BANCA INTESA
Intesa Sanpaolo Group

2022 Annual Report

2022 Annual Report

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Key Financial Indicators

Banca Intesa Beograd	2022	2021
Income Statement		
Net interest income	**24,284,150**	21,320,487
Net fee and commission income	**13,389,752**	11,427,165
Profit before tax	**14,832,176**	11,847,961
Income tax	**(1,906,312)**	(1,503,828)
Net profit from deferred tax assets and liabilities	**(246,525)**	27,226
Profit after tax	**12,679,339**	10,371,359
Balance Sheet		
Cash and balances with Central Bank	**153,092,550**	135,704,230
Non-current assets held for sale and discontinued operations	**15,795**	22,439
Securities and receivables from derivatives	**61,738,469**	82,340,103
Loans and receivables from banks, other financial organisations and customers	**583,295,001**	505,875,568
Investments in subsidiaries	**1,199,472**	1,199,472
Intangible assets, property, plants and equipment and investment property	**14,599,093**	14,794,914
Other assets, current and deferred tax assets	**10,893,428**	5,633,721
Total assets	**824,833,808**	**745,570,447**
Financial liabilities based on derivatives	**8,305**	0
"Deposits and other liabilities due to banks, other financial organisations, Central Bank and other customers"	**704,945,050**	614,369,840
Provisions	**2,620,445**	2,401,265
Other liabilities and deferred tax liabilities	**19,491,147**	9,757,333
Total liabilities	**727,064,947**	**626,528,438**
Equity	**97,768,861**	**119,042,009**
Total liabilities and equity	**824,833,808**	**745,570,447**
Indicators		
Profit before tax/ Total assets	1.80%	1.59%
Profit before tax / Total equity	15.17%	9.95%
Interest income / Total assets	3.24%	2.99%
Interest expenses / Total liabilities	0.29%	0.13%
Capital adequacy ratio	17.30%	19.29%
Total assets per employee	269,465	246,144
Number of employees	3,061	3,029

Letter from the Chairman of the Board of Directors

Ladies and gentlemen,

The year behind us was marked by three global crises - pandemic, geopolitical and energy, which extended the period of overall uncertainty that the world is faced with even today. Geopolitical conflicts further deepened the already existing disruptions in global supply chains, causing a jump in energy and food prices, which led to a sharp rise in inflation, which in almost every developed economy exceeded multi-decade records, exerting strong pressure on the growth of citizens' living costs and economic expenditures. Although the world economy achieved high growth rates in 2021, after two years of the pandemic, the conflict in Ukraine, inflationary shocks and disruptions in the energy markets slowed the growth of even the most powerful economies and brought the global economy to the brink of recession.

Determined to curb skyrocketing prices, the world's leading central banks, including the US Federal Reserve System (FED) and the European Central Bank (ECB), responded to inflationary pressures with a sharp turn in monetary policy. Heralding the end of the era of cheap money, monetary policymakers began a cycle of raising benchmark interest rates from record lows at the start of the year, balancing the need to curb rising demand against the risk of pushing the economy into recession.

It is clear that as a small, open economy, integrated into global trends, Serbia could not remain immune to the impacts from the external environment. In the conditions of increased global uncertainty, economic growth slowed down to 2.3 percent at the end of the year under the influence of the fall in economic activity in the Eurozone, the poor agricultural season, as well as the growth of inflation, which reached a level of 15.1 percent, which is a record result since 2007, since when it is measured by the Consumer Price Index. Nevertheless, the National Bank of Serbia (NBS) maintained a stable exchange rate without significant dinar fluctuations, the world's leading credit agencies kept Serbia's credit rating at an unchanged level, and foreign direct investments are expected to reach a record level of 4.3-4.4 billion euros gross.

Hand in hand with global monetary trends, the NBS itself tightened monetary conditions in order to rein in inflation, thus, following nine consecutive increases during 2022, the key interest rate of the central bank of Serbia from the historical minimum of 1 percent reached the level of 5 percent at the end of the year. The tightening of monetary policy in the international and domestic environment inevitably led to an increase in interest rates on loans, both dinar and euro-indexed, which influenced the slowdown in the growth of credit activity in Serbia, to 9.1 percent in November compared to the same period in 2021. The deposit base of the banking sector continued to strengthen, and the end of the third quarter was met with an increase of 7.9 percent compared to the same period of the previous year. In addition, the banking sector maintained a high level of liquidity with a loan-to-deposit ratio of 84.5 percent in September, as well as significant stability, with a capital adequacy ratio of 19.5 percent at the end of the third quarter, and the share of non-performing loans (NPL) in total bank placements at the historical minimum, of 3.19 percent in the same period. At the end of September 2022, return on assets (ROA) increased to 1.5 percent, while return on equity (ROE) reached 10.9 percent.

Despite the complex and extremely competitive environment due to the continuation of the active consolidation of the domestic banking sector, Banca Intesa achieved excellent results in all key business segments. We maintained our leading position on the market measured by key performance indicators - total net assets with a share of 15 percent, total capital, 14.8 percent, and total client deposits, 15.7 percent at the end of the third quarter of 2022, with further strengthening of the client base, by virtue of which we measure the satisfaction and loyalty of our clients.

The quality of the offer, which was expanded by new credit lines from international financial institutions and ESG products, and improved user experience based on dynamic digitalization, along with understanding the real needs of clients, allowed us to increase total placements and at the same time further strengthen our deposit potential, confirming the high level of trust that clients have in our strength and long-term stability. In addition, we continued to strengthen our commitment to ESG principles by integrating the concept of sustainability into business processes and products, providing an active contribution to solving current environmental and social challenges through achieving a positive impact on the environment and the overall social environment.

Owing to a well-established risk management framework, starting from the loan approval process, through timely detection of problems, to efficient collection, we have further improved asset quality, with NPL level below the market average. Additionally, we maintained high liquidity with a loan-to-deposit ratio of 84.5 percent and a stable capital position with a capital adequacy ratio of 19.5 percent in the same period. Strong performance in the main business segments, along with effective cost management, was also reflected in our financial indicators, with net profit before tax increasing by 17.1 percent at the end of the third quarter compared to the same period last year and ROE of 11.9 percent.

Behind such excellent results are above all the hard work and commitment of the employees, to whom I wish to extend my gratitude for their commitment to achieving common goals and contributing to their realization, as well as to the members of the Executive Board and the Board of Directors, whose management of the bank in such a complex year was of crucial importance. Although it is clear that the year 2023 will also be marked by unfavorable economic prospects, including high inflation, slow economic growth, tightening of monetary policy, and more restrictive lending conditions, I do believe that Banca Intesa will, relying on its stable foundation, responsible management and a culture of orientation towards clients, as always, successfully respond to all the challenges set before it, creating value for its shareholders and employees, citizens and the economy of Serbia.

Kind regards,

Draginja Đurić
President of the Board of Directors

Foreword by the President of the Executive Board

Dear Sir/Madam,

It gives me great pleasure to inform you on behalf of the Executive Board that 2022 was a year of great success and record business results for Banca Intesa. Despite the fact that the world was shaken by a serious geopolitical crisis with deep and far-reaching consequences that were inevitably reflected on the domestic market, we managed to fulfill our strategic goals and remain firmly positioned at the head of the banking sector, protecting the interests of our clients, shareholders, employees and broader social communities.

The year behind us was overshadowed by general uncertainty. After two pandemic years and the initial recovery of the global economy, the world was shaken by the conflict in Ukraine, the consequences of which, embodied in the energy crisis, accelerated inflation and tightening of monetary conditions, slowed global economic growth. Unfavorable events in the international environment largely determined domestic macroeconomic trends, first of all through the pronounced slowdown of economic activity and the high rate of inflation, which initiated a turnaround in the monetary policy of the central bank. The increase in base interest rates at the global and local level after more than a decade of cheap money had a negative impact on borrowing conditions and contributed to a slowdown in the growth of credit activity on the domestic banking market. Nevertheless, despite all the challenges, continuous digitalization and the need for constant adaptation to constant changes, the banking sector has preserved its stability, with high liquidity and capitalization and significant asset quality, continuing the trend of consolidation and strengthening competition among market participants.

Even in such an environment, Banca Intesa once again demonstrated its strength, flexibility and agility, and maintained its market leadership in terms of total net assets with a share of 15 percent, total capital with 14.8 percent and total customer deposits with 15.7 percent at the end of the third quarter of 2022, and in addition to the trust of around 1.35 million clients, our success is also confirmed by the awards for the best bank in Serbia that we received last year.

For the retail business segment, 2022 was a year of impressive results, in which we increased the loan portfolio by 10.8 percent, with a market share of 17.4 percent, with growth in the share of all key products. We recorded strong performance in deposits as well, with a market share of 18.1 percent.

In accordance with the needs and expectations of clients, as well as current trends in banking, we continued the intensive digitalization of services and business processes, with more than 510,000 digital banking users at the end of the year, 21 million transactions of natural persons and double-digit growth in the number of digital cash loans and allowed overdrafts. Despite the focus on digitalization, we did not neglect the further improvement of the business network through the transformation of the operating model in order to provide clients with a superior user experience, while placing emphasis on strengthening its advisory function and moving transactional activities to digital channels. In addition, we expanded the offer of ESG loans and took a step further in bancassurance through partnerships that aim to provide clients with the highest quality financial solutions. And in the segment of card business, we confirmed our leading position and achieved a share of 25 percent in the number of payment transactions in the country and abroad.

The leadership position was also strengthened in the small business segment, with a growth in the loan portfolio of 5.5 percent compared to 2021 and an increase in deposit potential of 7 percent, while the loan portfolio in the part of registered agricultural holdings increased by 15 percent on an annual basis. Good results are based on the highest level of service, an improved service model and the quality of the offer, which we enriched with new products, including loans for young entrepreneurs from the Youth in Business program of the European Bank for Reconstruction and Development (EBRD), which we first introduced to the Serbian market, but also long-term investment loans for the purchase of energy-efficient equipment in agriculture. Also, striving to help the economy boost liquidity we were the most active participant in the state guarantee program in 2022 as well.

The corporate segment leaves behind a year of exceptional results as well. Consolidating our leadership position, we achieved growth in the loan portfolio of 17.7 percent compared to 2021 and a market share of 15.6 percent, while a further increase in the deposit base resulted in a market share of 16 percent. Despite the record high new production of loans, led by the financing of infrastructure projects and the public sector, but also the financing of working capital in the form of factoring, as well as the growth of exposure in all segments of the economy, the share of NPLs in total corporate loans was reduced to a historic minimum.

In addition to our own sources of financing and existing credit lines from international financial institutions, we also offered the economy new credit arrangements, including facilities from the EBRD for the competitiveness of small and medium-sized enterprises and the German Development Bank KfW for supporting green initiatives and the development of rural areas, while a loan portfolio guarantee agreement was signed with the American Development Finance Corporation (DFC) for supporting the economy. Also, with more than 30 million euros, we supported circular and green economy projects, confirming a strong commitment to ESG principles.

As a result of strong performance in key business segments, the bank's net profit at the end of 2022 exceeded EUR 108 million on strong revenues and strong cost discipline, while total assets increased to over EUR 7.3 billion. In addition, we ended the year with the lowest level of NPLs on the market, almost 20 percent below the market average, owing to monitoring and early warning systems, as well as proactive credit portfolio management. In addition, we have established greater protective layers of capital and strengthened our liquidity position, with liquidityindicators that are consistently at a higher level than the regulatory minimum.

We owe the achieved results in the first place to our employees, to whom I would like to thank for their dedication, responsibility and great commitment, as well as to our shareholders and members of the Executive Board and Board of Directors for the support they provided in the realization of business plans. Despite the unfavorable expectations for 2023, our goals, outlined in the business plan 2022-2025 remain the same - preservation of asset quality, improvement of cost efficiency, strengthening of income from fees and focus on ESG as a new business paradigm based on the principles of sustainability. I am convinced that owing to our highly resistant business model, innovation and willingness to adapt to changes, with the support of the parent Group, we will achieve all goals again.

Kind regards,

Darko Popović
President of the Executive Board

Macroeconomic Environment and the Banking Sector

Macroeconomic Environment and the Banking Sector

- Economic growth slowed down strongly in the second half of 2022, while average annual inflation increased almost three times compared to the previous year, eroding real household incomes;
- Responding to unfavourable inflationary trends, National Bank of Serbia continued to tighten monetary policy by increasing the key policy rate by 400 basis points cumulatively since April, while preserving the stable dinar was an important instrument of the central bank's anti-inflationary policy;
- Worsened balance of payments position was mainly the result of increased energy imports, while growth of fiscal deficit and public debt in 2022 was caused by high unplanned state expenditures for covering losses of the energy sector

Previous year was a very turbulent year for the world economy. While the world was still recovering from the health and economic crisis caused by the pandemic, the energy shock and global instability caused by the outbreak of war in Ukraine stroke another blow, which did not bypass Serbia either. After recording a real GDP growth of 7.5% in 2021, Serbian economy slowed down in 2022 especially in the second half of the year.

After posting relatively high growth of around 4.1% y-o-y in the first half of the year, economic activity recorded a modest growth of only 1.0% in the third quarter, while a further slowdown is expected in the fourth quarter caused by accelerated inflation that devalued real household income, slowdown in EU countries, poor agricultural season and high cost pressures which are most pronounced in industry and construction.

Even though labour market managed to avoid the consequences of macroeconomic deterioration, a gradual slowdown in the dynamics of employment and earnings is visible. Despite high, double-digit annual nominal growth rates, real wages recorded a growth of only 2.3% in the first ten months of 2022, generated exclusively in private sector while rise in inflation completely devalued wages in the public sector.

At the same time, inflation has been continuously growing reaching record high levels since 2007, when Consumer Price Index was introduced as a measure of inflation in Serbia. Inflation was mainly driven by supply side factors - the rise in world prices of food and energy, while around 70% of the headline inflation was imported. Even though core inflation grew more slowly, it exceeded the level of 10% at the end of the year, which is three times higher than NBS target of 3%.

The monetary policy was restrictive in 2022 as a response to unfavourable inflationary trends. National Bank of Serbia started to increase key policy rate in April, from a historic-low level of 1%. After nine consequent hikes, key policy rate reached 5% in December while lending and deposit facility interest rates reached 6% and 4% respectively.

In addition to the administrative caps on prices of certain products, the stable exchange rate policy was an important additional instrument of the anti-inflationary policy. In conditions of increased uncertainty at the global level, the NBS did not allow significant fluctuations of the dinar against the euro, in order to mitigate cost pressures and limit the effects of imported inflation. Dinar appreciated against the euro by 0.2% in 2022 while NBS bought EUR 700mln net on FX market in order to maintain the relative stability of the dinar exchange rate against the euro. Gross FX reserves reached their historical highs, exceeding in December EUR 19bln for the first time ever.

The tightening of NBS monetary policy led to growth of interest rates on the money market and dinar loans, while the normalization of ECB monetary policy and consequent increase of rates on euro zone money market was reflected in the growth of rates on loans in the euro sign. The growth of loans to the non-monetary sector slowed down in the second half of the year, partly due to the high base from the previous year and the maturity of loans approved under the guarantee scheme. Total domestic loans recorded y/y growth rate of 10.7% in October, whereas corporate loans gave positive contribution to overall credit activity while negative effects of the increase in interest rates have so far been more reflected in the household sector.

After conducting expansionary fiscal policy in the previous two years, the fiscal results were better than expected. However, unplanned costs for financing the losses of public companies operating in the energy sector disabled major fiscal policy adjustments in 2022. It is estimated that since the beginning of the energy crisis, the state has spent about EUR 2

billion while the high state expenditures for public companies operating in energy sector were one of the reasons for the budget rebalancing, which increased the planned fiscal deficit in 2022 from the original 3.0% to 3.9% of GDP out of which almost half of the deficit comes from financial support for the domestic energy sector.
Public debt continued to grow in absolute terms, but in relation to GDP, it remained stable and within the Maastricht limit of 60%. According to the decision on Budget rebalancing, public debt is planned to be at the level of 56.9% of GDP at the end of the year. In order to provide additional support for the financing of increased government expenditures in the face of rising borrowing costs for developing countries, the Government of Serbia turned to more favourable bilateral credit agreements, including a new stand-by arrangement with the International Monetary Fund worth EUR 2.4 billion. IMF Executive Board approved in December a new arrangement which will replace the existing, advisory Policy Coordination Instrument, and in addition to providing funds for financing the budget under more favourable conditions, it aims to support macroeconomic policies and to implement structural reforms, with a focus on energy sector.

Leading credit rating agencies kept Serbia's credit rating one notch below the investment rating. In its latest assessment from December 2022, Standard and Poor's confirmed the country's rating at the BB+ with preserved stable outlook, bearing in mind the limited impact of the conflict in Ukraine on Serbia, the assessment that the medium-term prospects for the growth of our economy remain solid and that the fiscal deficit, after a temporary jump due to the global energy crisis, will quickly return to a downward path while maintaining a moderate level of public debt. In addition, the strong inflow of foreign direct investments (FDI) expanded the export base of the Serbian economy, which contributed to the mitigation of external imbalances and the growth of foreign exchange reserves as one of the pillars of the economy's defence against shocks from the external environment. Despite challenging global environment, the inflow of FDI in 2022 reached a record level of EUR 4.3 to 4.4 billion gross (according to NBS operational data), of which more than half is directed to tradable sectors of the economy.

It is expected that the Serbian economy will enter the next year with a minimal growth rate, and the factors that will act in the direction of slowing down economic activity, especially in the first part of the year, are still strong and widespread inflationary pressures, the trend of slowing growth in the Eurozone (Serbia's most important trading partner), as well as the expectation that restrictive monetary policy will continue in most of 2023.

Macroeconomic environment

Economic activity

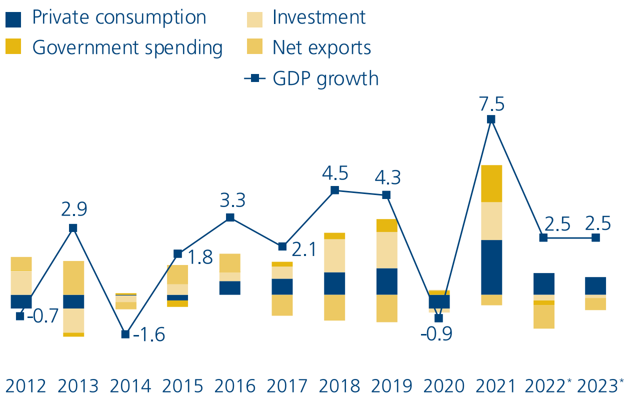
The economic activity achieved an average growth of around 3% y/y in the first three quarters of 2022, with a pronounced trend of slowing down during the year. After solid growth of 4% in the first half of 2022, real GDP slowed more than expected in the third quarter, recording a growth of just 1% y/y.

All demand components had a significantly lower result compared to previous quarters while investments recorded a slight year-on-year decline for the first time since the 4th quarter of 2020. Net exports, after five consecutive quarters of negative contribution to GDP, were the main driver of growth in the third quarter of 2022, while personal consumption, although slowing down, also had a positive contribution.

Looking at the production side, the service sector was the main driver of economic expansion, construction saw a significant decline in activity, while industry moved into negative territory for the first time since the 2nd quarter of 2020, under the influence of high cost pressures, still-present disruptions in supply chains, as well as slowing demand.

Lower than originally expected results in the third quarter were also influenced by the extremely weak agricultural season.

Contribution to the annual GDP growth rate (in %)



Source: NBS

* NBS projection

Overall, it is estimated that real GDP growth rate for the whole year will be at the level of around 2.5%, while Statistical Office flash estimate indicates that it is slightly lower, at around 2.3%.

NBS projects economic growth to range between 2% and 3% in 2023, currently more likely to be closer to the lower limit of this interval.

The downward trend in economic activity will primarily be influenced by the slowdown in economic activity of most important trading partners, inflation which is expected to remain at a high level for most of the next year, with the continued restrictive monetary policy by the leading central banks and the NBS. The recovery of agriculture could act in the opposite direction, after a deep decline in 2022. The risks to the GDP growth projection primarily relate to geopolitical uncertainties - the further course of the conflict in Ukraine, the movement of global energy and food prices, and the risk that inflationary pressures become more permanent than currently expected.

Inflation

Inflation recorded a significant deterioration during 2022 as it accelerated more than the central banks predicted, both in Serbia and in almost all other countries in the world.

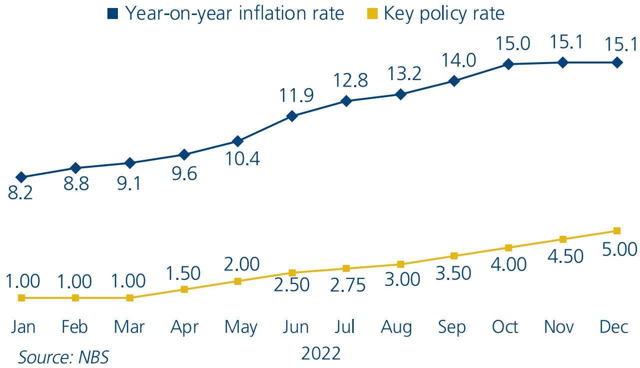
After breaching the upper bound of NBS target tolerance band in September 2021 (3.0%±1.5p.p.), inflation continued to accelerate throughout 2022, becoming economic policy priority. This particularly intensified after the outbreak of the war in Ukraine. The rise in prices of food and energy contributed most to the jump in CPI, while increase in prices quickly became widespread, leading to growth of core inflation.

The National Bank estimates that, in addition to the rise in energy prices on the world market and imported inflation due to Ukrainian war, the effects of the drought at home and in most of Europe, contributed to the continued rise in food prices, which resulted in inflation accelerating above the previously projected levels.

In November and December, a year-on-year inflation hit 15.1%, a record-high level in the last 16 years since inflation in Serbia has been measured by the Consumer Price Index. Core inflation (measured by the consumer price index excluding food, energy, alcohol and tobacco) exceeded the 10% threshold (10.1% in December), confirming that inflationary pressures have strengthened across the economy. Nevertheless, both annual and core inflation in Serbia were somewhat lower than the average of comparable countries in Central and Eastern Europe, partly due to the anti-inflationary measures of the Government, which controlled the prices of gas and electricity, as well as certain basic foodstuffs.

