,
- ✓ growth of market share and strengthening of market position,
- ✓ maintaining the stability of the Bank's financing sources,
- ✓ ensuring liquid, economical and successful operations, in order to prevent any kind of instability

In order to improve the level of capital and improve the portfolio, the Bank focuses on:

- ✓ change of the structure of assets by intensifying the collection of the non-performing loans and the sale of NPL portfolios,
- ✓ focusing on lending to A and B category clients only
- ✓ intensified monitoring of loan granting activities

The comprehensiveness and reliability of the risk management system, as well as the Bank's risk appetite, are based on:

- ✓ Active participation of the Bank's Executive Board and Managing Board in the risk management process (the Executive Board and the Managing Board regularly review reports on the Bank's exposure to risks, as well as measures to manage and mitigate these risks; for risk management)
- ✓ Establishment and operation of the Bank's Credit Committee
- ✓ Establishment of the Bank's Assets and Liabilities Management Committee (ALCO)
- ✓ Adoption of the Business Continuity Plan (BCP) and the Disaster Recovery Plan (DRP)
- ✓ Adopted methodologies for risk identification and measurement
- ✓ Adopted measures to mitigate certain types of risks and rules for the application of these measures
- ✓ Established limit system
- ✓ Calculation and distribution of internal capital

The long-term goal of the Bank in risk management is to minimise the negative effects on the financial result and capital of the Bank due to exposure to all potential risks.

In accordance with its strategic and long-term commitment, the Bank has defined the following objectives regarding risk management:

- avoiding or minimising risks in order to maintain operations within acceptable risk levels, in accordance with the Bank's defined risk appetite;
- minimising risks within the acceptable level of the Bank's exposure in dinars with a currency clause and in foreign currency, both at the portfolio level and by type of exposure;
- minimising negative effects on the Bank's capital;
- maintaining the Bank's capital adequacy ratio at a level that covers all identified risks;
- increasing the share of exposure to companies with the aim of diversifying the portfolio in the field of placements;
- increasing the source of financing in order to improve the structure and level of the deposit base;
- adequate placement management in order to timely identify potentially problematic placements;

## Risk management policy (continued)

- establishing an adequate system of prevention against misuse of the Bank for money laundering and terrorist financing, which would minimise the possibility of using the business relationship, transaction, service or products of the Bank for money laundering and terrorist financing, as well as raising employee awareness regarding this risk
- ensuring constant harmonisation of the Bank's operations with the law, regulations and internal acts, especially in the field of money laundering and terrorist financing, namely mutual harmonisation of the Bank's internal acts.
- ensuring the continuous development of IT support in order to adequately monitor and manage all risks.

In the long run, the Bank must maintain risks within the prescribed limits (each risk individually up to the level prescribed by law or up to the level of limits defined by the Bank's internal acts).

The basic principles of risk management are defined by the Risk Management Policy. Based on the Risk Management Strategy and the Risk Management Policy, the Bank's Managing Board adopts and implements risk management procedures that describe individual risk management processes.

Risk management policies and procedures prescribe the manner of organising the Bank's individual risk management process, methods and methodologies for identifying, measuring or assessing, mitigating and monitoring specific risks, as well as the principles of functioning of the internal control system.

Risk management policies and procedures are reviewed at least on an annual level and changed as necessary, and more frequently if significant changes occur in the Bank's risk profile.

The Bank is exposed to credit risk and the possibility that the debtor will not fulfil its liabilities to the Bank in the agreed amount and on due date. Exposure to credit risk arises primarily from lending operations. Credit risk is monitored on several levels: assessing the creditworthiness of clients before granting loans, monitoring the regular settlement of their liabilities and creditworthiness throughout the loan repayment period, as well as collection and management of due receivables.

The total maximum credit exposure before deduction for collateral amounts is given below.

| | 31.12.2022 | 31.12.2021 |
|---|---|---|
| Placements with banks - net | 1,542,099 | 460,65 |
| *Value adjustement of placement with banks* | *3,59* | *558,00* |
| Total gross placements with banks | 1,545,685 | 461,21 |
| Loans and placements to corporate | | |
| Loans and other placements to retails (with entrepreneurs) | 1,895,141 | 2,255,215 |
| Loans and other placements to corporate | | |
| - Big companies | 245,27 | 407,82 |
| - Small, medium and micro enterprises | 4,697,850 | 6,139,429 |
| - Other | 121,80 | 109,76 |
| Total net loans and placements to clients | 6,960,059 | 8,912,229 |
| *Value adjustement of loans and placements to clients* | *239,58* | *207,29* |
| Total gross loans and placements to clients | 7,199,636 | 9,119,523 |
| **Total balance sheet risk assets - gross** | **8,745,321** | **9,580,730** |

To maintain credit risk at an acceptable level, the Bank:
- reviews the creditworthiness of the borrower for loans. Warranties and other products,
- determines the limits of credit indebtedness since risk assessment,
- does business with creditworthy clients and obtains appropriate security instruments.

Client monitoring is continuous, and risk exposure limits are adjusted as necessary. Risk limits are determined depending on the different types of security instruments. The concentration of risk by economic activities as well as on the basis of a group of related entities is established within the Risk Management Strategy as the established level of risk profile and Risk appetite.