Compared to 2021, consumer prices increased by an average of 11.9% in 2022.

Year-on-year inflation dynamics and key policy rate trends (in %)



Source: NBS

Based on NBS projections, inflationary pressures are expected to reach peak at end-2022 and beginning of 2023, while stronger fall in inflation is expected in the second half of the year and will be primarily driven by a fall in imported inflation and weakening of energy-related cost pressures. The fall in inflation will also be influenced by the tightening of monetary conditions, the expected decrease in prices of primary products and lower aggregate demand.

Monetary policy

After almost a whole decade of relaxed monetary policy, the National Bank of Serbia started tightening monetary conditions in the last quarter of 2021, responding to growing inflationary pressures by increasing the average weighted interest rate at one-week reverse repo auctions and the excess dinar liquidity of banks it withdraws through these auctions.

When the average repo rate almost equalled the reference rate, NBS began to increase key policy rate from the historical minimum of 1%.

Serbia started tightening monetary conditions a bit later compared to other countries in the region with targeted inflation regime, based on the NBS assessment that inflation in Serbia was primarily determined by cost pressures from the international environment, and that domestic demand and factors from the local labour market had no major inflationary impact.

After increasing it by 50 basis points in April, May and June, and by 25 basis points in July and August, the NBS continued with a stronger tightening of monetary conditions in the rest of the year, in order to limit the secondary effects on inflationary expectations. Taking into consideration that the inflationary pressures on the world and domestic markets are of a stronger and more permanent nature than previously expected, the key policy rate was increased by 50 basis points each following month.

Therefore, the reference rate was hiked cumulatively by 400 basis points since April to the level of 5.0% at the end of 2022. This was also necessary due to the faster normalization of the monetary policies of the FED and the ECB, which resulted in the tightening of global financial conditions, and was reflected in the lower appetite of foreign investors for portfolio investments in developing countries, including Serbia.

In accordance with the monetary policy program for 2022, the National Bank continued to intervene on the FX market in order to reduce excessive exchange rate fluctuations and limit the spill over effect of imported prices growth on domestic prices. Consequently, the exchange rate was almost unchanged for most of the year, at a level of around 117.3 dinars per euro, and its stability was also an important factor in anchoring inflationary expectations.

In the initiated cycle of monetary policy tightening, the central bank increased the key policy rate by a total of 400 basis points in 2022, which was also reflected in the rise of interest rates on dinar loans and deposits. Interest rates on dinar corporate loans were at the level of 5.9% in October 2022, which is by 270 basis points higher than in October 2021, while interest rates on new loans to households amounted to 11.6% and were by 320 basis points higher than a year ago.

Maintaining price and financial stability in the medium-term will remain monetary policy priority, so as to support economic and employment growth, strengthen the export sector and preserve a favourable investment environment.

Therefore, it is expected that the NBS will continue to carefully monitor geopolitical events and the movement of all key factors from the domestic and international environment that may have an impact on inflation, and to react in a timely manner with all available instruments in case some of the risks materialize which would result in inflation remaining above the upper limit of target tolerance band for a longer period.

Although the rising trend of inflation in Serbia is expected to stop in the coming period, inflation will continue to be high, which is why the NBS will most likely have to continue with monetary tightening in the coming months, especially taking into account the announcements of the leading central banks about additional tightening of their monetary policies.

Dinar exchange rate

National Bank of Serbia continued to implement its stable dinar policy throughout 2022, which economists assessed as adequate in conditions of high inflationary pressures.

Thanks to the high foreign exchange inflows in the second half of the year and the active interventions on the FX market, the dinar strengthened nominally by 0.2% against the euro in 2022. At the same time, the dinar depreciated against the dollar by 6% y/y at end- 2022, due to the weakening of the euro against the dollar.

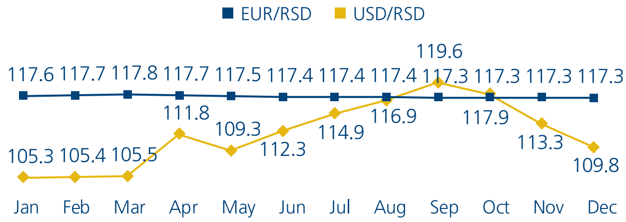
Strong depreciation pressures on dinar prevailed until April, caused by geopolitical instability, increased energy imports and a decline in portfolio investors' interest in Serbian bonds. Consequently, NBS sold a total of EUR 2.27bln on the FX market in January-April 2022. Situation stabilized during second quarter of the year and the pressures on the dinar reversed so that NBS intervened predominantly on the buy side.

Appreciation pressures on local currency prevailed in the second half of the year thanks to favorable balance of payments movements. The supply of foreign currency exceeded the demand, especially in the third quarter, as a consequence of the greater inflow of FDIs, remittances as well as the growth of euro-indexed banking sector assets.

Central bank continued to actively prevent the strengthening of the dinar, net buying almost EUR 3 billion in the FX market since May.

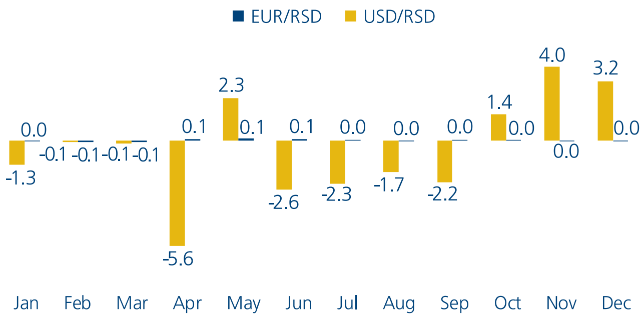
In this way, the entire amount of foreign currency sold in the first four months was compensated and the NBS bought over EUR 700mln more than it sold in annualized terms. In addition, this was the fifth in the past six years (since 2017) in which the NBS was the net FX buyer. At the end of the year, the NBS announced that during December the reserves exceeded the level of EUR 18bln for the first time, and after the withdrawal of the first tranche of the loan from the IMF, they reached the level of EUR 19.4bln.

Dinar exchange rate trend



Source: NBS

Monthly exchange rate changes (in %)



Source: NBS

With still strong inflationary pressures at the global level, maintaining a stable exchange rate of the dinar contributes to alleviating those pressures and represents a good policy of the central bank. Taking into account the high level of available NBS FX reserves, the monetary authorities have enough room to continue implementing such a policy, which will be necessary until inflation stabilizes at a low level.

Current account deficit and external debt

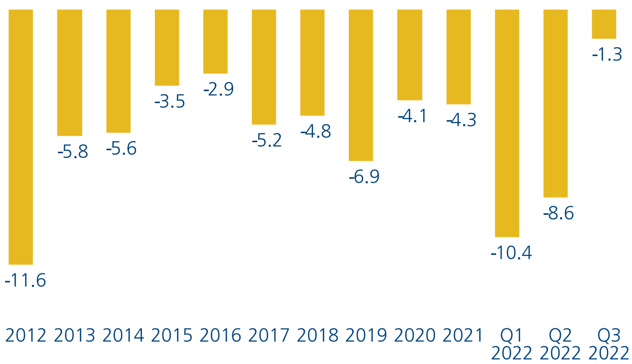
In the first ten months of 2022, the current account deficit amounted to around EUR 3bln, increasing by 87% compared to the same period last year.
The main contribution to the deterioration of the external position came from the expansion of the deficit on goods account and on primary income, while services account and remittances acted in a positive direction.

The growth of the goods deficit was primarily influenced by higher energy imports in the first two quarters, as a result of the rise in import prices but also larger imported quantities. According to NBS data, the energy imports amounted to EUR 4.7bln in the first ten months and were higher by as much as EUR 2.7bln y/y.

There was a significant improvement in the balance of payments in the third quarter of 2022, thanks to the slower growth of goods imports than in the previous period, while the current account deficit was reduced from 8.6% recorded in the second quarter to only 1.3% of GDP. NBS projects current account deficit to reach 9% of GDP in 2022. Despite record level of FDI inflow in 2022, it will not be enough to fully cover the current account deficit for the first time since 2015.

Central bank projects a high share of the current account deficit in GDP in 2023 as well, as energy prices are expected to remain elevated while energy import will also continue to be high next year. Balance of payment position is projected to gradually improve in the medium-term while current account deficit should return to the level of 5.5% before 2026 and be fully covered by FDIs.

Current account deficit (in % of GDP)



Source: NBS

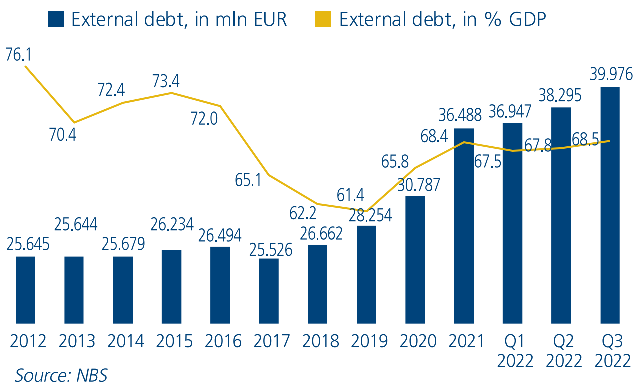
External debt of the Republic of Serbia continued to grow primarily as a consequence of high public sector borrowings. Based on the latest available data, it reached EUR 40bn in 3Q22, which is by EUR 3.5bn higher compared to end-2021. However, its share in GDP remained almost unchanged at 68.5% in 3Q 2022, standing below the threshold of severe indebtedness, according to the World Bank criteria (80% of GDP).

Growth in absolute terms was registered in both private and public sectors, in the part of long-term liabilities. Moreover, the sustainability of the current debt level is additionally supported by its favorable maturity structure, given that the bulk of the external debt stock is long term - medium and long-term external debt accounted for 84.5% of total external debt in 3Q22.

The ratio of external debt to exports of goods and services continued to decrease from 138% in 2020, to 128% in 2021 and 113.6% in 3Q22, well below the sustainability bound under the World Bank criterion (220%). Therefore, Serbia again ranks in the category of less indebted countries, given that the ratio of external debt to exports of goods and services has dropped below 132%.

IMF assessed Serbia's external debt as sustainable in the medium-term and projects it would reach 68% of GDP at end-2022, before it starts to decline, falling to a level of 61.5% in 2024.

External debt



Source: NBS

Foreign direct investment

FDI inflow reached the level of EUR 3.2bln in the first nine months of 2022 and was by 7% higher compared to the same period last year. It was particularly strong in the third and fourth quarter, while according to the preliminary NBS data FDIs reached record level of EUR 4.4bln gross in 2022 despite increased uncertainties. As in previous years, more than half of inflow has been directed into tradable sectors, most notably manufacturing - Serbia's key export sector.

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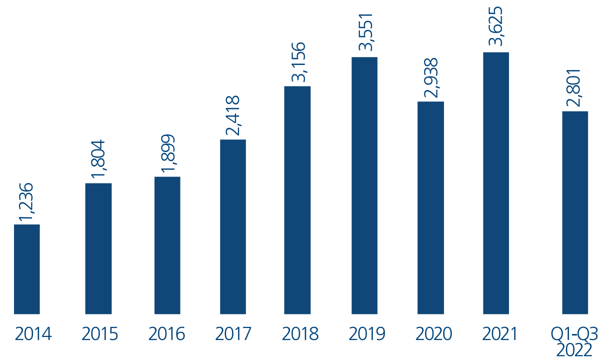
Despite the fact that highest inflow of FDI comes from EU countries, its share decreased to 50% (from 60% in 2021)while Asian countries are second most important investor with 36% share in first three quarters of 2022 compared to 23% in 2021.

Even though current account deficit was fully covered by FDIs in period 2015-2021, this cannot be expected in 2022 bearing in mind that, due to the deterioration of goods account, the current deficit is significantly higher compared to previous years.

Foreign direct investment (in EUR million)



Source: NBS

Higher inflow of foreign direct investments is not expected in 2023, primarily due to the increase in borrowing costs and economic stagnation in Europe, while its amount will probably not be sufficient to cover the current account deficit either. The National Bank of Serbia projects that the net inflow of FDI will move at the level of around 5% of GDP in in the medium term.

Foreign trade

The overall external trade recorded increasing trend during 2022, mainly driven by price growth, and to a lesser extent by an increase in the physical volume of exports and imports. It amounted to EUR 59.3bln in January - November 2022, which was an increase of 30.8% compared to the same period 2021. The export - import ratio equaled 71.9% and was lower if compared to the same period previous year when it was 76.4%.

The value of exports amounted to EUR 24.8bln (+26.4%) while the value of imports increased faster (+34.1%) reaching EUR 34.5bln, which was largely influenced by the increased import of energy products and electricity, especially in the first half of the year. This resulted in the expansion of the total trade deficit by 59%, i.e. by around EUR 3.5bln, to the level of EUR 9.6bln by the end of November.

Electrical machinery and apparatus remained the most exported product, with 11.6% share in total exports followed by metalliferous ores and metal scrap (with 7.2% share) and power-generating machinery and equipment (with 5% share). Agricultural products had considerably weaker export results than usual, affected both by a poor harvest in another dry agricultural season, and by export bans and restrictions imposed by the state in one part of the year.

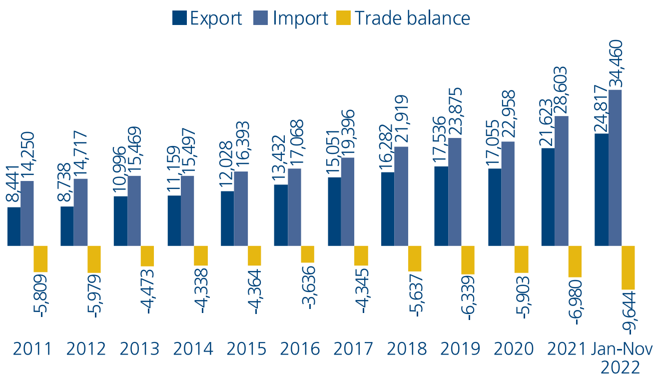
Based on the latest available data for first nine months of 2022, Serbia Zijin Mining was a top exporter, HBIS Group Serbia Iron & Steel took second place while Serbia Zijin Bor Copper was third.

NIS and Tigar Tires took fourth and fifth place, respectively, while the former largest exporter - Fiat, dropped out of the list of 15 largest Serbian exporters.

About 60% of Serbia's foreign trade was directed to the countries of the European Union, while the CEFTA countries were the second most important foreign trade partner, with which a high trade surplus was achieved (the export-import coverage ratio of 250%).

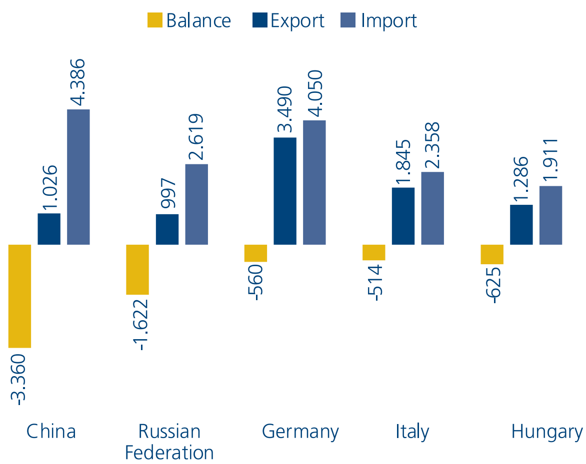
The main foreign trade partners in exports were Germany (EUR 3.49bln), Italy (EUR 1.85bln) and Bosnia and Herzegovina (EUR 1.82bln), while in imports they were China (EUR 4.4bln), Germany (EUR 4.05bln) and Russia (EUR 2.6bln).

Foreign trade (EUR million)



Source: Statistical Office of the Republic of Serbia

Foreign trade with major partners (EUR million)



Source: Statistical Office of the Republic of Serbia

Fiscal policy

During 2020 and 2021, the Government pursued a rather expansive fiscal policy while it had to make certain adjustments in 2022.

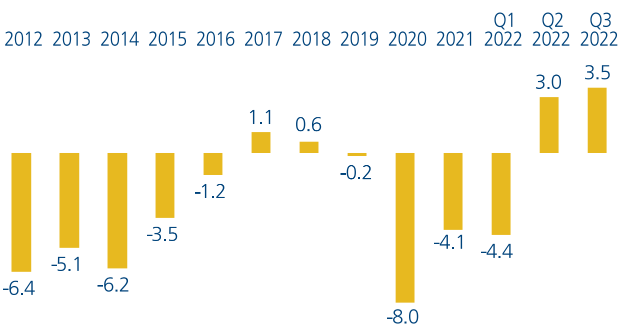
Government reported a budget surplus of 1% of GDP in January-October 2022 indicating relatively positive fiscal trends. However, large expenditures for public companies operating in the energy sector were booked as expenses in November, which until then were considered as budget loans, which is why they did not formally enter the fiscal deficit until October.

It was precisely this huge unplanned expenses for financing SOE in energy sector that led to the budget rebalancing in October, increasing the planned fiscal deficit from the original 3% to 3.9% of GDP.

The adopted budget for 2023 brings moderate improvements, but it is still burdened by the state's expenses for the energy sector. In addition, amendments to the Budget Law revised fiscal rules and the way the state reacted in case of exceeding the limits defined by those rules was specified, which was positively evaluated by experts. However, the implementation will begin in 2025, because 2023 and 2024 are treated as years in which it will be necessary to implement certain anti-crisis measures.

The fiscal deficit is planned at 3.3% of GDP in 2023, which is lower than 2022-deficit and should lead to modest decrease in public debt to GDP ratio. Losses of SOE in energy sector represent big fiscal expenditure as above half of the projected deficit result from their negative performance. If those are excluded, the Fiscal Council assessed that revenues and expenditures are balanced to the greatest extent and that the adopted budget is credible and cautiously planned. The budget envisages an average increase in public sector wages by around 12.5%, rise in pensions by 9%, and that high level of allocation for public capital investments is maintained at the level of around 7% of GDP. The Fiscal Council positively assessed the continuation of the gradual relief of contributions and labour taxes.

Consolidated budget deficit (in % of GDP)



Source: NBS

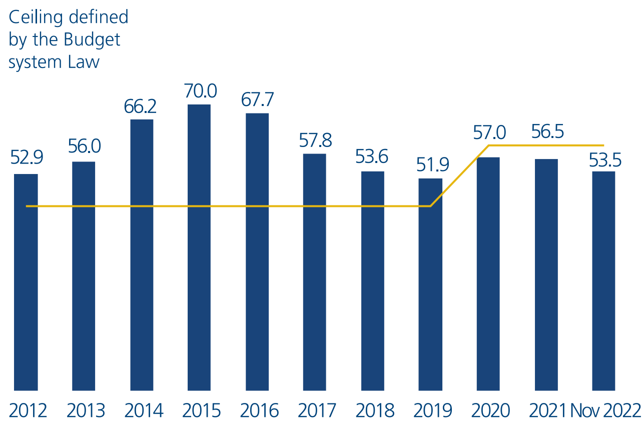
Public debt amounted to EUR 32.3bln in November 2022 while its share in projected GDP reached 53.5%. The major share of public debt was in foreign currency (EUR 49.6%, USD 13.2%) while 25% of public debt was denominated in RSD.

The currency structure has been significantly improved during the last five years, since the share of the dollar part of the debt has significantly decreased, while the debt in local currency has increased, so the public debt of the Republic of Serbia is less sensitive to changes in exchange rates compared to the period a few years ago.

Since the beginning of the year, the public debt has increased by around EUR 2.2bln, mostly due to the aid payments to public companies, as well as the financing of liabilities due in the following period.

Since the financing conditions on the world financial markets have worsened, the state secured part of the necessary financial resources through more favorable credit arrangements with foreign governments and international financial institutions, including a new arrangement with the IMF worth EUR 2.4 billion, which increases the chances for conducting a sustainable fiscal policy and at the same time represents a positive signal to potential investors in Serbian bonds

Public debt (in % of GDP)



Source: Public Debt Administration

According to Ministry of Finance projections, the public debt should reach the level of 56.9% of GDP at end-2022. The fiscal deficit of 3.3% of GDP planned by the adopted 2023 Budget should allow the public debt (as a % of GDP) to return to downward trajectory, and reach the level of 56.1% by the end of 2023..

Banking sector

As of September, the Serbian banking sector comprised of 22 banks. Compared to the previous year, the number of banks decreased by 1, which implies continued trend of banking sector consolidation.

In April 2021, consolidation of OTP and Vojvođanska banka was completed, after which banks operated under the same name of OTP banka. Merger of Poštanska štedionica and MTS bank has been approved in April and finalized in July 2021. In December 2021, integration of Eurobank and Direktna was completed forming Eurobank Direktna. Trend of consolidation continued in 2022. First merger occurred in April 2022, when NLB bank and Komercijalna bank formed NLB Komercijalna bank. AIK bank and Naša AIK bank (former Sberbank) began integration process which is expected to be completed in 2023. In addition, Raiffeisen bank and Credit Agricole also opened the integration process, which shall be completed in Q2 2023. All mentioned events implicate that consolidation of banking sector will be continued in next period.

Total assets of the banking sector increased by 5.1% since the beginning of the year. At the end of third quarter, total assets reached RSD 5.3 billion (EUR 45.2 billion).

National Bank of Serbia increased key policy rate for 4.0 p.p. compared to the beginning of the year thus reaching the level of 5.0% at the end of 2022. Such increase is associated with increase of EURIBOR and overall economic crisis.

Despite significant growth of reference rate, placements and deposits increased. Total customer loans increased by 11.8% y/y, reaching RSD 3.1 billion (EUR 26.8 billion) at the end of the third quarter of 2022.

Corporate loans reached RSD 1,633 billion at the end of the third quarter, increasing by 13.7% y/y. Corporate loans growth is mainly driven by working capital loans and investment loans.

Observed by industry, placements to the processing industry, agriculture and trading industry were the main driver of loan growth.

As of September, loans to individuals increased by 7.6% on the annual level, reaching RSD 1,447 billion. Although the highest contribution to growth comes from mortgages, which comprise 40% of individual loans, personal loans still holds the highest share (44%).

There is noticeable slowdown of dinarisation trend in 2022. Share of dinar loans in total placements to companies and individuals decreased by 2.5 pp since the beginning of the year, to the level of 35.8% in September. In the corporate sector, the level of Dinarisation amounted to 20.5%, while placements in local currency to households decreased to 53.8%.
Deposit base reached RSD 3,719 billion (EUR 31.7 billion) at the end of September 2022, recording annual growth of 7.9%. Deposit volumes increased in both households and corporate segments.

In 2022, NPL ratio recorded the lowest level ever, 3.19% in September. In corporate segment, NPL ratio stood at 2.2%, while in household sector NPL ratio reached 4.2%.

At the end of third quarter, 21 banks recorded positive result. Total net income before tax reached RSD 58.3 billion, which is RSD 16.8 billion (40.6%) above the same period last year. Regarding provision expenses, the banking sector noted increase of RSD 3.0 billion or 3.6% y/y, despite that, significant growth of operating income on a yearly level resulted in such increase of net profit before income taxes.

Operating margin for banking sector is 39.8% higher in September 2022, than the same period prior year, reaching the level of RSD 69.8 billion.

The main reason for higher operating margin is operating income (RSD 165.2 billion), which is higher by 16.2% or RSD 23.0 billion in the absolute amount compared to the same period prior year. Higher operating income is result of higher net interest income (RSD +12.9 billion), higher net fee and commission income (RSD +20.5 billion) and lower profit from trading and other operating income (RSD -10.4 billion). Operating costs noted increase of 3.4% or RSD 3.2 billion absolute compared to September previous year, reaching RSD 95.4 billion. The main reason are higher personnel expenses (RSD +2.4 billion) and depreciation (RSD +1.1 billion) while other administrative expenses decreased by 0.7% or RSD 0.3 billion absolute.

As of September 2022, return on assets (ROA) was higher by 0.3 pp compared to the same period last year, standing at the 1.5%. At the same time, return on equity (ROE) increased by 3.2 pp y-o-y, reaching 10.9%.

The capital base of the banking sector amounted to RSD 713 billion at the end of third quarter 2022. Compared to the beginning of the year, capital decreased by 0.9%. At the end of the third quarter, the capital adequacy ratio of the banking sector amounted to 19.5%, well above the regulatory threshold.

At the end of September, the loan-to-deposit ratio reached 84.5%, while share of liquid assets in total assets equalled to 35.0%, thus confirming the liquidity of the banking sector.

In 2022, Banca Intesa has strengthened its leading position with the leading position in market share in all key indicators. At the end of the third quarter, Banca Intesa recorded the highest market share in total assets (15.0%), customer deposits (15.7%) and capital (14.8%), while being second ranked regarding customer loans (15.9%). Furthermore, the Bank has a leading position in payment card and payment operations, with a growing client base of almost 1.35 million clients as of October 2022. The Bank has a widespread network with 147 branches, strongly supported by the largest network of ATMs and POS terminals in the market.

Highlights of the Bank's Strategy and Planned Development

Highlights of the Bank's Strategy and Planned Development

The Bank aims to strengthen the leading position in the Serbian banking sector, by providing solid and sustainable value creation and distribution, while remaining dedicated to active support to the economic development of Serbia.

In the period 2022-2025 strategic objectives of the Bank should enable stronger market position through further reinforcement of digitalization in order to grow penetration and client base, building up on revenue growth increasing contribution from commission margin and capturing new business opportunities, while simultaneously being dedicated to strengthen credit machine, as well promoting people re-skilling and strengthen ESG positioning.

Accomplishment of the Bank's objectives is summarized through following six initiatives:

I Increasing revenues in a very competitive environment while improving fee based contribution

The Bank will focus on increase contribution from commission margin, leveraging on the market penetration potential, while at the same time expanding lending activity and building portfolio quality. Main enablers for such approach are defined through following strategic guidelines: Bancassurance and Wealth Management, Enhance collaboration with ISP group product factories, Expanding product offering to capture opportunities offered by new trends, Ancillary/additional services propositions and Change in management programs/trainings.

II Accelerate digitalization for innovation and growth

Exploitation of the full potential of the digitalization is foreseen as one of the key drivers of the value creation and revenue growth in following years. By embracing digitalization, the Bank intends to provide enhanced customer services, providing convenience to customers along with time savings. Namely, digital transformation will be accelerated through following strategic guidelines: Retail digitalization, Digital product offer for new client segments, Digital customer's enhancement and Physical and digital value/product integration.

III Grow business value in lending

Main enablers for grow business value in lending are defined through following strategic guidelines: Current lending product offer integration, Add value on lending business by improvement of penetration and volumes, Price optimization, Cost benefit profiles optimization, Mitigation of existing exposure for riskier industries/sectors and Development of products according to ESG.

IV Strengthen credit machine

In the coming period the Bank will continue on the path of improving credit quality through proactive credit portfolio management and development of actions plans to monitor credit quality. Strategic guidelines that should strengthen credit machine are listed as follows: Credit management process, Improvement of PCM processes and NPL management, Internal process development and People skills improvement and introduction of IT tools.

V Promote people re-skilling

In order to improve people skills the Bank will realize activities aimed at boosting skills in Retail business to support further digitalization (e.g. remote advisory), development of wealth management and insurance businesses, activities focused on development of the skills in the areas of e-commerce platforms and data-monetization (additional revenue streams), transformative activities aimed at supporting Corporate business in introducing ESG, Circular Economy products and services and support in development and implementation of new products, markets, derivatives. Furthermore, in order to support the new and agile way of working the Bank will upgrade managerial capabilities through development programs. Also, transformative initiatives will be aimed at spreading the culture of hybrid and agile working, strengthening the culture and practices of task oriented performance management.

VI Strengthening ESG positioning

In the previous period the Bank established local ESG governance (Deputy CEO as the ESG Manager) and form the ESG team by identifying the structures and roles responsible for the implementation of the framework. The Bank will focus on the proper integration of the ESG culture into the corporate DNA through developing and implementing of Training and Internal Communication campaigns and by the introduction of the ESG-compliant HR practices. Moreover, the Bank will integrate ESG rules into business and credit processes, predefined list of ESG green and red industries/products/clients and list of non-acceptable industries/products and clients and additionally organize workshops in order to share specific cases among ISP group and subsidiaries in the aim of sharing best practice on the ESG. Furthermore, the Bank will review processes/ product offerings in line with recent developments in the ESG field for both Retail and Corporate businesses.

Retail Banking

Retail Banking

Individuals

- New production in 2022 reached record levels regarding personal loans to individuals due to the expansion and perfecting of the AGDM project and the service model that makes personal banking services increasingly available, leading in result to better utilization of the Bank's internal potential.
- Local partnership in the field of bancassurance signed with the Generali insurance company, with primary aim of improving bancassurance culture and providing the high quality insurance products to Banca Intesa clients.
- Implementation of ESG initiatives in accordance with the Group's strategic commitment, directly contributing to the improvement of both environmental protection and the living conditions of clients from sensitive social categories.
- Successful completion of the migration to the Digical application from the previous Intesa Mobi and Intesa Online services. Increased sales of personal loans on digital channels by 74% compared to the previous year as a result of introducing the option to apply for cash loans through the Digical application.

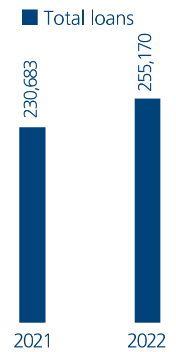
In the past year, in which unforeseen circumstances continued to shape the new reality of business in which flexibility is imperative, our Bank has once again shown excellent readiness for change in order to meet customer needs as adequately as possible with a high level of personalization. In order for this challenging task to be successfully completed, continuous investment has been made in improving the competencies and skills of the Bank's employees, but also in developing and increasing the quality of services on both physical and digital sales channels. Special focus has been placed on eBanking through further expansion of the Digical project and the implementation of new functionalities. The trust that clients have put into this manner of doing business, is reflected in the organic growth of the base of active clients with a payment account of 1.16% year-on-year (YoY).

During 2022, despite the challenging macroeconomic implications, the Bank has significantly improved the offer of innovative products meeting a wider range of sophisticated financial needs of clients, while maintaining the stability of all relevant business indicators and increasing market shares in all key products intended for individuals.

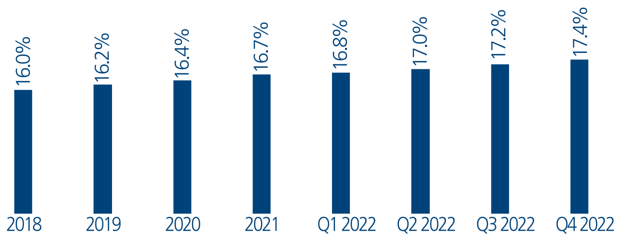
By maintaining stability in all business segments, Banca Intesa managed to successfully respond to the challenges of the dynamic market and confirm its leadership position in the past year, marked by general uncertainty due to the effects of the global crisis. Through numerous novelties and improvements that are focused on customer satisfaction, as well as the transparent communication of both price and non-price elements, cash loan placement of 419.2 million euros (49.2 billion dinars) was achieved. These business results contributed to increasing the Bank's market share in cash loans to 13.4% with an increase in the number of customers with cash loans in use of 4.0% year-on-year (YoY).

In order to improve customer satisfaction, user experience and consequently further sales increase, a new process for applying and disbursing mortgage loans had been continuously improved in the previous period. These activities have resulted in the fact that Banca Intesa became the first choice in this market for a large number of clients. The trust of clients is reflected in the achieved stable production, which in 2022 reached 233.5 million euros (27.4 billion dinars) despite the stagnation of the real estate market compared to the previous year due to macroeconomic challenges. In addition, the trend of growth in the market share of mortgage loan balances continued, from 21.7% in December 2021 to 22.1% in November 2022. Consequently, there was a 7.8% increase in the number of clients with mortgage loans compared to the previous year. The perennial growth of active retail banking products placed to individuals indicates several conclusions: clients appreciate the high level of service accompanied by the Bank's business policy that is sincerely focused on their specific and real needs, as well as the positive effect of transparency in every aspect of business has on the increase in clients' trust in doing business with our institution.

Loans to individuals (in RSD million)



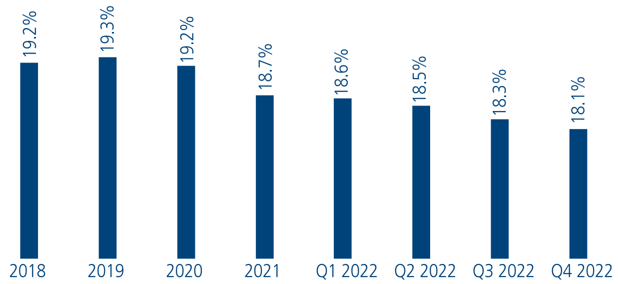
Market share in loans to individuals



As a result of the geopolitical crisis in the first quarter of 2022, total retail deposits decrease by 1.7% (6.5 bilion RSD). Total retail deposits at the end of the year amounted to 373.7 billion dinars, which is a Bank market share of 18.1%. On the other hand, 11.1 billion RSD was invested in investment funds through the course of 2022 via the distribution of the Bank in the Private Individual segment.

Deposits of individuals (in RSD million)

Market share in deposits of individuals



The slight decline in the market share of individual deposits compared to the previous period was accompanied by the further increase in clients' interest in investing the excess of liquid assets in one of the funds managed by Intesa Invest. After only 4 years of operating, the assets under the management of Intesa Invest reached 180.88 million EUR with a market share of over 33% with some further growth trend in the period ahead, and in addition to very turbulent movements in the markets due to the well-known development of geopolitical events during 2022, which indicates that, with support of the Parent Bank and cooperation with Eurizon, one of the largest asset management companies in Europe, and perceived as an extremely safe place for all types of savings as well as available investments for all our clients. During 2022, there were no new products because the focus was on educating clients through various campaigns and organized events, but with the further expected development of this part of the business, in 2023 we can expect news regarding new products of Intesa Invest, which we will as a Bank introduce into our distribution.

At the end of 2022, assets under the management of Intesa Invest collected in the Private Individual segment amounted to 133.52 million euros, which represents a growth of 20% compared to December of the previous year.

Further improvement and expansion of the Bank's financial products offer is a fundamental prerequisite for an adequate response to the growing market demands and differentiated client needs.

On the other hand, the growth of interest rates in the second half of 2022, and especially in the last quarter of 2022, and our adequate response to diversified client needs, confirmed the fact that Banka Intesa is perceived as a very safe bank with a significant increase in total Private Individuals deposits and funds in general, which is confirmed by the final balances of Private Individuals' deposits at the end of December 2022.

During Q1 2022, the growth of geopolitical uncertainty and unforeseen events created a greater need for additional security and protection, which resulted in greater importance of bancassurance as a business segment of our Bank.

Banca Intesa takes a very responsible approach to the insurance segment by providing various opportunities to protect the increasingly diversified needs of its our clients, whether it is the need to protect family, health, property, credit protection insurance etc. Throughout the year, we have been actively working on raising awareness of the importance of insurance, on the one hand, and improving existing products and processes on the other, all with the aim of providing complete protection to our clients. This is supported by the fact that in October 2022 we entered into a local partnership with the Generali insurance company, which aims to provide a comprehensive offer of the high quality financial solutions.

We can also recognize the awareness of the importance of insurance through the increased implementation of concluded insurance policies in the course of 2022. The most significant growth is recorded in the segment of Risk life insurance and Credit protection insurance, where we recorded growth from 20% to 50% for certain insurance products.

Also, constant education of employees in the network is a continuous process of Banca Intesa, which will be continued in the coming period and aims to provide clients with unified services through multiple channels - from loans to insurance, from savings to investments, from health to pensions.

ESG initiatives

In the middle of last year, the ISBD division adopted the Strategy for the integration of the ESG (Environment, Social and Governance) platform in all member banks, as a new paradigm of the Group's development based entirely on the principles of sustainable business.

A wide range of ESG topics related to social responsibility and Banks' commitment to sustainable economic activities, from an environmental, social and managerial point of view, as well as the management of internal processes and customer relations, is concretized by Banca Intesa through projects of responsible and sustainable business based under the auspices of the concept of the Circle of Sustainable Ideas and in accordance with the strategic determination of the Group.

Within the Retail Sector, several ESG initiatives were implemented in 2022 that directly contribute to the improvement of both environmental protection and the living conditions of sensitive social categories:

- **Loans for improvement of energy efficiency:** in mid-November, a new lending product was introduced as a result of cooperation with the EBRD (GEFF credit line for "green" financing in the amount of EUR 5 million). Loans for the improvement of EE are intended for investments in the installation of insulation, installation of new windows, doors, heat pumps, solar water heaters, biomass or gas boilers, replacement of lighting, as well as the application of other energy-efficient solutions for households.
- **Green housing loans:** in March 2022, a special offer of housing loans for the purchase of properties with energy passports A and B was presented, which became a separate loan product during December, the Intesa Casa Green Housing Loan. The introduction of this housing loan model significantly raises citizens' awareness of the importance of energy efficiency in residential buildings and reduces energy consumption.
- **Subsidized housing loans for mothers:** in support of the state program of subsidizing the purchase or construction of residential real estate for mothers of children born after January 1, 2022, provided that they acquire residential real estate for the first time in the territory of the Republic of Serbia, from September 2022, Banca Intesa offers a modified housing loan with a pronounced S component (Social, Affordable Housing), adapted to this target group.
- **Mamma@work:** one of the most important ESG goals of the Group is the economic empowerment and financial inclusion of women, especially those from socially sensitive groups. Accordingly, and on the occasion of the International Day against Violence Against Women (November 25, 2022), Banca Intesa presented a special offer for a payment account overdraft with beneficial commercial conditions for all mothers - clients who have regular monthly incomes based on earnings through a payment account at Banca Intesa, employed for an indefinite or fixed period of time, and who have children aged up to 36 months - in order to provide economic support to mothers in the most sensitive period of upbringing of young children.

At the end of the year, two more initiatives with a pronounced social component (Social, Affordable basic Medical and Educational Services) were launched, and are to be realized at the beginning of the following year. They refer to the establishment of business cooperation with medical and educational institutions in order to enable affordable consumer loans with the purpose of lending to health service and tuition fees for MBA studies.

Digital channels and e-services

Business with payment cards

In 2022, Banca Intesa maintained its leading position in the card business segment, with a market share of 20% in the number of payment cards issued, 22% in the number of POS terminals, 73% in the number of internet POS terminals and 25% in the total number of payments made transactions in the country and abroad. Considering the realized volumes, Banca Intesa has a 32% market share in the part of POS traffic, while in the part of internet traffic it has over 90% market share.

The number of transactions made with Banca Intesa payment cards was also on the rise in 2022, achieving an annual growth of 16%, while the total turnover due to the relaxation of the COVID-19 measures increased by 23%, and in particular the turnover of payment cards abroad increased by 70 %. The turnover with Banca Intesa payment cards carried out outside the bank's acceptance network increased by 30%, and the number of transactions by 13% compared to 2021.

As for transactions on the bank's POS terminals, including Internet POS terminals, their number increased by 27%, while the volume of turnover increased by 33% compared to the previous year. In addition, Banca Intesa continued to improve its reception network, constantly expanding the number of new users. During the year, it was possible to accept Union Pay International cards in the bank's acceptance network.

As part of the New POS ecosystem project, the implementation of modern models of acceptance devices based on the Android operating system (Android POS and SoftPOS) has been completed, which provide merchants with the opportunity to accept multiple payment instruments on one device and use other business applications. The internal SoftPOS contracting process has been improved and the process of implementing the same process for POS services and Ecommerce services started.

The bank also continued to expand sales points where installment credit card sales are enabled, which is now enabled at over 10,000 points. The turnover volume for credit card installment transactions maintained a high percentage of participation in the total turnover at the bank's POS terminals of 29%.

In 2022, activities were continued with the aim of increasing spending with payment cards on the Internet and expanding the network of e-commerce merchants, which resulted in a doubling of the Bank's turnover in the e-commerce network, compared to the previous year.

In addition, in cooperation with merchants, activities aimed at providing significant discounts and benefits to Banca Intesa payment card users continued.

Customer activity on digital channels

The Digical application, a new Mobi and Online application, is available to clients from May 2021. During 2022, the focus was on the process of migrating clients from existing applications to the new solution. The migration process was organized in five waves, through numerous campaigns that targeted clients in accordance with the model of client behavior on digital channels, i.e. depending on the digital maturity of clients (digital maturity is defined based on the type and frequency of client activity on digital channels). The client migration process was successfully completed on October 18 2022 since the old Intesa Mobi and Intesa Online applications are no longer available to clients.

Since the beginning of using the service, the total number of clients who contracted the digital banking service until December 2022 is 510,048 clients, of which 189,000 are new clients, while the number of clients who switched from the old to the new solution is 303,169. For clients who exclusively used the old Intesa Online application and were not migrated, 17,880 of them, the possibility of using this application was left until the end of 2023. Migration success rate 77% of the total planned number of clients for migration, which is an outstanding success. The introduction of the possibility to submit applications for cash loans and allowed overdrafts also via the mobile application led to an increase in the sale of cash loans on digital channels in 2022 by 74% compared to the previous year. In total sales of cash loans, digital channels account for 21%, which is 8pp more than in 2021.

The sale of permitted overdrafts on digital channels has grown by 23% in the current year compared to the previous year and participates with 14% in the total sale of permitted overdrafts, which is 5pp more than the previous year.

From 2021, clients were given the option to contract an insurance policy against the inability to repay the loan through the process of submitting a loan application through mobile and electronic banking applications. Compared to the previous year, the increase of the number of CPI products placed on digital banking is more than 15 times, and the number is 774, which is 4% of total sales at the level of total sales.

During 2022, individuals made 21 million transactions on digital channels, which is 5% more than the previous year.

Digital Branch application

Within the DigiCal ABC platform, educational modules have been expanded for both the Magnifica and Affluent segments, which enable application users to easily and simply, in one place, have access to relevant information that they use in their work.

Consent ID - Banca Intesa, the registration authority of the Office for eGovernment

In November 2022, Banca Intesa AD Beograd became the registration authority of the Office for Information Technologies and Electronic Administration, which is the official certification authority in the Republic of Serbia for issuing qualified electronic signatures, with which the bank started providing the following services to individuals:

- Registering an eCitizen account, i.e. issuance of the "My EID" tool, which is a means of electronic identification of a basic level of reliability with the use of a username and password on the eGovernment portal.
- Issuance of parameters for the Consent ID application i.e. issuing parameters for the use of the application, which can further authorize various services.
- Educating clients on how, with the help of the Consent ID application, to issue a Qualified electronic certificate in the cloud, which is a tool of the highest level of reliability and represents a digital replacement for a physical signature. The Bank will implement this type of signature in its processes in the next steps of digitization.

Services are provided at 49 locations, in all regional centers.

Public Portal

During 2022, the focus of the activities on the Bank's website was aimed partly at the improvement of the site's content, and partly at the development of new functionalities.

The improvement of the site content is based on the results of the analysis of visitor of interest in the content, especially in the presentation of strategic products and services, is determined. The content is adapted to the behavior of the visitors, and on all important page buttons are placed for generating leads in order to achieve the sale of the Bank's products and services.

The total number of leads collected from loan calculators in 2022 via the Bank's website is 6,500 leads (25% more than in 2021), of which 90% refer to client leads and 10% to prospect leads.

Leads are collected from calculators for cash loans, auto loans and home loans. In total, 1,844 opportunities were realized, i.e. 7.3 million euros (for 3.2 million euros more than in 20221), of which 5.9 million euros refer to cash loans, 981 thousand euros to housing loans and 448 thousand euros to car loans. During the year, continuous efforts were made to improve the bank's SEO rating, which in December 2022 is 71%.