## Risk management policy (continued)

Risk exposure toward one debtor, including banks, is limited and includes both on-balance sheet and off-balance sheet risk exposure. The total risk exposure per client in relation to restrictions is considered before the transaction takes place.

The Bank's management has made a provision for all potential credit losses based on all known and foreseeable risks.

The Bank manages liquidity risk in accordance with Chapter - Liquidity risk management, which defines the liquidity risk management system, competencies and responsibilities of system participants, controls undertaken in order to operate the system as efficiently as possible, methodologies used to monitor this risk and liquidity management plan in crisis situations.

During 2022, the war in Ukraine and the high growth of inflation and market interest rates caused a delicate business environment with a higher level of risk. In this sense, the Bank's focus during 2022 was on maintaining a high level of liquidity as well as diversification and optimization of liquidity reserves with a reduced appetite for risk-taking. At the same time, the Bank continued to strengthen the deposit base, which continued to grow significantly during 2022, while on the other hand, liquidity reserves were increased through the optimization and increase of the Bank's placement in the securities of the Ministry of Finance of the Republic of Serbia.

As a result of exposure to operational risks during 2022, the largest number of recorded events in the loss base refers to lawsuits against the Bank in connection with the collection of a one-time loan processing fee. During 2022, the number of potential losses due to new and withdrawn lawsuits was significantly reduced.

Through the process of self-assessment of risks and controls, operational risks were assessed and identified in the most significant activities and processes established in the Bank, such as the ICT system, business compliance control, electronic banking.

Special attention was focused on minor changes in the Bank's products and services in order to meet client requests. The bank also introduced new activities related to processes and systems such as e-invoices and foreign exchange clearing at the National Bank of Serbia.

Entrusting the Bank's activities to third parties is carried out in accordance with regulations, good business practices and the Bank's business ethics through a defined process and according to the criteria for deciding on the entrustment of those activities. so that the Bank's regular operations, risk management and internal control system would not be endangered. Entrusting the Bank's activities to third parties is part of the risk management process and risk reporting system. Exit plans for each individual activity of importance to the Bank ensure business continuity for entrusted activities as well as measures taken in the event of termination of the contractual relationship with the persons whose services are used, as well as in the event of a temporary stoppage or cessation of the provision of those services;

By reviewing the framework for monitoring exposure to operational risks, the Bank revised the indicators and levels of exposure to operational risks. According to the changes in the Bank's risk profile, the total losses from operational risks, the largest single loss, the underestimation of the calculated capital requirements for operational risks due to the application of the BIA approach, as well as the distribution of risks in relation to the Bank's capital, are monitored through the set limits.

## Business events after the reporting period

On 30 December 2022, the Bank signed Sales and Purchase Agreement with a new investor on purchase of shares, after which proceeded to obtain the necessary approvals for finalization the process. By the date of issue of this report, the Bank received approval of the Commission for the Protection of Competition.

There were no significant events after the reporting period date that would require disclosure in the notes to the financial statements of the Bank for the year 2022.

## Expected developments and risks to which operations are exposed

The vision of the Bank includes successful positioning of the Bank in the banking financial market, in the long run, its development as a dynamic, financially strong Bank, specialising in supporting small and medium enterprises. The bank strives for a recognisable, professional level of service, with constant growth of internal organization and customer satisfaction.

Focusing on integrated services for small and medium enterprises and a "personal banker" based on "corporate sales channels" allows the Bank, without increasing administrative costs, to effectively increase non-interest income thanks to:

- maintaining a flexible product line (niche product development, transaction services and commissions);
- emphasis on cross-sales;
- Implementation of a service model focused on the highest quality of service.

The analysis and structure of revenues and costs, the expected state of the Bank's funds and sources of funds and the expected macroeconomic business conditions, define as the basic strategic goals of the Bank's operations, as follows:

- ✓ Achieving and maintaining the status of a stable and reputable financial institution, specialising in support to small and medium enterprises, encouraging exports and granting loans for economic development;
- ✓ Encouraging market specialisation and work efficiency;
- ✓ Maintaining the trust of its clients and ensuring the security and profitability of their investments;
- ✓ Providing assistance to clients in their business, development and business projects in a way to establish long-term cooperation with as many quality and perspective clients;
- ✓ Growth of market share and strengthening of market position in the banking sector of the Republic of Serbia;
- ✓ Expanding the client base through market identification of the Bank's services to potential clients through proactive activities;
- ✓ Active management of the Bank's loan portfolio, with the expansion of the client base and further diversification of placements;
- ✓ Maintaining the stability of the Bank's sources of financing;
- ✓ Identifying niche markets with the aim of maximising profits and reducing risk through a high level of service and customer satisfaction.

The basis for achieving the mentioned goals are:

- Maintaining a high level of liquidity;
- Maintaining the capital adequacy ratio significantly above the level prescribed by the regulator;
- Competitive profitability expressed through ROA and ROE;
- Strict monitoring of costs and further improvement of business process efficiency;
- Improving billing efficiency and preventing new NPLs.

The Bank plans to increase its business volume by finding a potential new strategic partner, which will enable the Bank to develop faster than the average market. In this way, the Bank plans to expand its geographical coverage and provide its clients with an increasing number of financial opportunities.

Belgrade, March 2023

Signed in behalf of EXPOBANK A.D. BEOGRAD

| | |
|---|---|
| Dragana Vujinović | Borislav Strugarević |
| Financial Control Manager | Executive Board Chairman |