The most important improvements on the bank's website relate to the introduction of the functionality LIst of trading places where clients can pay in installments with the bank's payment cards. The functionality includes a list of stores that the client can search by additional filters, such as store name, place, address, product category and payment card type. Also, the loan product calculator for mobile devices has been completely redesigned, where, unlike the desktop view, the calculator is now displayed through a "screen-by-screen" step process.

During 2022, a large part of the activities related to the definition, development and testing of the process of introducing requests for housing loans through the Bank's website, with the ultimate goal of enabling clients to come to the Bank's branch only once in the process of realizing housing loans. It is planned the new process to be available to the Bank’s clients and prospects on the website in the first quarter of 2023.

Cash in/Cash out

By introducing the functionality for depositing and withdrawing euros at ATMs in 2021, we have taken another significant step in the migration of "low value" transactions from branches to self-service devices. By introducing this option, we enabled, on the one hand, a simpler process for clients, and on the other hand, additional time of branch colleagues was freed up for sales activities.

In 2022, 788,929 payment transactions were made in RSD in the total amount of RSD 24,686,381,920, as well as 135,178 payment transactions in EUR in the total amount of 106,252,255 euros. When it comes to euro payment transactions, 177,117 transactions with a total value of 78,077,730 euros were recorded.

Smart Notification Engine (SNE)

In 2022, through the implementation of the second phase of the SNE project, which included migration of sending, improvement of notifications and process optimization, the following notifications were improved:

- Statement of payments (current and dinar) and foreign currency accounts of individuals
- Statement for credit cards of individuals
- Statements for credit cards of legal entities

The sending of the mentioned notifications via the SNE system was provided for a limited number of users through a pilot at the end of 2022, while full production is expected at the beginning of 2023.

Through the project, the layout of statements for accounts and cards was redesigned, which enables the sending of personalized marketing and sales messages for each type of account and card. The process of sending notifications has been optimized, which will lead to a significant reduction in delivery costs, especially for legal entities, where the delivery of credit card statements to the post office will be canceled for customers who receive notifications by email, which is as much as 87% of customers who have Business credit cards.

Significant improvements to internal processes have been made, which additionally affects the efficiency of the entire process of creating, verifying and sending statements. The time required to deliver statements to clients has been shortened several times, so instead of the previous few days, one day will be enough to send over a million messages.

Activity of clients - legal entities on digital channels

The activity of legal entities on digital channels continues with the growth trend in 2022:

- Total number of contracted users: 82,853, 9% more than at the end of last year
- Number of clients with login, active clients: 58,695, 12% more than in 2021
- Number of customers with transactions: 50,882, 12% more than last year
- The total number of payments made on digital platforms in 2022 was 27,713,264, while the volume of digital transactions was 53.98 billion euros. Digital channels account for 91% in the number and 97% in the volume of completed orders.

In 2022, work began on the implementation of the new End2End process on the BizMobi application, i.e. digital sales of credit products without the need to come to the Bank, in the first place for clients from the Small Business segment (entrepreneurs and flat tax payers). Production of the new process is planned for the beginning of 2023.

Other promotions
In the following period, a spectrum of improvements related to the introduction of new functionalities and the improvement of the user experience is planned for digital channels for individuals.

For legal entities, the focus is on further expanding the functionality of the BizMobi application through the introduction of foreign currency payments, as well as enabling better interaction with the client through campaigns and the product catalog.

During 2022, the introduction of Banca Intesa Soft POS application began, which provides the possibility to turn a mobile device (mobile phone or tablet) into a POS terminal. It is planned this application to be available to clients at the beginning of 2023, which will allow the Bank to offer its clients a unique solution that allows merchants to use one application for accepting payment cards and IPS payments. It is an innovative solution, the pilot production of which began in December 2022, and which will contribute to maintaining the existing leadership position on the market, especially taking into account the entry into force of the new fiscal regulation that opens up space for new competitors to enter the market.

Business network
Business network improvement continued in 2022 through continued implementation of the AGDM (Adopting Group Distribution Model) standards, but also through maintained focus and structured approach to client migration to digital channels for most frequent (supported) transactions. In parallel, expansion of multifunctional device (ATM) network with RSD and EUR cash in/cash out functionality for individual clients continued. Since the beginning of the project, >40 branches have been fully aligned with modern trends in banking sector, while more than 80 were partially adapted to secure better client and employee experience.

New service model is implemented in 92 branches, covering 63% of the total number of branches in the network and more than 80% of Banca Intesa's network net operating margin, with 165 employees in the role of Upper Mass advisors serving above 140,000 clients. Employees in branches where the new service model is rolled out continuing to fully accept the AGDM related changes and, like before, recognise benefits for clients, but also for their own work efficiency, as well as carrier opportunities.

Further implementation of ATS devices for depositing cash of legal entities continued, resulting in an ATS network of 93 devices. So far, 61.8% of total value of legal entities' deposits is placed through these machines on total network level, while in ATS enabled branches this share is 78.5%.

Banca Intesa has successfully enlarged number of multifunctional cash in enabled ATMs. At the end of 2022, the ATM network counts 379 devices, of which 123 external and 256 within Banca Intesa branches, out of which 96 cash in enabled.

Contact Centre has been additionally reinforced and re-structured as final step towards becoming preferred touchpoint for Banca Intesa clients in bank omnichannel environment, for both service and advisory.

Small business and registered agricultural households

- The leading creditor of the domestic economy
- Business support in difficult business conditions
- Continuation and development of cooperation with renowned financial institutions

Economic activity during 2022 was marked by difficult business conditions. On the one hand, at the beginning of the year, the economy began to recover with modest but stable steps from the consequences of the imbalance caused by the global pandemic of COVID 19. Soon, the new global economic disruption due to the crisis in Ukraine had a strong impact on all economic entities.

Throughout 2022, the entire economy was influenced by the unstable and constantly growing price of energy, rising prices and shortages of raw materials, which affected the price growth of final products, which was not accompanied by a proportional increase in the purchasing power of the economy and the population. Also, inflation, tightening of monetary policy, and disruption of global supply chains can be singled out as additional challenges that marked business horizon in 2022.

Under the mentioned conditions, the existence of stable and reliable financial and advisory support proved to be one of the extremely important factors for the business of micro, small and medium enterprises in particular. Banca Intesa stood out as a financial institution that provided valuable support to the economy during a year full of challenges.

Small Business Segment
The constant leadership position of Banca Intesa in the domain of cooperation with companies belonging to the small business segment was also confirmed during 2022. The market share of 21.08% in the cluster of entrepreneurs, and 12.61% in the area of agriculture indicate a stable position as a market leader and a leading creditor of the domestic economy.
During 2022, the Bank supported clients from the

small business and agriculture segment with 301 mln EUR placements. Thanks to such intensive activity, the portfolio reached the state of 408 mln EUR, which represents an increase of 5.5% in volume compared to assets in 2021.

Stable support, a wide range of available products and services, an innovative approach and the imperative of constant improvent of the service model led to the fact that 118 thousand clients of legal entities and entrepreneurs from the small business segment have shown their trust in Banca Intesa. Of the mentioned number, 18 thousand are credit clients. As far as cooperation with registered agricultural farms is concerned, to Banca Intesa 68 thousand clients gave their trust, of whom 6.5 thousand are loan beneficiaries.

With the aim of providing adequate support to the economy in a challenging business environment, the state and the financial sector (commercial banks) acted jointly, primarily by providing access to more favorable sources of financing, as well as through the process of relaxing and reprogramming existing obligations.

Banca Intesa achieved leading participation in the program - the Stte Guarantee Scheme during 2022 (as a measure to support the economy, with the aim of increasing the liquidity of economic entities). In the cluster of entrepreneurs and micro-enterprises, Banca Intesa achieved a share of 25 % in the number of loans and 23% in volume.

During 2022, the Bank continued cooperation with prestigious financial institutions. Thanks to this cooperation, credit products characterized by an attractive interest rate, extended repayment terms and relaxed conditions regarding the required collateral are made available to our economy. Some of the most significant projects created in this type of cooperation are:

- credit products intended both for the financing of working capital (COSME program) and for investment in long-term innovative business projects (InnovFin) developed in cooperation with the EIF (European Investment Fund). Under the auspices of the mentioned products, the Bank placed 2,972 products in the small business segment in 2022 in a total volume of 85 mln EUR
- in cooperation with the European Bank for Reconstruction and Development, work on financial support and empoverment of businesswomen continued. In October 2015, Banca Intesa, as the first bank on the Serbian banking market, joined the program of the European Bank for Reconstruction and Development (EBRD) "Women in Business of the Western Balkans", which aims to provide support to small and medium-sized enterprises managed by women primarily through easier access to funding sources, knowledge and non-financial services. By December 2022, Banca Intesa has utilized EUR 27.5 million through 5 credit lines of the European Bank for Reconstruction and Development within the framework of the aforementioned Program. Thanks to these funds, the Bank was able to support over 3,000 business ideas through over EUR 33 million of placements approved to micro and small comanies owned and/or managed by women.

The new economic reality has again put deposits in the focus of both the population and the economy. During 2022, deposits in the small business segment reached the level of 702 mln EUR, which represents a growth of 7% compared to the previous year.

Investing in investment funds (as an alternative to deposits) has been an extremely interesting investment option for years thanks to the exceptional team of Intesa Invest professionals oriented towards investments with stable income. The balance of the fund at the end of 2022 recorded a level of 34 mln EUR, which represents an increase of 15% compared to 2021. At Banca Intesa, clients also have the option of selling leasing products. During 2022, a small business recorded a record realization of leasing placement in the amount of 7 mln EUR through 262 leasing products.

Registered Agricultural Households

In the segment of cooperation with registered agricultural householdings, signs of an impending recession were already felt at the beginning of 2022. The strongest impact came, on the one hand, the drop in income due to the reduced export of agricultural products and goods, and on the other hand, the significantly higher increase in production costs caused by the increase in prices agricultural products on the world market, primarily the prices of mineral fertilizers and energy sources. Total investments in agricultural production at the beginning of the season were a third more expensive than the previous year.

High temperatures and drought during the summer period caused even greater problems in business through a direct impact on the reduction of yields and the quality of finished products, thus additionally affecting the overall decline in agricultural production.

In 2022, Banca Intesa achieved a market share of 12.61% in the agriculural segment, thus additionally strengthening its position among the leading leading banks in this part of the market as well.

In 2022, the activity of business entities in the agricultural segment reached a record of EUR 60.86

million, while the total number of loaned clients reached the level of 5.5 thousand disbursed loans. The loan portfolio recorded a growth of 15% compared to 2021, reaching a new amount of EUR 86.4 mln EUR.

The state has introduced several measures aimed at stabilizing the economy shaken by the recession and the war in Ukraine, of which the most important measure in the agricultural sector is the possibility of activating a moratorium on the repayment of all credit obligations in order to postpone the payment of credit obligations on agricultural loans and thereby enable the continuation of regular business through investments for the start of the new agrotechnical season in 2023.

Banca Intesa additionally strengthened its position among the leading financial institutions in the field of cooperation with registered agricultural farms. During 2021, more innovative products and processes were introduced in this segment, so that in 2022, the effects of this were more than recognized and brought exceptional results.

Formation of 3 new Intesa Farmer Centers (4 in total)

With a different organization and specialization of officials, a management model was obtained that justified its existence already in the first year. The business results at the end of 2022 absolutely confirm this.

EaSI Farmer Invest loans

Already in the first calendar year of the realization of this investment loan, the positive effect on the improvement of the maturity structure of the agro portfolio and the additional stabilization of the quality of the portfolio is visible. During the year 2022, over 6 mln euros of loans and a total of 413 loan placements were placed through the mentioned program.

DFC loans

It is a special guarantee program of investment loans in cooperation with the American International Development Finance Corporation (DFC) with an additional focus on underdeveloped municipalities and start-up loans. During 2022, the largest part of the funds from this program was placed (out of 15 mil EUR approved) , and in September a new contract was signed, which this time includes the small business segment with a significantly larger budget compared to the initial one.

Subsidized lending program in cooperation with the Ministry of Agriculture, Forestry and Water Management

This program traditionally occupies a very important place in the Bank's offer for this segment group of clients. During 2022, Banca Intesa participated with 16,8% in the total realized amount and with 23,16% in the total number of approved loans.
As in previous years, cooperation with a large number of local self-governments throughout Serbia continued through programs of financing farmers with loans, where municipalities subsidize part of the loan interest.

SCAP investment loans

This type of loan was developed in cooperation with the Ministry of Agriculture, Forestry and Water Management and the World Bank, and is intended for the purchase of new agricultural machinery.

EE loans

A new credit product launched as part of the ESG program. It is intended for financing investments in energy-efficient agricultural machinery and equipment. Special focus will be placed on this program in the coming period.

KFW credit line

At the end of 2022, an agreement was signed with German Development Bank KFW which, among other things, defines a special program of financial support for the agricultural segment with the main goal of improving and developing agricultural production on the territory of the Republic of Serbia, where through more favorable sources of financing, lending to a wider range of clients and a more diverse structure of new credit products offered by the bank will be enabled.

Corporate Banking

Corporate Banking

- Creation and development of new banking products and services which are responsive to the markets needs
- Promote sustainable development in Serbia through continuous corporate supporting of ESG related projects and strengthening awareness of green busines
- Digitalization and development of innovative solutions with aim to further strengthen trust and partnership with our clients and an on-going focus on providing professional and quality clients service

During 2022, the bank has operated its business in a quite different macroeconomic environment compared to 2021, followed by growing geopolitical tensions and risks due to conflicts between Russia and Ukraine. The war impacted both global and domestic economic activities.

Since the begining of the year, export growth continued its double-digit streak of around 27%, while industrial production recorded modest growth of 2%.
The general conditions were also reflected in a slightly lower level of FDI inflows, while rising energy prices were impacting companies to reduce level of new investments.

The government launched various economy support measures, but the great uncertainty regarding the duration of the geopolitical crisis affects both the private consumption and the economy, to be more rational in new investments.

The extremely high rate of inflation in 2022 was not only a Serbian but a worldwide phenomenon. To fight soaring inflation, global central banks continued raising interest rates. As a consequence commercial banks increased and adjusted their interest rates on loans and deposits.

The ongoing consolidation of financial sector, has enabled banks to finance significantly larger projects, which has led to quite strong competition beetwen banks, especcialy in corporate segment.

Besides to their own sources of funding, banks support clients through various credit lines, supported by International Financial Institutions and State, within which more favorable loans and grants were combined. The Ministry of Economy, in cooperation with the Development Agency of Serbia, has supported investments and encourage faster economic development through grants within the Program of Support to Small Enterprises for the Equipment Purchase in 2022.

As in previous years, the Corporate & SME Division, in cooperation global consulting company PWC, conducted Benchmarking analysis of certain aspects of its business in relation to the competition. The analysis showed that the Division with its strategic commitment, has been protecting and strenghtening its leadership position for years, relying on innovative solutions in order to improve its operations, processes and products.

Despite the challenging circumstancesces, Corporate and SME Divison recorded a loan portfolio growth 17,7% compared to the previous year, providing a market share in total loans granted to the economy of 15,6%. The total Division balance and off-balance portfolio exceeded RSD 300 billion.

The highest new production of loans in the total amount RSD 203 billion was recorded, which represents the significant increase of 52% compared to 2021.

The biggest growth was achieved in the financing of infrastructure projects and the public sector, as well as in the financing of working capital in the form of factoring.

The increase of credit exposure volumes is followed by the preservation of the quality of the portfolio - the share of Non-Performing Loans in Total Loan Portfolio is at a historical minimum.

Having in mind that Corporate Social Responsibility has been integrated into Division's business strategy, we supported our clients who invested in projects related to circular and green economy. With more than EUR 30 million we supported over 20 different projects of our clients.

As far as deposit transactions with legal entities are concerned, the Bank also records an increase in the volumes of deposits, which leads to leading market position of 16%. Deposits in local currency, which make up to 60% of total deposits, represent the main source of financing for the growth of the loan portfolio. In the total deposit structure, a vista dinar deposits make up to 67% of total Corporate Deposits.

As regards documentary activities related to issued bank guarantees and letters of credit, on increase of 14% was recorded compared to the previous year.

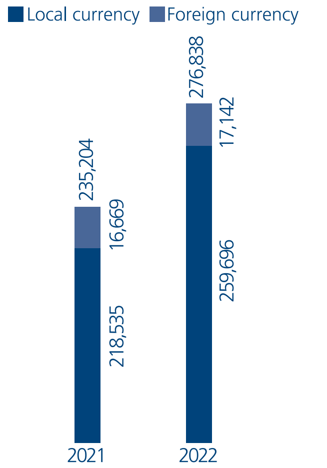
The CRM Office has implemented the world's leading CRM solution – Salesforce, with the aim of enhancing advanced analytics impact to realize full business value. New powerfull tool will be used as a support primarly for sales network in dauly work, but also for the Management in terms of monitoring commercial activities.

Over 2022, the segment for Large and Institutional clients was focused on further strengthening its position on the market through growth in all aspects of business while supporting both the public and private sector. The double-digit growth of the loan portfolio (42%) was achieved despite the ongoing trend of consolidation of the banking sector.

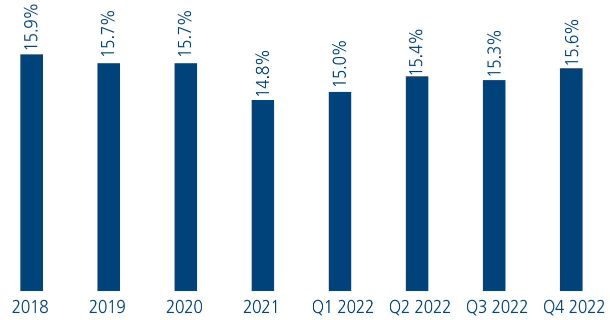
Multinational clients department continues its mission of maintaining close business contacts with renowned multinational clients and fostering long-term partnership with them. Thanks to the acquisitions made in recent years, this segment delivered record results in terms of deposits - growth by 40% compared to the previous year.

Guided by the belief that small and medium-sized enterprises play an essential role in the economy of a country, Bank is fully committed to provide strong support to the clients belonging to this business segment. SME loans increased by 8% y/y, reaching RSD 108 bn at the end of 2021, while deposits volumes grew by 19%.

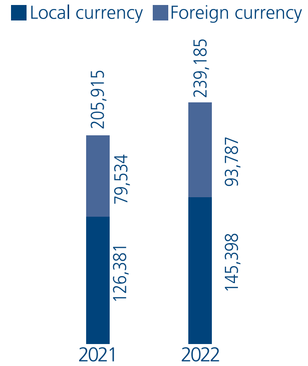
Corporate loans (in RSD million)



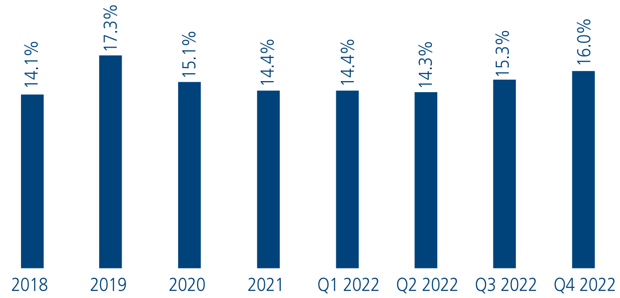
Market share of the Bank in corporate loans



Corporate deposits (in RSD million)



Market share of the Bank in corporate deposits



Transaction banking

By providing payment services to clients, Letter of Guarantees documentation operations, the Bank continues to deepen relations with corporate clients, while promoting various transactional banking services, both domestically and internationally, with the support of the ISP Group.

For the sixth year in a row, the bank continues to improve the Payment Factory service by expanding products and functionalities aimed at constantly improving the quality of this unique service on our market. In addition, with joint efforts and with the support of our Parent Group, we managed to retain and further improve the client base, both within Bank as well as at the level of the ISP Group. This is a service that enables the centralization of payments, billing and reporting.

The portfolio of users of the Payment Factory service (almost 100% of users from the MNK segment and one SME client) is expanding from year to year and at the end of 2022 covers 30 clients (2019 - 11 clients, 2020 - 3 new clients, 2021 - 6 new clients, 2022 – 10 new clients) with a tendency of continuous growth.

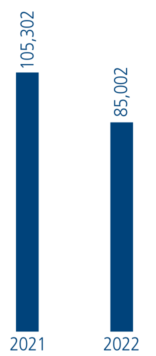
In 2022, the share of PF accounts in the total number of MNC commercial transactions is as follows:
- In dinar PP 9% in the number of orders and 7% in volume
- In foreign currency PP 59% in the number of orders and 36% in volume

Following new trends and continuously investing in the development of better products and better payment services, we strive to create solutions to customer needs and this full commitment further strengthens our partnership with them, taking into account the continuous improvement of service quality, in order to simplify and speed up their issuance in accordance with the needs of our clients and their partners.

In this way, in 2022, we managed to acquire many targeting clients through transactional banking services, who decided to do business with Banca Intesa, relying on new services, a wide global network and rich experience. Advisory approach, knowledge of market trends and efficiency in the implementation of client requirements are the key to good business and results.

In the coming period, the focus will be on digitization, i.e. a new approach model for submitting requests and documentation for the issuance of documentary products, all in accordance with group rules, in order to enable clients who use these products in other members of the group, with the same credentials, that is, the platform, they can access local needs.

Guarantees and other commitments (in RSD million)



Factoring
During 2022, factoring operations significantly increased volumes of factoring turnover to the level of 507 million euros (in 2021 – 195.5 euros). The increase in the volume of turnover contributed to a significant increase in the achieved average balance of factoring business (November 2021 vs 2022 + 78%), which contributed to the increase in profit, with the expectation that it will be at the level of 1,99 million euros (2021 - 1.23 million euros). Due to high repayments during the last week of December, the factoring balance is 105 mm EUR. Also, several new clients were acquired, the effects of which will be felt more significantly in terms of turnover and profitability during 2023.

From the development activities, we would point out the following:
- Export factoring with insurance by the company AOFI, as a new transaction of the purchase of foreign receivables, achieved its market confirmation through the acquisition of new clients and the realization of turnover in 2022 of 11 million euros.
- A new product for the purchase of international receivables through the International Confirming platform has been introduced and its activation is expected at the end of January 2023. The campaign for clients attractive for this product will be implemented in Q1 2023.
- Production of a digital platform for domestic claims is expected in Q1 2023, which will allow the acquisition of new clients as well as quality service to existing clients.

The implementation of the abovementioned new digital solutions opens the way for the positioning of Factoring in the number 1 position on the Serbian market.

Structured (project) finance
Banca Intesa strives to be recognized and proven on the market as a reliable partner that provides stable support to clients in project financing, i.e. financing projects with real estate and renewable energy sources.

The Bank has recognized the potential and advantages of this type of financing, with the orientation of business to market leaders, and the most relevant projects and real estate and capacities in renewable energy sources. Financing is realized in accordance with the rules and principles of project financing.

The focus in 2022, which will remain in 2023, was the continuity of growth and improvement of the project-financing portfolio, with careful monitoring of the results of ongoing projects. The aforementioned activities resulted in the growth of the portfolio followed by new projects to be implemented in 2023 and confirmed the quality and stability of our portfolio:
- Quantitative indicators:
  - Outstanding/portfolio exposure recorded a growth of 17% compared to the previous year.
  - The achieved earnings/NOM threshold of EUR 3 million, achieved and significantly exceeded for the first time last year, was achieved and exceeded this year as well.
  - - Project financing contracted in 2022 and ready for implementation in 2023: 51.2 million euros
- Qualitative indicators:
  - Projects record a stable business result, on a strong foundation and sustainable repayment

capacity, with regular settlement of obligations of all projects / clients to the bank and without problematic claims, with improved risk profile and diversification of project financing portfolio.

Considering all the activities from previous years, the portfolio was improved with new projects in the real estate segment, with good diversification (various projects in the area of housing and commercial real estate), as well as new projects from renewable energy sources (realized financing of the first wind farm at Banca Intesa). The total amount of financing in our portfolio is 210.8 million euros, which represents a slight increase compared to the record level of 204.7 million euros, achieved at the end of 2021. The positive effects of the achieved growth will be visible in the coming years as well.

In 2023, the bank will strive to further increase its profitability and project financing portfolio through the implementation of existing projects. At the same time, the Bank is increasing its presence on the market through quality new projects, which arise from market potential and upgrading of relations with domestic and international investors, increasing focus on projects in renewable energy sources, and optimization of internal processes. The focus will remain on continuous monitoring of both existing and new projects, with additional attention focused on the negative effects of global market destabilization recorded in the previous year. In the coming period, the bank will try to take advantage of quality opportunities on the market and in the agency field, and improve the process of providing this service.

In addition, the Bank respects and acts in accordance with the Equator and ESG principles in its operations.

EU Desk

During 2022, the bank continued to use the available credit lines of international financial institutions in order to provide support to the business operations of the economy, primarily small and medium-sized enterprises, and also contracted the use of new credit lines.

In cooperation with the European Investment Bank (EIB), the Bank continued to use a credit line in the amount of 40 million euros for the recovery and support of the development of small and medium-sized enterprises, as well as enterprises of medium market capitalization, through the financing of new investments. The mentioned line is a continuation of previously contracted and utilized credit lines of similar purpose.

In cooperation with the European Bank for Reconstruction and Development (EBRD), the Bank contracted a new credit line in the amount of 20 million euros in 2022 from the EBRD's SME Competitiveness program, for the competitiveness of small and medium-sized enterprises.

In December 2022, the Bank concluded an agreement with the German development bank KfW on a credit line in the total value of 35 million euros to support green initiatives and the development of rural areas. A tranche of 25 million euros will be used to finance investments to improve the efficiency of using natural resources, recycle resources and reduce harmful emissions in order to reduce the level of environmental pollution. From this tranche, the Bank will grant loans to micro, small and medium-sized enterprises (MSMEs), as well as to local governments, which, upon successful completion of the project, have the opportunity to receive grants in the amount of 10 percent of the loan amount. The second tranche, worth 10 million euros, is intended for a wide range of investments in strengthening the competitiveness of rural areas and will be aimed at MSMEs, registered agricultural holdings, cooperatives and social entrepreneurs.

In this way, the bank continues to provide access to favorable sources of financing for its clients, confirming its strong commitment to ESG principles. Encouraging the rational use of resources, reducing harmful gas emissions and mitigating developmental inequalities is part of Banca Intesa's broader ESG strategy, which assumes contributing to solving current environmental and social challenges by having a positive impact on the environment and social environment.

Banca Intesa, in its capacity as a financial intermediary, continued its successful cooperation with the European Investment Fund (EIF) on the implementation of available programs of the European Union, through which small and medium-sized enterprises are given easier access to financing with more favorable conditions.

With a total portfolio of over 950 million euros (in four different programs implemented in cooperation with the EIF), Banca Intesa is the absolute leader on the domestic market by regarding the size of the available portfolio, the number of supported clients, the total realized amount, but also the variety of products available through EU Programs.

When it comes to EU programs that should succeed the existing ones and ensure continuity in the implementation of similar guarantee schemes, at the end of 2022 the EIF announced the possibility of applying for a new guarantee scheme that aims to improve the resilience of small and medium-sized enterprises in the conditions of emerging circumstances and to provide them with access to financing with more favorable conditions, and the Bank intends in the coming period to highlight its interest in order to participate, i.e. cooperate in the implementation of such a program.

In 2022, Banca Intesa continued the successful implementation of the first and second Guarantee

Schemes of the Republic of Serbia. Since signing the initial Agreement on Guarantee Scheme 1 with the Ministry of Finance and the National Bank of Serbia in 2020, the Bank has successfully applied for several increases in the amount of the maximum Insured Portfolio, which enabled it to place around 9,300 loans to its clients through this Program in a total amount of over 409 million euros, with a total market share of Banca Intesa of over 17%. Through the Guarantee Scheme 2, as a measure of additional support to the economy due to the prolonged negative impact of the COVID-19 disease pandemic, as a separate Program for the support of business entities that are characterized as the most vulnerable, the Bank has placed loans with a total value of over 15 million euros. Placement under guarantee schemes 1 and 2 was possible until the middle of 2022.

In 2022, the bank concluded a loan portfolio guarantee agreement with the American Development Finance Corporation (DFC), creating the possibility to provide guarantee support for the placement of an additional 82 million dollars for the development of micro, small and medium-sized enterprises, registered agricultural farms, as well as companies that run by women and those who do business in less developed regions in Serbia. The guarantee is provided with the strong support of the Ministry of Finance of the Republic of Serbia and in partnership with the American Agency for International Development (USAID), which promotes equal opportunities for the development of micro, small and medium enterprises in Serbia.

The arrangement in question will provide a guarantee for the realization of loans for working capital and capital investments with the aim of contributing to economic stabilization after the pandemic, stimulating the creation of new jobs and economic growth, as well as strengthening their resistance to future economic changes. The total portfolio of loans covered by the DFC guarantee, which Banca Intesa will market to clients, will be aimed at the agricultural sector, underdeveloped regions, companies owned by women, as well as startup companies. With the implementation of the mentioned product, the Bank expects to start by the end of the first quarter of 2023.

Asset Management and Investment Banking

Asset Management and Investment Banking

- The Bank continues to actively participate and support the development of the bond market and government fiscal policy
- Leading bank in terms of offering financial instruments for dinar and foreign currency liquidity management
- The Bank constantly improves cooperation with international financial institutions in order to obtain favourable long term funding and investments in ESG initiatives

During 2022 the Ministry of Finance sold a total amount of RSD 116.08 billion of government bonds denominated in domestic currency and EUR 322.44 million of government bonds denominated in euros through primary auctions. Domestic government bonds issued in euros in 2022 had initial maturities of 2 years, 2.5 years and 25 years, while domestic bonds issued in dinars had initial maturities of 2 years and 10 years. On domestic market 53 weeks treasury bills denominated in local currency were issued.

On international financial market Republic of Serbia issued long-term government securities in total amount EUR 340 mln via direct negotiation with a qualified investor. The bonds were issued on August 23rd 2022, and are divided into two groups. The first group of bonds, with a total amount of EUR 250 mln matures in August 2025. The second group, with a total amount of EUR 90 mln, matures in August 2026.

On domestic market Republic of Serbia issued government securities in total amount EUR 350 mln via direct negotiation with a qualified investor, matures in June 2023.

In comparison to 2021, the total turnover on the secondary market of government securities – was lower. Regarding activities in the secondary market, investors mainly concentrated on government bonds denominated in local currency. Total turnover in both currencies (RSD and EUR) in the secondary market exceeded the amount of bonds sold in the primary auctions.

During 2022, Banca Intesa participated in primary auctions and secondary market of government securities of the Republic of Serbia for its own account and on behalf of its customers, actively supporting the development of this key segment of the bond market and government fiscal policy. In this regard, Banca Intesa applied a proactive approach in informing clients about the possibilities of investing in government securities and introduced its brokerage services to all interested institutional and individual investors.

During 2022, the portfolio of the Bank remained diversified and consists of debt securities issued in the domestic market in the Republic of Serbia, in RSD and EUR currency.

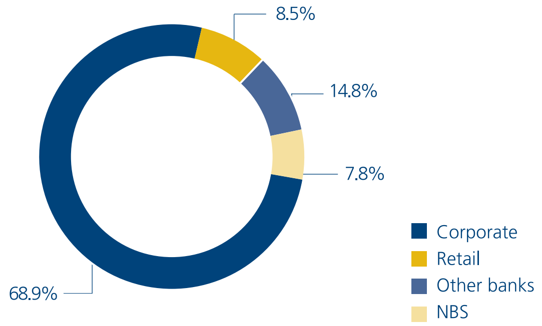
In 2022 Banca Intesa continued to be the leading bank regarding the offer of financial instruments for dinar and foreign currency liquidity management. Currency swap contracts and dinar-denominated bonds of the Republic of Serbia are available to customers, primarily intended for investors who prefer to completely or partially hedge the foreign exchange risk.

Banca Intesa retained its leading position in foreign exchange trading operations, with a market share of 14.76% in 2022. The Bank provided the EUR-NET Exchange Rate to its clients, which applies in transactions through the Intesa Mobi application and Intesa On-line e-banking service and represents the most favourable exchange rate since it follows trends in the interbank foreign exchange market in real time. During 2022, the volume of EUR-NET transactions posted a significant increase of 52.4%

Foreign exchange trading (in EUR million)

	2018	2019	2020	2021	**2022**
Corporate	4,012	4,418	4,004	5,591	**7,260**
Retail	431	492	545	623	**898**
Other banks	693	754	676	708	**1,560**
NBS	90	183	187	448	**821**
Total	5,226	5,847	5,412	7,370	**10,539**

Customer shares in foreign exchange trading



The Bank continued to educate clients in the field of modern banking services, as well as to promote products that aim to enable timely management of financial risks in business, primarily the foreign exchange risk.

Year after year, the Bank justifies its role as the best partner to international financial institutions and a leader in the implementation of new financing programs. In addition to the general purpose financing program, this year the bank also provide clients of all segments investments' financing to improve energy efficiency, competitiveness, efficient use of natural resources, the recycling of resources and/or reduce their emissions and thereby the level of environmental pollution. In accordance with the bank's strategic orientation towards the ESG principles, the bank continues with already successful programs of economic empowerment of women and as the first bank in the market, has introduced a financing program for young people in business, which consists of easier access to financing, knowledge and non-financial services in order to provide full support a strategically significant and sophisticated market segment.

Obtaining long-term financing from respectable international financial organizations additionally strengthens and diversifies the balance structure of the bank with the aim of meeting the demands of a wide range of clients segments.

Research and Development Activities

Research and Development Activities

Customer satisfaction management

From the perspective of customer satisfaction, the year 2022 represents the continuation of Banca Intesa's strategic commitment to be fully dedicated to improving the experience and satisfaction of its clients.

"Instant Feedback" research continued throughout 2022. This research is based on the Net Promoter Score (NPS) methodology which is scientifically accepted and verified, and therefore the reliability of the obtained results is guaranteed. The specificity of this approach to the analysis of client satisfaction and consequently loyalty is reflected in the method of implementation. Namely, the client is contacted immediately after interacting with the Bank's products and services (the so-called "touch point"), so the feedback is received while the experience is still "fresh". In turn, this enables the Bank quick reaction in terms of eliminating potential causes of dissatisfaction, but also in improving the satisfaction of each individual client. The difference from other types of researches is the bank's quick reaction by contacting clients who left a lower rating or a negative comment. In this way, the cause that led to dissatisfaction is effectively resolved and at the same time it prevents further escalation of dissatisfaction in the direction of a potential complaint. This research was applied to clients of the Consumer segment, starting in 2021, and during 2022, the list of "touch points" between clients and the Bank was expanded. It is important to point out that in the course of 2022, significant feedback from more than 40,000 clients was collected in this way.

Striving for constant improvement, at the beginning of 2022, a new approach to customer loyalty research was introduced, which is also based on the NPS methodology. The main difference to the above-mentioned Instant Feedback approach is reflected in the fact that this approach enables the contact of a larger number of clients and the possibility for the client to answer additional questions, through which, in addition to standard NPS indicators, it is possible to obtain more detailed information about what makes clients (more or less) satisfied. Thanks to this comprehensive approach, over 400,000 clients were contacted during the year, of which over 45,000 clients responded to the survey. This approach was applied to clients of the Consumer segment, and from the end of 2022, it was successfully implemented to clients of the Small Business segment as well.

The survey of the satisfaction and loyalty of SME clients continued, again this year, with a scientifically tested and confirmed approach based on the model of the European Customer Satisfaction Index (ECSI) with 1.000 clients interviewed.

Additionally, Banca Intesa, by listening to the needs of clients through their questions, suggestions, praises, but also complaints, along with the previously mentioned surveys of client satisfaction and user experience, this year became even richer for a large number of feedbacks from the key entity, i.e. the client. It was this feedback that was the key to the improvement, promotion and development of the Bank's products and services, as well as the improvement of the communication strategy, the development of the business network and the training of employees.

Product and service development

During 2022, BIB's development activities were focused on the development of new products and services and the improvement of existing ones, as a result of meeting the needs and expectations of clients, market development and trends on the same and in accordance with the ESG strategic goals of the Bank and the Group, with the continuation cooperation with state and international institutions.

The Bank introduced a number of new products and enriched its offer with products that are aligned with ESG standards that represent the strategic guidelines of the Bank and the ISBD Group. Given that the ESG concept is increasingly becoming a strategic commitment of other market participants, by introducing new ESG products, our Bank has positioned itself as one of the promoters of ESG ideas in the local market as well.

Retail segment

Loan for the improvement of energy efficiency - A new ESG loan model has been introduced in the Bank's offer "Loan for the improvement of energy efficiency" for financing the purchase and installation of products, technologies and services that improve the energy efficiency of residential buildings (Loan for EE).

The source of funding for these loans is the GEFF II (Green Economy Financing Facility II) program for the

Western Balkans, i.e. the credit line of the European Bank for Reconstruction and Development (EBRD), with which the Bank provided long-term funds for investments in "green economy" projects within housing sector in the segment of individuals. The end users of these BIB loans are individuals. The benefits that Clients have from using loans for EE are multiple and primarily relate to energy savings through the use of products, technologies and services that improve the energy efficiency of residential buildings. In addition, the financing of green investments from this fund provides clients with incentives for the return of investments in funds of up to 20% (EU donor). This product positions the Bank as an environmentally responsible institution and ensures growth in this niche of the developing market in Serbia.

Housing loan for the purchase of a residential retail estate for mothers based on the birth of a child - A new ESG housing loan model 'Housing loan for the purchase of a residential retail estate for mothers based on the birth of a child' has been introduced. The target group of beneficiaries of this loan are individuals - mothers whose child was born on or after January 1, 2022.

As a socially responsible organization and with the aim of providing financial support to families with children, the Bank, in accordance with the Regulation of the Government of the Republic of Serbia, introduced a new housing loan model, which provides grant-in-aid up to EUR 20,000 to beneficiaries of loans to mothers by the competent Ministry, participation in the purchase, that is, the purchase of a family residential building or apartment.

Green housing loan - A new ESG housing loan model was introduced for individuals to finance the purchase of new energy-efficient apartments with higher energy classes (A and B EE passport). Supporting ESG-related activities, the new housing loan model will lead to a dedicated brand positioning in the market, further supported by market-friendly pricing.

Consumer loan - A new loan model was introduced in the Bank's offer 'Consumer loan, which is intended for all segments of private individulas clients and is used to finance the purchase of consumer goods and services for various purposes of clients, namely for:

- Furnishing of living space,
- Buying a last generation computer,
- Purchase of modern technology and replacement of outdated devices,
- Transition to alternative modes of transportation (electric scooters and bicycles),
- Payment of school fees for regular, part-time or supplementary education and professional training.

By introducing this new product, the Bank will further increase the loan portfolio and improve the overall profitability of loans for individuals by increasing the payroll base of clients, ensuring long-term client loyalty, a large cross-selling potential, expanding the base of partner companies (traders, manufacturers of specific goods and service providers), thereby additional benefits for the Bank's clients will be provided at the same time.

Small business and Agro segment

EE Farmer invest - a new model of ESG investment loan, the purpose of which is the purchase of new and used energy-efficient mechanization for agricultural production. By financing the purchase of energy-efficient power mechanization, which contributes to the reduction of emissions of harmful gases in the ecosystem, the Bank contributes to better management of the impact on the environment. Additionally, by supporting activities related to ESG standards, the Bank influences the raising of citizens' awareness of the importance of energy efficiency.

EBRD Loans for Young Entrepreneurs - The European Bank for Reconstruction and Development (EBRD) launched the "Young Entrepreneurs of the Western Balkans" Program. The goal of the program is to support micro, small and medium-sized enterprises whose overall operational and management responsibility and/or ownership are held by persons under 35 years of age. Support is reflected in easier access to financing, knowledge and non-financial services. With the aim of facilitating access to funding sources for the market niche of young entrepreneurs, we created the product "Loans for young entrepreneurs" with which the Bank will participate in the Program and which are intended for:

- acquisition of working capital and
- investments.

Through this product, the Bank continues to work on increasing the importance of monitoring ESG standards at the local level, in this case through socially responsible support to a sensitive segment of the market, which represents one of the Bank's important strategic commitments.

Co-financing loans for the purchase of equipment from the Support Program 2022 - The Government of the Republic of Serbia, by the Decree on establishing the Support Program for small businesses for the purchase of equipment in 2022, allocated grants to micro and small businesses, entrepreneurs and cooperatives, with the aim of facilitating the financing of the purchase of production equipment. The Ministry of Economy, in cooperation with the Development Agency of Serbia, issued a Public Call for the participation of commercial banks and leasing companies in the implementation of the Program.

BIB was among 7 banks that received exclusivity in the implementation of this program. For the small business segment, we have created and introduced into the offer a loan for the purchase of equipment with a maturity of 18 to 60 months, which finances 70% of the net value of the equipment, while the rest of the net value of the equipment is financed through the client's participation (5%) and grants from the Ministry (25 %).

Risk Management System

Risk Management System

- The credit portfolio quality remained stable comparing to the December 2021, if measured by NPL ratio. NPL ratio is at the same level (from 2.67% to 2.65%) considering principal only, but it is still significantly below banking sector average.
- Stage 2 exposures have increased in 2022 to 20% of balance sheet portfolio (9% in 2021). Due to uncertainties related to the current economic crisis, war in Ukraine, sanctions against Russia and Belarus, very high inflationary pressures, energy crisis, and for the sake of prudent credit portfolio management, the Bank has conducted additional analyses and established additional criteria for assessing the impact of this crisis on expected credit losses which lead to increase in stage 2 exposures.
- To further oversee compliance with Single Resolution Board (SRB) requirements, a new Early Warning threshold on the amount of subordinated instruments to be used to meet MREL has been introduced on the ISP Group level.
- MREL, Survival Period and Qualitative indicator – Number of complaints, petitions and appeals (the first two at the request of the Parent Bank, the last at the request of the National Bank of Serbia) was added as Recovery Plan indicators with defined Recovery Plan triggers.
- In accordance with the new situation, the Bank has successfully supported its clients through the promotion of working capital loans under the government support scheme, in order to optimise the Bank's collateral position and to minimise risks undertaken
- After the outbreak of COVID-19 pandemic and measures adopted to mitigate the negative consequences of the pandemic, the Bank has met the requirements (individual and joint at the level of the banking sector) for a 3-year postponement of compliance with MREL
- At the time of creating this Report, the Bank has not received a new Supervisory Review Evaluation Process (SREP) from the National Bank of Serbia. The conclusions of the last SREP at the end of 2021 were very favourable for the Bank and there were no recommendations for qualitative improvements in the segment of credit, market and operational risk, while two minor recommendations were resolved during 2022 and the Bank considers them closed.
- During 2022, Operational Risk Management Office ceased to exist, while the responsibilities of this office are transferred to Enterprise Risk Management Office, while Market and Counterparty Risk Management Office changed its name to the Market and Financial Risk Office.
- The CSA (Credit Strategy Adjustment) project was completed and implemented - the CSA model for price adjustment in the regulatory segment of corporate, which lasted more than a year.
- The development and implementation of internal models of LGD and EAD in corporate segment has been completed.
- New internal documents have been created (Rulebook "Management of Environmental, Social and Governance (ESG) risks", Procedure "ESG Risk management") in order to fully align with improved ISP ESG governance framework. Also, in 2022, trainings focused on this topic were organized at the Bank level.
- In June 2022, NBS has introduced the new Decision allowing temporary exclusion from tier 1 calculations of 70% of the unrealized losses and gains on financial instruments issued by the Serbian state and local self-government measured under FVOCI leading to increase of tier 1 capital for calculation of regulatory capital adequacy.

Banca Intesa continuously identifies, assesses, monitors and controls risks in compliance with the national and international banking, supervisory and accounting regulations, and ISP Group guidelines, providing an integrated, prudent and consistent risk management system. The Bank's Board of Directors established by its enactments an appropriate risk management and internal control system, which includes different corporate governance bodies and committees: – the Board of Directors, Executive Board, Audit Committee, Risk Management Committee, Problem Asset Committee (PAC), Credit Risk Governance Committee (CRGC), Credit Committee, Assets and Liabilities Committee (ALCO), Operational Risk Committee (ORC) and Integrated Control Coordination Committee (ICCC). The functioning of the system is regulated by the policies, procedures and rulebooks adopted individually for each material risk type.

In order to maintain a system that complies with the highest quality standards and supports the decision-making process of governing bodies, during 2022 the risk management system was enhanced. This process continues to rely on the axioms of independence of the risk management function from risk-taking centres, promptness of information flows that support the decision-making process, as well as transparency and accuracy of submitted information.

Main objectives of the risk management process are related to the protection of the Bank's capital and its optimal allocation, increase in economic value for shareholders, monitoring of risk limits and/or risk measures for all identified risks. The existing system of limits, defined in the Risk Appetite Framework (RAF), gives the highest priority to the monitoring and controlling of minimum requirements related to capital adequacy, liquidity and operational risks. In addition, the RAF system covers credit concentration limits, limits of exposure to interest rate risk and funding limits. The indicators of profit stability, market and macroeconomic stability, asset quality and compliance and AML risks of the Bank represent additional RAF measures. In 2022, certain AML early warning indicators were replaced by new ones and additional indicators were introduced. As a part of ISP Group initiatives, reporting focus of RAF also in year 2022 has included exposure toward ESG sensitive sectors, and recognized sensitive clients, especially Coal Mining and Oil & Gas, as those industries were limited by the ISP Group risk framework. In addition, locally monitored RAF limits (SREP requirement) were revised and also newly added in RAF 2022 in terms of VaR indicators. The Bank ensures the compliance of the strategic guidelines defined in the business strategy, capital plan, operating plan – budget and recovery plan, with the Bank's risk profile defined in the RAF system. The RAF limits also make an important part of the Internal Capital Adequacy Assessment (ICAAP) Report/Book, Stress Test Book and other strategic documents of the Bank.

SREP (Supervisory Review Evaluation Process) is a regular activity of the Supervisor performed according to Pillar 2 requirements of Basel Capital Accord (Basel 3). SREP report presents results of comprehensive risk assessment of a bank. The ultimate result of a SREP process is a specific requirement for additional capital buffer for a bank which should cover Pillar 2 risks and risks of all identified deficiencies in corporate governance, controls, information system, data quality and so forth.

At the time of creating this Report, the Bank has not yet received a new SREP from the National Bank of Serbia. The last determined additional regulatory capital requirement, i.e. SREP rate for Banca Intesa ad Beograd was 1.71% (1.75% in the previous estimate).

In the last SREP from the end of 2021, the National Bank of Serbia issued two recommendations regarding the following:

- Corporate governance – it is necessary for the Bank to define qualitative indicators of vulnerability within the Recovery Plan and to show the impact of recovery options on all its recovery indicators in the second and third scenario as well, until reaching the value of recovery indicators above threshold levels, i.e. until return to regular business;
- Liquidity risk - it is necessary for the Bank to provide regular reporting to the Board (Board of Directors) within whose scope is the adoption and amendment of the Contingency Liquidity Plan, on the performed testing of the same.

The Bank resolved the first recommendation by adopting the last Recovery Plan in September 2022. The Bank resolved the second remaining recommendation in the area of liquidity by informing the Board of Directors about the results of the conducted liquidity stress test and by adopting the Rulebook "Application of Contingency Plan – Liquidity Crisis". Therefore, the Bank considers these two recommendations closed.

The AIRB Implementation project, whose aim is to develop and implement an advanced internal credit measurement system, is being conducted under the supervision of the Parent Bank. During the development, the models are subjected to the approval process comprised of several steps (formalised through pre-defined milestones), controlled by the ISP Foreign Banks Credit Risk Management Department (FBCRM). The Bank has already covered most of its credit portfolio by the internal credit rating system (corporates, small businesses, individuals). The Bank has completed development of LGD and EAD models for Legal Entities and Entrepreneurs, whose implementation will enable the Bank to have the full insight and apply for the approval by the supervisor to use models for regulatory purposes as well.

Risk management policies and procedures have been revised and updated for the purpose of their alignment with amendments to the domestic and international (EU) regulations, as well as the amended guidelines and policies of the Parent Group, recommendations/findings of the Bank's Internal Audit, Internal Validation and the National Bank of Serbia.

Credit risks

Credit risk is monitored on a number of levels: by assessing customers' creditworthiness prior to loan approval, monitoring regular settlement of their liabilities and creditworthiness during the whole credit lifecycle and also by collecting and managing due receivables.

During the year, the Bank performed regular monitoring and reporting activities, the annual review of internal acts regulating the credit risk area and activities related to supporting the governing bodies in the decision-making process. During 2022 the Bank continued to make improvements to the risk management system. Starting from mid-2021 the Bank is applying (including regular reporting) Calendar Provisioning rules related to non-performing loans (NPL) in accordance with EU regulation. The regulation splits NPLs depending on their origination date. Non–performing loans originated before April 26, 2019 are in the scope of Pillar 2 methodology of Calendar Provisioning framework, while NPLs originated after April 26, 2019 belong to Pillar 1 methodology of Calendar Provisioning. For exposures belonging to Pillar 1 scope, the minimum loss coverage (MLC) is defined depending on the duration of NPL status and presence of collaterals. If the impairment allowances are not sufficient to cover the prudential minimum loss coverage, the difference is to be directly deducted from CET1 capital. As of December 31, 2022, the amount of the deductible item from capital on this basis is not material and amounts to RSD 7,451 thousands (as of December 31, 2021 RSD 350 thousand). Methodology for Pillar 2 scope assumes similar approach by defining minimum coverage expectations (MCE) for non – performing loans.

Internal reassessment and monitoring of the value of real estate collaterals has been carried out. The Bank has performed internal reassessment and statistical monitoring of residential real estate. In 2022, 3,130 of real estate collaterals have been reassessed internally (with total underlying exposure in the amount of EUR 140 million) enabling them to be used for credit risk mitigation which results in decrease in provision expenses and increase in Capital adequacy of the Bank (through decrease of risk weighted assets). Internal appraiser determines the market, construction and liquidation value of the real estate by applying a "desk-top" model of revaluation to each individual real estate in the portfolio that is the subject of the revaluation. Statistical monitoring of the value of real estate collaterals is performed by applying the index of change in the value of real estate to the market value of residential real estate from the valuation of authorised appraisers. After quality controls, the final value of the property from statistical monitoring is adopted. Properties that do not pass controls are subject to revaluation by a certified appraiser. In addition to this, the Bank performed monitoring of commercial real estate collateral by applying the index of change in the value of real estate to the market value of commercial real estate from the valuation of authorized appraisers. The purpose of monitoring is to determine whether there is a significant impairment of the market value of the property that serves as collateral in Banca Intesa Beograd, if available data indicates that the value of the property may have declined materially relative to general market prices, properties are subject to revaluation by a certified appraiser.

Also, further improvements of the system for consolidated credit risk and financial reporting (Finrep and Corep) to the Parent Company has been conducted.
Improvement of the first and second-level credit controls performed by the Credit Quality Monitoring and Control Office, Credit Portfolio Analysis and Administration Department and Rating Desk, has been performed. In 2021, new tool for the second-level controls has been introduced and in 2022 further strengthened to insure effectiveness of these controls. In addition to this, a more granular assessment grid is implemented for each individual customer outcome within single name controls, and, a scoring model for calculating the overall control assessment is introduced in order to have a synthetic and homogeneous view on control results.

During 2022 the Bank has started with the implementation of the „Loan Tape" project related to analytical reporting to the Group with additional data related to client attributes, characteristics of lending products and information on collaterals used. The Project consists of two phases and its full implementation is expected during 2023.

During 2021 the Bank continued working on resolving remaining 27 recommendations of the National Bank of Serbia based on the diagnostic review of the Banca Intesa Corporate FIRB request, included in the Action Plan. Most of the recommendations relate to the methodological framework for model development and implementation, which was been implemented by updating internal regulations, and were resolved in 2019 and 2020. The main reason for initial postponement and longer time to complete those particular recommendations, is their dependence on the implementation of the new Core System completed in late 2019. In August 2021 the Bank sent a confirmation on resolving the remaining 27 recommendations and in December 2021 the Bank submitted to NBS updated mitigation actions and package with reference documentations for all 150 recommendations from Action Plan. At the beginning of 2022 the Bank agreed with the NBS next steps for official FIRB application process.

During Q2 2022 the application package had been prepared and it was submitted to NBS at the beginning of July 2022. At the beginning of September the Regulator evaluated the quantitative structure of the model and suggested some modifications/ improvements. Based on informal feedback from NBS the following aspect of the model should be revised before official application:

- Representativeness of the historical data and current portfolio
- Modules integration
- Portfolio distribution
- Qualitative questionnaire.

In October 2022 the re-estimation of PD Corporate model was started and includes the following changes: changing the boundaries within current list of model's variables in order to maintain stability and business logic of variables; development new master scale; calibration model to adjust PDs to long-run default rate and qualitative questionnaire revision. Re-estimation will be completed during Q1 2023 and new updated application package will be submitted in March 2023.

In October 2021 the bank successfully completed the RADAR project, met the aim of alignment of internal risk data aggregation and reporting systems with the BCBS standard 239 (Principles for Effective Aggregation and Risk Reporting), covered the most important risk processes and reports and implemented corresponding controls and manualities are documented during 2019 through the completion of defined templates that show the connections between risk data. During H2 2020 and 2021 DGT was upgraded, within separate project Data Governance Tool phase II&III, in order to support RADAR functionalities for inserting process and report catalogs and for creation data lineage. The update of process and report templates in DGT will be regular annual/semi-annual activity.

The internal act describing the rules for the risk data and reporting governance framework management was adopted during Q1 2022.

For main AIRB processes (related to IRB segmentation, default calculation and rating calculation) data control system was established and includes the identification, definition and entering data controls in DGT, implementation and monitoring of controls. Data quality is implemented through two dimensions: Accuracy (coherence, consistency and stability) and completeness (coverage and existence) and in accordance with the Rulebook "Data quality guideline". In order to check the outcome of the performed controls and data quality, the notion of data quality score is introduced, which represents the accuracy of the results of the performed controls.

For the first six processes (out of eight) data quality system has been established during 2021. During 2022 data quality system was expanded on the remaining 2 processes. At the beginning of 2022 data quality summary reporting was established. The report is created and presented to Credit Risk Governance Committee quarterly. In 2022, Banca Intesa continued developing and updating its internal credit rating models for the purpose of converging to advanced credit risk measurement standards. In October 2022 the re-estimation of the PD Corporate (SME&LC) model was started and includes the following changes: changing the boundaries within current list of model's variables in order to maintain stability and business logic of variables; development new master scale; calibration model to adjust PDs to long-run default rate and qualitative questionnaire revision. During 2022 re-calibration SME Retail model was completed including SB-SE clients but this calibration will not be implemented in production because of failure binomial test for the first three classes. The reason for failure binomial test is that the calibration sample contains only data from 2020 which is affected by COVID and moratoria and is not entirely realistic. Clients that are included in calibration sample in addition to SME Retail are SB-SE. These clients were in single-entry bookkeeping system (SB-SE) until 2019 and had only income statement in the Bank's system, while starting from 2019 have both income statement and balance sheet. From this reason the calibration sample could only be made using one year data 2020. Slotting SL model was revised and SL questionnaires were updated additionally in order to provide fully regulatory compliance. New version of SL questionnaires was implemented in June 2022. Individuals PD model was re-estimated keeping the current variables, and for the first time two calibrations were done for Mortgage and Other class with unique Master Scale. Model revision includes the following changes:

- Exclusion 4 (out of 23) variables from the model due to instability or insignificance;
- Changing the boundaries within variables in order to maintain stability and business logic of variables;
- Unique master scales and central PDs are created taking into consideration the distribution separately for the Mortgage and for the Other segments (applied Head Office approach);
- Inclusion of quarterly Credit Bureau (CB) reports into application module (in case that individual CB reports is missing).

These changes were implemented in August 2022.

LGD database has been established with most of the required data having been retrieved and the process of gathering data being set in place. EAD and LGD Individuals models for performing and in default clients were developed during 2020 and 2021. Models were implemented in August 2022 for calculation of loan loss provisions according to the IFRS 9 methodology. Development of EAD and LGD models for Legal Entities and Entrepreneurs was started in 2021 and it is expected to be completed during Q1 2023. EAD and LGD model development for Legal Entities and Entrepreneurs is in line with new methodology for development credit risk models that was defined by Parent Company (FBCRM) In July 2021 and last updated in December 2022.

In addition to PD models that are in the roll-out plan for AIRB approach, the Bank has developed and updated the managerial models. During 2022 IFRS 9 PDs were updated in August and November on the request of the Parent Company. The first update included the following changes:

- "First approach" instead of "Second approach" is used for calculation of PD coefficients for all segments covered by validated AIRB or internal/ managerial models. The "First approach" is based on internally developed PD stress test models while the "Second approach" was based on the use of EBA coefficients;
- Applying re-estimated Individuals model in migration matrix calculation.

The second update contains only one change which refers to transition from three migration matrices to five (including data until 31.12.2021). Starting from 5 historical PIT (Point-In-Time) matrices, a unique TTC (Through-The-Cycle) matrix is calculated by applying the Merton-Vasicek method.PD satellite models were developed and implemented during 2022 at internal default rates, for all client segments (SME LC, Individuals and SME Retail), and in relation to macroeconomic variables. The validation process of these models has been completed. EWS models will be re-developed in H2 2022 as agreed with Parent Company. Credit Risk Modeling Office was involved in the project BFD refactoring initiated by local Data Office with goal to simplify data feeding from main source (data-warehouse tables), to provide data with higher frequency and to improve data quality that are source for EWS indicators. These improvements were implemented in July 2022.

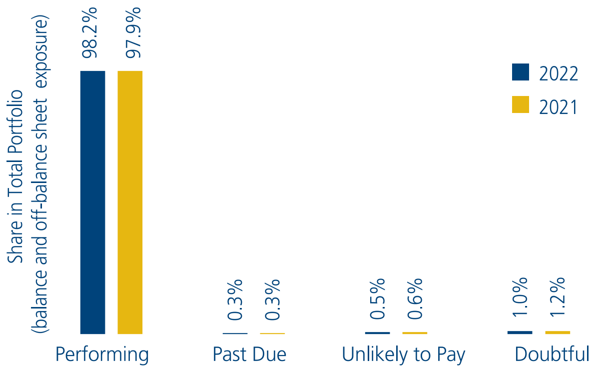
The methodology for calculating the cost of risk as a component for interest rates for loans to Corporate and SME clients was improved. The most important change is inclusion of portfolio related to registered agricultural producers.

The CSA model, which assumes a structured way of granting discounts and premiums on the standard price to clients in corporate regulatory segment according to the prescribed methodology, was adopted during the year. The main strategic goals of the CSA model are encouraging lending to highly attractive clients and reducing business with clients with a high level of risk. Price adjustments are defined through CSA matrices based on CRA (Credit Risk Adjustment) client colour (green, yellow, red) and industry attractiveness level (high, medium, low). CSA discounts are granted to clients with high industry attractiveness / green CRA positions, while premiums are provided for clients with red CRA positions, as well as low industry attractiveness / yellow CRA positions. Discounts and premiums are further differentiated in relation to the specific characteristics of the tranche: client rating, loan maturity and supporting the financing of sustainable initiatives. The scope of application of the CSA is limited to medium to long-term lending, excluding clients with NPL status. In connection with the support of the financing of sustainable initiatives, a new loan offer, called 'S-loan', has been created in Corporate and SME Division, which assumes discounts for customers already provided with CSA discounts, as well as for customers with medium to low attractiveness of the industry / green CRA position. For clients for whom a price premium is normally provided, when they decide on an 'S-loan', a reduced amount of that premium is provided. The Parent company refunds the CSA discounts for the calendar year, while the premiums are retained by the BIB.

The CSA model, which assumes a structured way of approving discounts and premiums on a standard price to clients in Corporate regulatory segment according to the methodology, was adopted during the year. Main strategic goals of the CSA model are to incentivize lending towards highly attractive clients and reduce operations with clients with a high level of risk. Pricing adjustments are defined through CSA matrices based on client's CRA (Credit Risk Adjustment) colour (Green, Yellow and Red) and their industry's level of attractiveness (High, Medium, Low). CSA related discounts are to be approved to clients with high industry attractiveness / Green CRA positions, while premiums are foreseen for clients with Red CRA positions as well as low industry attractiveness / Yellow CRA positions. Discounts and premiums are further differentiated with respect to the specific tranche features: client's rating, loan duration and supporting financing for sustainable initiatives. CSA scope of application is limited to Medium to Long Term Lending, excluding clients with NPL status. In relation to supporting financing for sustainable initiatives, a new product offer was created in the Corporate division, called S-loan, which assumes favourable pricing to clients already receiving CSA incentives, as well as clients with medium to low industry attractiveness / Green CRA positions. For clients that would otherwise receive a pricing premium, when opting for an S-loan, a reduced amount of that premium is foreseen. All CSA related discounts for a calendar year are to be refunded by the Parent company, while premiums are withheld by BIB.

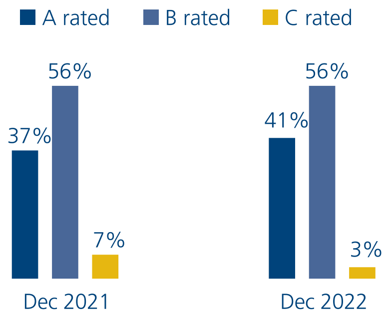
The credit portfolio quality has improved compared to December 2021, if measured by NPL ratio considering both on balance and off balance sheet exposure (from 2.1% to 1.9%), while the NPL ratio stayed stable (from 2.67% to 2.65%) considering principal only, and it is still below banking sector average. NPL inflow (over the course of the year) mostly referred to private individuals (EUR 44.8 million, out of EUR 63.4 million). On the other hand, the inflow is mainly offset by NPL collection activities (EUR 23.1 million), return to performing status (EUR 9.1 million) and transferring to off-balance sheet (EUR 13.8 million). In addition, in 2022, the level of NPL exposures in probation period that are potentially eligible for returning to Performing status after the expiration of the defined time period, increased from EUR 12.7 million to EUR 15.3 million.

Credit portfolio quality by class
(balance and off-balance sheet exposure)

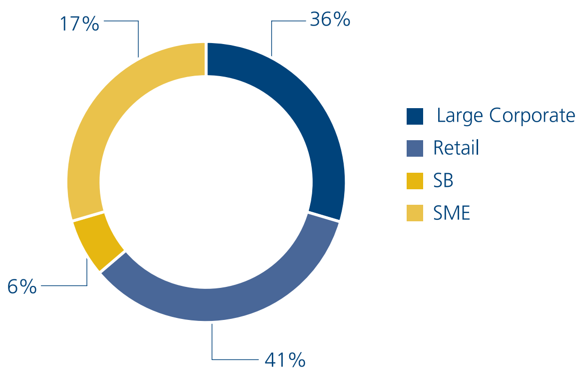


In addition, the Bank also posted a large increase in new production, both in Retail and Corporate segments. Credit portfolio growth in the amount of RSD 66.8 ban was achieved keeping adequate level of credit risk in terms of rating distribution. Low-risk clients account for 41%, medium-risk client's account for 56%, while high-risk clients account for 3% of all internally rated clients.

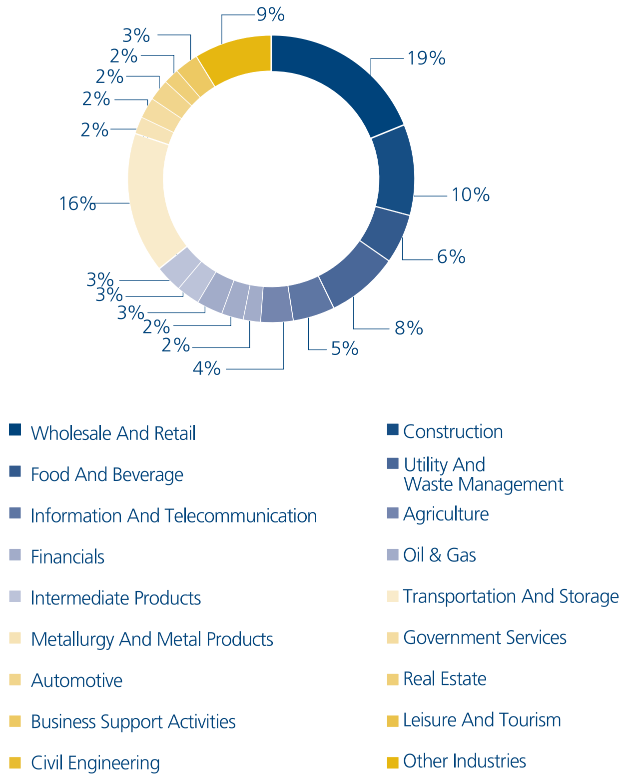
Credit portfolio quality based on internal rating zones



Portfolio distribution by segment



Portfolio distribution by industry



Credit portfolio distribution by industry points to relatively good portfolio diversification. In accordance with the official industry classification (NACE), the largest portion of credit portfolio belongs to Wholesale and Retail (19%), Construction (16%) and Construction (10%).

During 2022, all RAF indicators were within the prescribed limits with the exception of two AML early warning indicator.

Namely, indicator '% Customers (different from Financial Institutions) with high risk scoring not assessed within 30 days (periodic review)' has been in breach in January (when it was introduced) and in April while '% Financial institutions with high risk scoring not assessed within 30 days' has been in breach in March and April while. At the end of 2022, all AML indicators are within the prescribed limits.

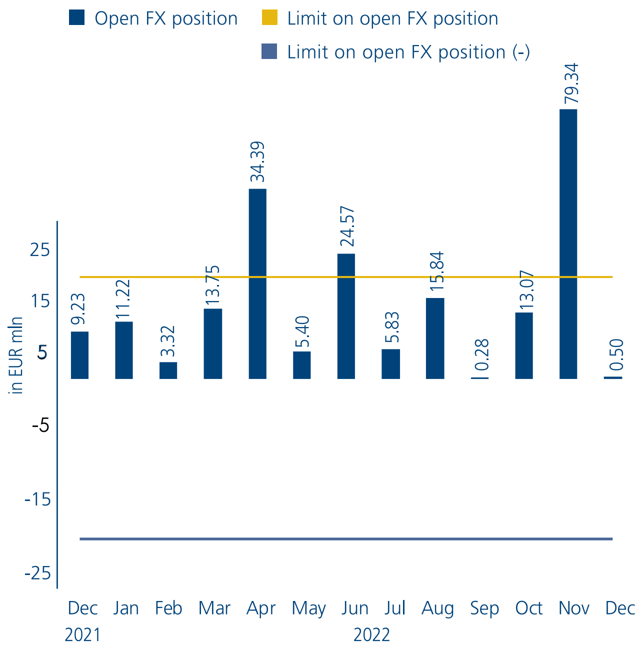
Market risks

The main sources of market risks to which the Bank is exposed in its operations are interest rate risk and foreign exchange risk.

General principles of market risk management are defined in accordance with regulatory rules, ISP Group standards, international best practices and standards, as well as internal acts. The system of market risk limits, defined in coordination with the Parent Group's relevant structures and approved by the Board of Directors, operationalises the market risk monitoring process. The system of limits is aligned with the strategic goals of the Bank, RAF system and regulatory requirements. Market risk limits utilisation is reported to the relevant functions of the Bank on a daily basis, while reporting to the ALCO is on a monthly i.e. to the Board of Directors on quarterly level or more frequently, if necessary. The ALCO i.e. Board of Directors monitors market risk exposures on a strategic level and provides guidelines for general management of the Bank's balance sheet within its responsibility.

In 2022, the foreign exchange risk exposure was significantly below the maximum level prescribed by the regulator. Internally established limits for open foreign exchange position and foreign exchange Value at Risk were not revised. The FX position limits were breached on a few occasions (primarily due to the disbursement of the loan with FX clause and conversion of funds from RSD to EUR for our clients including preparation for dividend payment to the Bank's shareholders) as a consequence of preapproved and agreed business actions requiring open FX position not to be closed immediately but in the short period of time. Limit overutilization were anticipated and made according to the procedures, with the prior approval of two Executive Board members. The Bank was in line with the FX VaR limit, with the exception to the short-term breach registered during July/August 2022. During this period, FX VaR limit utilization registered increase due to growth of open FX position in rubles (purchased from FX exchange offices) and high volatility of rubles exchange rate caused by the Russian-Ukrainian conflict. Because of the above, the FX VaR limit was breached from 6th of July until 18th of August, after which the Bank sold the position in rubles and returned to the prescribed limit.

Trend of foreign exchange risk exposure



Regarding interest rate risk, the Trading Book was constantly within the defined limits for all risk measures: position, Value at Risk, duration. In the first quarter of 2022, the Trading book VaR limits were revised and slightly decreased in accordance with Parent bank proposal. These changes were adopted by the BIB’s Board of Directors.

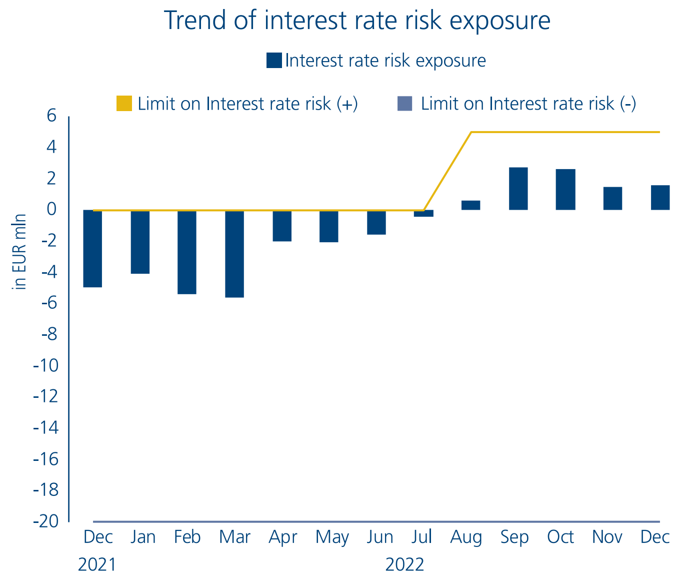
As for the Banking Book, interest rate risk significantly decreased in absolute terms and it was below the prescribed limits throughout the year.

In 2022, interest rate risk measured as Economic value of equity (EVE)+100 bps went significantly down mainly as the consequence of the implementation of new sight and prepayment models in both RSD and EUR currency along with decrease in duration of the bond portfolio, which together had a positive effect on interest rate risk. Since August, EVE changed from negative to positive sign mainly as result of decrease in the duration of bond portfolio and fixed rate loans to customer’s position on the one hand and withdrawn money market line from the Parent bank on the other.

Throughout 2022, the Net Interest Income (NII) limit utilization has remained at almost same level in comparison to the previous year, within the required limit.

During 2022, the Bank was in line with the HTCS VaR limit, with only minor exception of short breach (EUR 33 ths/23 days) driven by increased interest rates as a reaction to start of Russian Ukraine crisis. The greater utilisation of the HTCS VaR limit along with the increase of the Trading limit (caused by the transition from SRB to Standard curves) resulted in increase of Total (Trading + HTCS) VaR limit and respectively the breach that lasted two months. Due to that, Parent bank revised and increased HTCS and Total (Trading+HTCS) VaR limits.

The interest rate risk principles applied in the monitoring process were revised through the updated Policy on IRRBB Management and implementation of new regulatory requirements and Intesa Sanpaolo Group requirements.



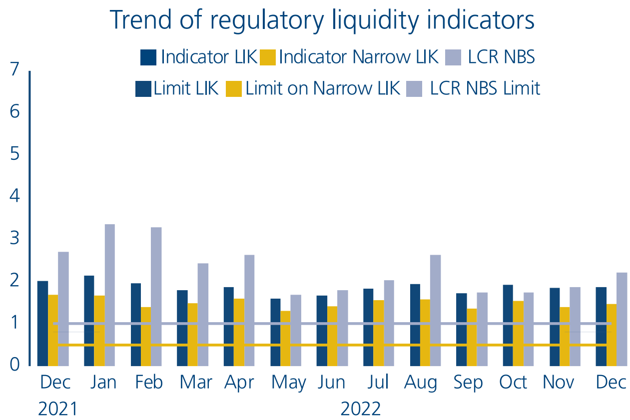
Liquidity risk

The Bank's adequate liquidity position, supported by suitable liquidity reserves/HQLA and the significant contribution from the large customer deposits base, remained within the risk limits (regulatory ones and those defined by the Group) during the whole 2022. Only exception refers to liquidity stress indicator "Survival Period" which was below established threshold of 90-day level in May 2022 (triggered by Retail deposits withdrawals due to Russian Ukraine crisis).

The main liquidity indicators, LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio), were well above the minimum requirements which confirms the solidity of the Bank's liquidity position. Level of LCR indicator measured according to local regulation was also highly above the regulatory limit of 100% (in average more than two times). Although there are some methodological differences, the indicator required by NBS (LCR_NBS) followed the same trend as the LCR ratio which is calculated in accordance with the request of the Parent bank.

In order to better capture potential currency mismatches that could arise (between assets and liabilities), the Bank is required to monitor and report the LCR by significant currencies, RSD and EUR. The specific internal limit for LCR in RSD of 100% was introduced in line with new Liquidity Risk Management Policy which is in force from December 2022. LCR in EUR is subject to regular monthly monitoring, without the defined limit.

At the end of December 2022, the amount of liquid reserves/HQLA was at high level which together with large deposits base (Retail deposits increased despite considerable withdrawal trend in the first half of the year caused by Russian Ukraine crisis along with registered very strong growth of new acquired corporate deposits) provides strong liquidity support. However, all the necessary preventive management and control measures are in place to detect any signs of potential exacerbation of liquidity conditions. Due to volatility emerged as result of Russian Ukraine crisis, the Bank withdrawn short-term credit line from the Parent bank as precautionary measures in order to preserve strong liquidity indicators and even strengthen overall Bank's liquidity position. Past experience demonstrated the importance of liquidity monitoring in stress situations, especially in these days caused by COVID-19 and Russian Ukraine crisis. For that purpose from the beginning of Covid crisis, the monthly SSM Liquidity Exercise is performed in accordance with ECB requirements. The exercise assesses the Bank's overall liquidity position which is at a satisfactory level and it is conducted for the purpose of consolidated reporting to the European Central Bank.



Operational risks

Operational risk management is conducted in line with the methodology of the Parent Company, according to the model supported by appropriate IT solutions, enabling regular monitoring, assessment and reporting on operational risks.

Banca Intesa complies with the requirements related to the regulatory capital defined by the NBS and applies a standardised approach to the measurement of capital requirement for operational risk. The Risk Management Department regularly reports to the Operational Risk Committee, Executive Board, the Board of Directors and the Parent Company on operational risks and measures for their mitigation.

Operational risk identification, assessment and monitoring are undertaken through the process of collecting data on operational risks/losses and the process of assessment of exposure to operational risk. Data on operational risks/losses are analysed on a monthly basis, while the process of assessing the exposure to operational risk is carried out once a year, including a subjective assessment of operational risks for the period of 12 months. Various scenarios are analysed and the possibility and frequency of occurrence of operational risk are assessed, as well as the average and the worst possible loss in case of occurrence of each scenario. The process of operational risk exposure assessment also includes an evaluation of the business environment through an analysis of the level of risk factor management, identification of potential critical operational issues and mitigation actions proposed to reduce the operational risk exposure and ICT risk analysis, which applies to infrastructural services, IT governance, the Bank's applications, information security and business continuity.

By applying an advanced measurement model, the Parent Company calculates the level of expected and unexpected operational losses, i.e. the level of capital required to cover operational risks.

Operational risks in 2022 are lower than previous year. Decrease of operational risks is a result of decrease in the number of new lawsuits related to increased number of allegedly unlawfully charged NKOSK insurance policy premium, NKOSK fee and loan approval fee and mostly of the expiration of the 12-month period of lawsuits discovered in the third quarter of 2021, in which the largest number of lawsuits were filed against the Bank. In the latest assessment of exposure to operational risk for 2022, it was estimated that expected losses are slightly higher than previous year. The Bank regularly monitors RAF indicators for operational risk. There were no breaches of indicators during 2022.

Operational risk management system is upgraded with the revision of Key Risk Indicators. It is an early warning system for operational risk that should support a timely identification of increased operational risk and allow preventive actions that could mitigate identified risks.

Events after the Reporting Period

Events after the Reporting Period

There have been no significant events after the reporting period, which would require disclosures in the Notes to the Financial Statements of the Bank as of and for the year ended 31 December 2022.

Non-financial Statement

Non-financial Statement

Introduction

Banca Intesa Beograd, as one of the ISBD Division subsidiaries, is undertaking the reporting obligations and providing information that are included in the consolidated non-financial statement presented by Intesa Sanpaolo S.p.A., in a consolidated and timely manner.

This Highlights on CSR activities as part of the Banca Intesa AD Beograd's Financial Report are prepared in accordance with the Accounting Law (‘Official Gazette of the Republic of Serbia’, number 73/2019).

The Highlights on CSR activities represent an overview of Bank's governance model and strategies, selection of the most relevant activities and results achieved by the Bank within its sustainability conduct, with special emphasize on employee related and environmental topics.

Data presented in CSR Highlights relate to the most relevant CSR activities of Banca Intesa a.d. Beograd for the year 2022. Wherever possible, comparative data for previous years (2021, 2020) were provided as well, thus ensuring timeliness and comparability of the applicable data.

Sustainability context and materiality topics

The selection of indicators presented in this CSR Highlights are chosen by their relevance according to the Serbian reference legislation and their representativeness and with respect to the material issues identified by Intesa Sanpaolo , and are therefore presenting the selection of priorities for the Bank, but also for the Group and its stakeholders.

Integrity in corporate conduct

The values in which Banca Intesa believes and to which is committed, as well as the principles on which its relations with stakeholders are based, are defined in the Bank’s Code of Ethics. The Code of Ethics is a management instrument that prescribes standards of conduct that all employees and all organizational units must observe in order to maintain the stakeholders’ trust. All Bank employees, as well as customers, suppliers and other external stakeholders who notice any behavior or activity that might represent a breach of the principles prescribed by the Code of Ethics may submit a non-compliance report. This process is regulated by the Procedure for Managing Reports of Non-compliance with the Code of Ethics, adopted by the Bank in 2011. During 2022, the Bank received no complaints from external nor internal Stakeholders related to the Bank's Code of Ethics nor reported any breach concerning Human Rights related issues.

When combating potential frauds, the internal regulations that govern the control system and mitigate corruption risk comprise, beside the Code of Ethics: the Code of Conduct, the Prevention and management of fraud in Banca Intesa Beograd Policy, Fraud Risk Assessment Procedure, Fraud Incident Management Procedure, Prevention and Management of Service Fraud Rulebook, and other instruction manuals including Instruction manual on Operational risk management related to internal frauds. Internal governance framework is based on Group's documents - General security rules for the protection of the information assets, Security rules for preventing and managing service frauds as well as Cybersecurity and BC Services-Security Fraud Management Process Guide.

The process of reporting fraud incident and suspicion on fraud is applicable to all Banca Intesa Beograd’s employees.

Process of fraud incident management is responsibility of the Fraud Prevention Office which analyzed a total of 66 suspected frauds in 2022, out of which 41 incidents were proven frauds - 2 internal and 39 external.

In 2022, the Bank has not been involved in any external investigations related to corruption and bribery.

Key activities performed by AML Office during 2022 in the area of anti-bribery and corruption, were in the macro process of assurance - AML Office has performed second level controls in accordance with the Parent bank framework and additionally expanded framework for conducting of controls during H2 2022. Also, in the macro process of specific requirements, AML Office performed due diligence activities, which among other things, related to controls on recipients of Bank’s sponsorships and donations, buyers of premises owned by the Bank. In 2022, in total 2442 employees participated training on prevention of bribery and anti-money laundering and reached 10062.5 training hours. In the same reporting period, number of BIB staff who have received training on prevention of corruption and bribery was 166 achieving in total 2112.5 hours of training. During 2022, ISP Group has issued updated version of policy "Anti-Corruption Guidelines". Compared to the previous version, the local legislation was updated in order to support specific initiatives with social and/or cultural purposes and macro process relating to specific due diligence activities to be performed in the area of purchase, management and sale of real estate.

ESG Governance in Banca Intesa

For the purpose of operative approach and efficient cross-sectorial cooperation, the Bank established the ESG Working Group in 2021. The body is managed by the Banca Intesa Beograd's Deputy CEO and involves several functions: Head of Retail and Small Business Division, Head of Corporate Division, Chief Risk Officer, Chief Financial Officer, Head of Marketing and PR Department, Head of Human Resources and Organization Department and the CSR Manager. In 2022, there were 7 ESG Working group's meetings. On the more operational level meetings are held within the Operational ESG Working Group that held three meetings and engaged roughly 20 referent BIB employees from different ESG related areas. In 2022, there were organized 23 meetings.

ESG KPIs: In 2022, the very first numeric targets of the ESG indicator were included in all the managerial scorecards for Business and Governance Functions at BIB Group perimeter.

Employees

Respecting the rights of employees, investing in the development of their professional qualifications and creating a work environment in which employees feel comfortable and motivated to contribute to the achievement of common goals is a strategic commitment of Banca Intesa. Therefore, the Bank continuously develops programs and initiatives with the aim of empowering its employees and providing them with new opportunities for professional development but also personal welfare. All employees in Banca Intesa are covered by the Collective Bargaining Agreement, regardless of whether they are trade union members. In 2022, 380 employees were registered as members of trade union.

Employee's breakdown by category, gender and age

				2021
Role	**Age**	**Male**	**Female**	**Total**
Management	0-30			
	31-50	19	16	35
	51-70	1	4	5
		20	**20**	**40**
Middle Management	0-30		2	2
	31-50	127	175	302
	51-70	21	48	69
		148	**225**	**373**
Employees	0-30	86	380	466
	31-50	426	1.352	1.778
	51-70	90	282	372
		602	**2,014**	**2,616**
Total		**770**	**2,259**	**3,029**

				2022
Pozicija	**Age**	**Male**	**Female**	**Total**
Management	0-30			
	31-50	17	18	35
	51-70	1	3	4
		18	**21**	**39**
Middle Management	0-30	2	2	4
	31-50	125	178	303
	51-70	19	44	63
		146	**224**	**370**
Employees	0-30	95	412	507
	31-50	411	1.337	1.748
	51-70	92	305	397
		598	**2,054**	**2,652**
Total		**762**	**2,299**	**3,061**

New employee hires by gender and age

Age	Female	Male	Total
<=30	190	59	249
>50	8		8
31-50	173	50	223
Total	**371**	**109**	**480**

Number of termination by gender and age

Age	Female	Male	Total
<=30	108	33	141
>50	186	68	254
31-50	37	16	53
Total	**331**	**117**	**448**

Employee’s breakdown by qualifications

Qualification level	up to 30 years	30-40 years	40-50 years	50-60 years	over 60 years	TOTAL
II						0
III		1	10	7		18
IV	174	132	202	169	24	701
V	1		2	3		6
VI	192	265	270	87	6	820
VII/1	144	516	670	145	20	1.495
VII/2		3	13	2		18
VIII			2	1		3
Total	**511**	**917**	**1.169**	**414**	**50**	**3.061**

Diversity and Inclusion

As important part of the ESG Strategy, Banca Intesa adopted the Group's Diversity and Inclusion Principles in 2021. The key principles are: respect for all people in their identity and diversity expression, nurturing of everyone's skills and competences, meritocracy and equal opportunities.

This new Diversity and Inclusion framework also introduced the new governance structure that consists of the Bank’s CEO, Head of Human Resources and Organization as appointed Head of Diversity and Inclusion, as well as multidisciplinary Diversity and Inclusion Steering Committee, that is responsible for development, monitoring and evaluating Diversity and Inclusion action plan.

On this regard, in 2022, BIB had in total 4 employees (1 male and 3 females) belonging to protected categories (e.g. people affected by disability, etc.).

Aiming at further strengthening of Bank’s business agenda focused on more Inclusive workplace, in July 2022, BIB has signed the first Protocol on cooperation with the Association of students with disabilities. ASD members are enabled to accesses BIB's base of open job positions and to upload professional resumes. Also, ASD’s membership will be enabled for professional internship in BIB.

In July 2022, the Bank adopted a new regulatory document „Remuneration Policy" which, as one of the most important strategic acts, defines, among other things, the conditions and principles of exercising the right to salary, elements of salary and other important preconditions for the payment of additional financial incentives for employees in the Bank's business network. In accordance with the principles of equal opportunities for all and acceptance of diversity (Diversity and Inclusion Principles), which represent one of the fundamental values of our Bank, the Board of Directors will pay special attention to the balanced gender neutrality of the salary policy at all levels of the company, with the aim of completely eliminating possible differences in earnings due to the gender of the employee (gender pay gap)

Banca Intesa's Diversity and Inclusion Business Calendar 2022 won the DISRUPT AWARD as one of the Best communication projects. The award is established with an aim of recognizing the best market examples of applied innovation in choosing a social topics to communicate, ways to overcome a certain communication issue or usage of new channels and communication tools in reaching specific target audiences.

Work environment

With regards to occupational health and safety, the Bank implements the ISP Rules for Occupational Health and Safety management systems in the International Subsidiary banks (2018) and manages the OH&S activities in close cooperation with the Parent company. This area is defined locally in the Collective Bargaining Agreement, the Rulebook on Occupational Health and Safety (OH&S), and the Assessment of Risk at Work¬places and in the Working Environment of the Bank Act. All activities within health and saftey area are in te scope of specialy appointed Officer for health and safatey (within BIB's Security and Business continuity management Department) and in line with the parent company's strategy to implement management systems that are consistent with ISO 45001 international standard requirements and appropriately customized in accordance with the referent national regulation.

In 2022, a total of 12 injuries were recorded in BIB (11 female and 1 male employees). It represents sum of employees' injuries per event, occurred during the reference period, including those occurred during working hours (5) and when commuting (7). In 2022, Mandatory training on Operational Health and Safety was locally provided for all Banca Intesa employees. In 2022, a total of 950 hours of mandatory training in the field of health and safety were realized, attended by 263 new employees.

In 2022, Private medical insurance was extended also to the mid-management structures. In line with BIB's strategic initiatives approach, private health insurance for permanent employement population has been officially approved in 2022 and will be launched from January 2023.

New health benefit for general population

In 2022, the Bank provided free of charge annual comprehensive health checkup for all the employees. This year, special attention was put on availability - geographical diversity of medical facilities that gravitate to our 4 regions. At the end of 2022, in total, 70% of total BIB Group population (the Bank, Intesa Leasing and Intesa Invest) used this health benefit.

Employee growth and development

During 2022, 67412 of training days (classroom and distance learning) were conducted in total, with 2906 employees enrolled in training courses. Out of them, 2167 were women. In 2022, 339525 training hours have been achieved in total, 11 hours in average per employee. Also, in total 48800 of compulsory training hours were achieved during 2022. On average, each BIB employee attended 19 programs on the e-learning platform.

Traning hours 2022		
Category	**Male**	**Female**
Manager	658	2.905
Officer	15.125	23.610
Employees	73.005	224.223
In total	**339.525**	

Gender		
Category	**Male**	**Female**
Manager	18	21
Officer	142	222
Employees	579	1.924
In total	**2.906**	

On the initiative of the Parent bank, a new distance learning platform named LEA was launched in the Bank in March 2022. LEA provides access to the knowledge base in 11 local languages. Access to 13 different educational and developmental e-learning streams divided into mandatory and training for specific business roles is provided or the total BIB population.

In 2021 and for the fifth time in the row, the bank organized the Intesa Junior program, providing 6 graduates and final year students with no work experience the opportunity to acquire knowledge through a six-month internship in Banca Intesa. Out of them, 100 % were permanently employed in Banca Intesa in 2022. In the 2022 edition, Banca Intesa welcomed 10 young people (5 in HO, 5 in Small business network) who will, through mentorship and structured development path, gain their first work experience.

As one of the most important developmental platforms we have introduced in 2022 a tailor made development program - the BIB Data Academy, with the aim of raising the Data Literacy of employees mainly in HO, as well as encouraging the wider and better use of Data tools. 217 colleagues participated and achieved in total 6977.5 hours of training.

In the course of 2022, the ESG topic was included in different training programs and educational initiatives organized both by Intesa Sanpaolo and Banca Intesa. BIB organized 8 different courses resulting in 1886 participants in total, achieving 7292.5 learning hours. Beside, in 2022 around 126 employees primarily from Business and Risk Governance area were involved in the e-learning course (ESG Risk Management) dedicated to the ESG & climate-change risk in the lending operation.

ESG training curriculum will be continued in 2023, both for referent ESG related functions as well as for general Bank population.

Quality and Innovation

In 2022, Banca Intesa has launched engaging platform called Ideation and through open call invited all employees to submit their ideas on how to work better, smarter, more responsible etc. Ideation project aimed to effectively engage and empower employees to come up with creative yet feasible business ideas and find creative and improved solutions to: work more efficiantly, share responsibility for reaching business goals as well as find solutions for improved work environment.

In 2022, during Ideation 2.0. cycle 120 ideas were submitted in total, which is 20 more than the previous year. 80 BIB employees participated in the preparatory Design Thinking workshop, 11 original proposals passed the triage selection out of which 5 were chosen by public vote for the Grand finale. Bank employees also voted for the ideas on the new IDEATION platform, collecting 730 public votes and more than 50 comments. The very first two winning ideas will be implemented in 2023, while all finalists will go on a winning trip, which includes participation in one of the international conferences on innovation.

Spreading the Value throughout the Supply chain

In 2022, the Bank had 1110 suppliers in its register, from which approximately 96% were local ones. All suppliers were obliged to fulfill questionnaires at the New Supplier Portal and some of the criteria are related to ESG performance of the vendor. In accordance with the local Procurement Procedure suppliers had to answer to all mandatory questions, otherwise they could not finish registration nor being invited to proceed with procurement processes.

Employee Wellbeing

Banca Intesa strives to make the time spent at work stimulating for employees through diverse activities, regularly listening to their needs and aiming to provide well balanced and fulfilled working hours.

As part of the cooperation established in 2022, the UNICEF and the Bank conducted the very first regional survey on assessing employee's needs for family-friendly practices, their awareness and satisfaction with the existing activities implemented by the Bank. Unique UNICEF methodology analysis based on a pre-defined set of quantitative and qualitative indicators provided In-depth information about the general challenges in balancing work and private life, the existence of family-friendly policies and current activities and benefits in this domain. As result, from the survey a formal commitment and action plan was built with the overall goal to continue to further improve family-friendly framework and set measurable objectives within this topic. During November, more than 50% of all Bank employee's participated in the survey and shared their perceptions.

Aiming at fostering more equitable parental responsibility, with both partners becoming more involved in childcare and their physical and emotional welfare during the child's early development phase, from November 2022, the Bank's Collective Agreement has been amended with an additional 10 days off for the Banca Intesa's male parents for every newborn child.

Inspired by the new non-financial benefit for employed dads and as part of the established cooperation with UNICEF Serbia, in November 2022 the Bank organized a master class workshop to support male employees with top tips on being employed dads. The workshop was hosted by famous national journalists and phycologists focused on father's perspective in parenting and family roles.

With the support of the Parent Group, in 2022 the Bank continued with the ISBD International Healthcare Program. In case of serious illnesses, employees with an indefinite-term contract have access to leading medical expertise for the request of a second medical opinion (available also for their immediate family members) and to treatments around the world, as well as the opportunity to be cared for by an experienced and dedicated team of professionals from specialized international medical institutions worldwide, totally free of costs. The program provides assistance in the event of serious illnesses (i.e. cancer, highly complex surgical procedures etc.), covers treatment and other complementary service costs (visa assistance, travels, etc.), all transport and accommodation expenses in the foreign country, and reimburses medical costs borne once back home.

Environment

By joining the Net-Zero Banking Alliance (NZBA) Intesa Sanpaolo has chosen to pursue the "Net Zero" goal by 2050 - for its own emissions, for loans and investments portfolios and asset management.

In the 2022-2025 Business Plan, the commitment will be strengthened by bringing own emissions to zero by 2030 and protecting and regenerating natural capital.

In line with its commitment to achieve extraordinary business results with full compliance in line with the sustainability principles, Banca Intesa continued to improve its standard practice in the field of environmental protection in 2022. Accordingly, during previous year, environmental protection became one of the strategic areas of Banca Intesa’s activity in the field of sustainability, in two priority aspects: Responsible resource management and Responsible financing.

Climate change is an extremely important phenomenon and one of the crucial social challenges for the twenty-first century. A constant increase in temperatures due to the growing concentration of greenhouse gases in the atmosphere will lead to - and is already bringing about - consequences and repercussions not only for the planet's ecosystem, but also at a social and economic sustainability for present and future generations. Effectively tackling the causes of climate change therefore requires a collective effort and a comprehensive and systematic approach.

With regards to the commitment to reduce greenhouse gas (GHG) emissions generated by its activities or over which it has a partial control and the related actions, the Bank is involved in the Intesa Sanpaolo’s Own Emission Plan (a joint Group-driven action to reach Net-Zero objectives), through which the Bank has shown strong commitment to reduce greenhouse emissions produced directly by the Bank by the optimization of electricity consumption (the Bank is up to 86% from renewable sources - targeted at Group level– 80% by 2025, and 100% by 2030), reduction of gas consumption and replacement of the car fleet.

Main indicators tracked In BIB

	2020	2021	2022
Total water consumption (m3)	43,377	35.130	41,233
Paper purchased (ton)	213	207	223
Total energy consumption, kWh*	10,084,951	10,159,451	9,557,198
Energy from renewable Sources (% renewable electricity consumption vs total)	27.0%	29.0%	86.0%

Total waste generated (ton)	2020	2021	2022
Hazardous	23	19	14
Nonhazardous	17	20	16
Total	**40**	**39**	**30**

In line with the approach of its Parent company, Banca Intesa Beograd manages direct and indirect impacts of the Bank according to Rules for Environmental and Energy Policy, released by the Parent Company in 2014 and adopted by Banca Intesa Beograd in March 2015. As part of the initiatives aimed at responsible procurement and use of goods and services, and based on Parent Bank's approach, in October 2022 the Bank acknowledged the Green Banking Procurement Rulebook, which defines the minimum criteria that should be respected in the process of procurement of certain categories of products aimed at improving compliance with environmental and social standards but also responding to the need to rationalize consumption.

Aiming at contributing to more responsible resource consumption during the global energy crisis in 2022, Banca Intesa Beograd adopted an Action plan in order to optimize the unnecessary consumption of electricity in its business premises. The planned measures in the business network of 147 branches in 88 cities throughout Serbia, included a changed mode of operation of decorative lighting and luminous advertisement, as well as optimization of the heating system regulation methods. Rationalization measures have been applied also in the Banca Intesa head office buildings in Belgrade and Novi Sad where among others measures, the bank's commercial decorative lighting and advertisements were also turned off during the day and in the night hours.

In April 2022, Banca Intesa AD Beograd together with other Intesa Sanpaolo International Subsidiary Banks celebrated the Earth Day as part of wider WWF-CEE's Earth Day initiative in Albania, Croatia, Hungary and Slovenia, aimed at raising awareness of key environmental issues with the focus on biodiversity, promoting responsible sustainable practices among bank consumers, and mobilizing them to use digital services with a lower ecological footprint. The bank invited all clients to join the initiative by choosing digital banking.

The engagement of employees on this matters is also tackled by– Greentesa - internal environment program launched in 2019. The program communicates the importance of environmental responsibility among all employees and develops internal initiatives that are raising awareness and provoking concrete actions around energy savings and reduction of generated waste.

On the occasion of the World Environment Day, BIB organized educational workshop called "Everything you did not know about waste...!" hosted by external expert in circular economy and zero Waste Movement in Serbia founder who demonstrated innovative solutions in reducing the amount of waste generated in our households and workplace and how to transform waste in a resource. At the live event tailor made for the Bank's employees, it was show cased how to make compost at home and use it for planting in terraces and backyards. The event gathered round 30 BIB employees.

The Bank implements Group's Rules governing sustainability for communications events and training courses. In that regard, when organizing events, the Bank sends invitations only electronically, both for the internal purposes and for external events. When it comes to the environmental sustainability of events and communication activities, in 2022 BIB organized 19 events. In total, 10 events (organized on physical location) were in energy efficient buildings and on locations accessible by public transport. Invitations for 95% of communication events in 2022 were sent in electronic form and 90% of productions/media/gadgets distributed were reusable or made from certified raw materials.

Besides that, Bank continued with an active promotion of both-side printing, as well as black and white printing in all business processes. Small amount of specific materials for external and internal usage where promotional/ business reasons determined one-side printing were printed in one-sided mode.

Concerning the initiatives for the mobility activities in 2022, the Bank's car fleet has been enlarged in 2022 with 4 new generation vehicles, all in compliance with the Euro 6 standards of European quality.

Climate change leads to more extreme weather and weather-related disasters. BIB did not suffer any natural disasters happened in Serbia (earthquakes, floods…) and there were no costs spent for BIB structures damaged by natural disasters occurred in 2022.

Responsible financing

When it comes to responsible financing, the Bank is committed to integrating environmental and social criteria in its business decisions in order to contribute to reducing adverse impacts its customers' operation may have on the environment and society. That commitment is reaffirmed by local application of the Rulebook on and Procedure for Social and Environmental Risk Management. Procedure for Social and Environmental Risk Management regulates the due diligence process.

In September 2022 Banca Intesa Beograd acknowledged the „Group guidelines for the governance of Environmental, Social and Governance risks (ESG)" which together with „Rules for Lending Operations in Coal Sector" and „Rules for Lending Operations in the Unconventional Oil and Gas sector" r as part of the new overall framework for managing ESG risks . With the acknowledgement of mentioned documents and adherence to the key principles they promote, Banca Intesa AD Beograd started the localization process and implementation activities in collaboration with the Parent Company and relevant internal structures. Purpose of the local documents will be to provide clear guidelines for the governance of environmental, social and governance risks, "ESG" risks, to which the Bank is exposed, by setting out the reference principles, defining the roles and responsibilities of the Corporate Bodies, internal governance structures and main bank's organizational functions, that are involved, in any capacity, in the oversight of such risks and describing the macro-process for the governance of such risks.

Further on, ESG Risk Management procedure regulates credit process in relation to ESG risks in case of granting credit products to Bank's corporate clients, which followance will ensure appropriate ESG risks recognition, management and mitigation.

Newly created governance framework shall enable Bank to effectively manage ESG risks, guiding also its customers to the more sustainable business solutions.

In relation to that, Bank has also acknowledged the ISP Rules for the classification of sustainable credit products and lending transactions, and started with activities targeting formal creation of local comprehensive sustainable lending policy. Such document will comprise list of the projects and activities, as well as the criteria, that the Bank consider to determine the eligibility of lending as sustainable, under an environmental, social and governance aspect. The SME Competitiveness Support Program aims at strengthening the competitiveness of SMEs by incentivizing them to undertake investments necessary to increase their productivity and competitiveness, to improve their production capacities and enhance processes and product quality through the introduction of the EU standards in the field of environmental protection, product safety and occupational health and safety. Projects have been financed by loans from this credit line were Investments in industrial facilities, equipment, as well as Investments in software, improving the company's management systems and general upgrade and modernization for the purpose of increased compliance with one or more Directives of the European Union in the area of environmental protection, worker safety and product quality safety. In 2022, around EUR 8 million have been disbursed through SME Competitiveness Support Program.

In 2022, Banca Intesa AD Beograd has also launched new sustainable lending product S-Loans - financing solution dedicated to the ESG transition that allows the company to obtain a discount upon achieving specific objectives in the ESG areas. S-Loans are specially designed with integrated KPIs for the 360° improvement of client's sustainability performances, regarding Environment; Social -activities as well as Governance management.

The Bank has applied international criteria for additional risk assessment of clients' financing in order to preserve the sustainability of natural resources, respect human rights and individual health, protect cultural heritage and biodiversity in Serbia. In that regard, the Bank is applying the international Equatorial Principles in Project Financing.

Innovating the finance: Circular economy in BIB
As a market leader in Serbian banking sector, Banca Intesa has high environmental awareness and is becoming an innovator in Circular economy financing as well. Supported by its parent company, Banca Intesa Belgrade has successfully granted 21 Circular economy transactions in 2022. Overall CE Corporate & SME clients' portfolio approved in 2022 was cc EUR 32 million. The main projects financed covered e.g. smart/green buildings, waste treatment solutions and solar power plant.

Community

The Bank plays an active role in the local communities. The Code of Ethics draws attention to the requirements related to the responding on the community needs: this commitment consists of various activities, such as the promotion of solidarity initiatives with projects set up through partnerships, donations, sponsorship of important cultural and social initiatives, and protection and promotion of the historical, artistic and cultural heritage of both Italy and Serbia.

Corporate philanthropy

BIB helps local community growth through Donations in accordance with the Group's Rules for Donations in the International Subsidiary Banks which set out specific principles and procedures to be applied by the ISBD Subsidiaries while evaluating and granting donations In 2022, Banca Intesa Beograd dedicated cc RSD 11.72 million (EUR 99,927) for monetary contribution to the community.

In post-covid year with less demand for Healthcare domain, a Social welfare projects were more funded, especially those aimed at children- such as support to UNICEF early childhood project aimed at supporting optimal development and inclusion of children in Serbia, or other similar projects or initiatives focusing on children with disabilities. In line with the ESG group's approach, several environmental initiatives were funded in 2022 with aim of improving current status of National natural parks in Serbia.

In 2022 the Bank continued with long-term co-branded support and affirmation of the Paralympic sport in Serbia. By renouncing part of the amount of membership fees and transactions made by Visa Classic Paralympic Card, the Bank made a key contribution to the operational and financial sustainability of the Paralympic Committee of Serbia, with cc RSD 2,77 million donated in 2022.

BIB has strong volunteering culture. Since 2013 with the aim to promote the corporate volunteering values and social solidarity, the Bank launched the „Intesa from the Heart" Program in 2013. This coordinated approach includes individual and group volunteering projects and activities that the Bank carries out independently or in partnership with civil society organizations.

In 2022, the Bank organized and supported three volunteer activities. Local volunteer initiative "Let's clean the Kolubara River together" brought together 20 colleagues from the three cities: Lazarevac, Lajkovac and Ljig who, in cooperation and with the support of the Bank, participated in the collection of nearly 2 tons of waste material. In addition to the collection of plastic waste, 120 trees were planted within the initiative, and new containers for five packaging were placed along the banks of the river.

In Belgrade, in two separate activities, the Bank supported the association of parents of children with developmental disabilities through direct volunteer work with residents, as well as volunteer preparation of products for commercial sale, which enables the financial sustainability of the organization.

In total, around 70 colleagues took part in volunteer activities during 2022 and achieved 336 hours of volunteer work.

Charity BIBazar 2022
In December 2022, the third traditional Charity BIBazar was held in the Bank's Head Offices in Belgrade and Regional center Novi Sad, several hundred of our colleagues directly financially supported organizations of families with children with developmental, physical or mental challenges, NGO's and local social enterprises. A total income at traditional charity event was over 460,000 RSD (cc 4000 EUR).

Financial inclusion
Financial inclusion is an important pillar of Banca Intesa's approach toward community. Accordingly, the Bank strives to make its products as accessible as possible, and to meet specific needs of as many social groups of customers as possible by constant innovation and improvement of products and services offer.

Economic empowerment of women has long been not only an issue of gender equality, but also a key precondition for sustainable economic growth and social progress, and therefore the creation of conditions for the development of women's entrepreneurship is an important task of the state and the private sector. As the first bank in Serbia, in 2015 BIB joined the EBRD Woman in Business program aimed to enable women's financial empowerment and support female entrepreneurship in Serbia. In 2022 Banca Intesa Beograd has disbursed over 10 mln Eur through 771 loans to local SMEs. In addition Banca Intesa continues with the strong non-financial support in form of high-quality lectures in cooperation with EBRD and prominent experts. During 2022, special attention was given to lectures/ webinars in the area of digital marketing and e commerce, in line with global economic trends and identified needs of this sensitive market niche.

In the domestic labor market, working mothers have a strong need for financial support, bearing in mind that women are on average paid less for the same and similar jobs and positions compared to men. Hence the need for continuous raising of awareness about gender equality, inclusion and protection of vulnerable social groups and support for early development of children.

In 2022, Banca Intesa in cooperation with ISP Group launched the new product for working mothers - mamma@work Special Offer for allowed overdraft on a payment account.

The existing credit rules and conditions for approval of the allowed overdraft on the payment account were applied with additional benefits such as a 60% interest discount and zero RSD approval fee, as well as a fixed interest rate on an annual basis.

The product aims at further empowerment of women in overcoming financial challenges. Due to the clear social component and the impact it has on financial independence, it is one of the first from the ESG group of financial products of the Bank. During 2022 this product was used by 28 women in total amount of 10,100 EUR. For the same target group, during 2022 the Bank disbursed 124.595 EUR for Affordable Housing loans - subsidized housing loan for mothers of children born in 2022.

Recognizing the needs of other sensitive social groups, in 2022 the Bank worked on improving the financing terms and expanding its offer of inclusive products.

Senior Cash - Loan tailor made to suit the needs of pensioners aged 55 to 74 was offered by the Bank in 2022. Throughout the entire repayment period, clients are granted life insurance included in loan price. Number of loans disbursed in 2022 is 25,430. Total amount disbursed in 2022 is EUR 69,704.197.

Intermezzo Cash Loan with possibility of delaying instalment payment up to five times during the repayment period was also offered in 2022. Total number of loans disbursed in reporting period is 49,309. Total amount disbursed in 2022 is EUR 174.888.267 .

Financial Report

INDEPENDENT AUDITORS' REPORT

To the Shareholders
of Banca Intesa a.d. Beograd

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

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank 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 applicable in the Republic of Serbia. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Serbia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information included in the Bank's Annual Business Report
Other information consists of the information included in the Annual business report other than the financial statements and our auditor's report thereon. Management is responsible for the preparation of other information in accordance with the legal requirements of the Republic of Serbia.

Our opinion on the financial statements does not cover the Other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assessed whether the other information has been prepared, in all material respects, in accordance with Law on Accounting of Republic of Serbia, in particular, whether the other information complies with the Law on Accounting of Republic of Serbia in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Other information included in the Bank's Annual Business Report (continued)

Based on the procedures undertaken, to the extent we are able to assess it, we report that:
1. the other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
2. the other information is prepared in accordance with requirements of the Law on Accounting of Republic of Serbia.

In addition, our responsibility is to report, based on the knowledge and understanding of the Bank obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

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

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

Audit Committee is responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with Auditing Standards applicable in Republic of Serbia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

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

Belgrade, 28 February 2023

Nikola Ribar
Authorized auditor
for Ernst & Young d.o.o. Beograd

SEPARATE BALANCE SHEET as at 31 December 2022

in RSD thousand	Note	December 31, 2022	December 31, 2021
ASSETS			
Cash and assets held with the central bank	15, 2.14	153,092,550	135,704,230
Receivables under derivatives	16, 2.10	468,597	433,793
Securities	16, 2.9	61,269,872	81,906,310
Loans and receivables from banks and other financial organisations	17, 2.8	70,294,972	56,557,456
Loans and receivables from clients	17, 2.8	513,000,029	449,318,112
Investments in associated companies and joint ventures	16, 2.7	1,199,472	1,199,472
Intangible investments	18, 2.15	4,602,701	4,859,166
Property, plant and equipment	19, 2.16	9,996,392	9,935,748
Deferred tax assets	14, 2.21	402,963	616,195
Non-current assets held for sale and discontinued operations	2.16	15,795	22,439
Other assets	20	10,490,465	5,017,526
TOTAL ASSETS		**824,833,808**	**745,570,447**
LIABILITIES			
Liabilities under derivatives	21, 2.10	8,305	-
Deposits and other liabilities to banks, other financial organisations and central bank	22, 2.11	92,094,541	41,492,287
Deposits and other financial liabilities to clients	22, 2.11	612,850,509	572,877,553
Provisions	23, 2.3	2,620,445	2,401,265
Current tax liabilities	14, 2.21	505,457	355,986
Deferred tax liabilities	14, 2.21	-	279,785
Other liabilities	24	18,985,690	9,121,589
TOTAL LIABILITIES		**727,064,947**	**626,528,438**
CAPITAL			
Share capital	25, 2.19	41,748,469	41,748,469
Retain earnings	25, 2.19	12,727,009	32,224,574
Reserves	25, 2.19	43,293,383	45,068,966
TOTAL CAPITAL		**97,768,861**	**119,042,009**
TOTAL LIABILITIES AND CAPITAL		**824,833.808**	**745,570,447**

Beograd, 28. februar 2023. godine

Nevena Novaković,	Dragica Mihajlović,	Darko Popović,
Head of Accounting Departmen	CFO	CEO

SEPARATE INCOME STATEMENT in the period from 1 January to 31 December 2022

in RSD thousand	Note	2022	2021
Interest income	3, 2.4	26,688,694	22,315,269
Interest expenses	3, 2.4	(2,404,544)	(994,782)
Net interest gains		**24,284,150**	**21,320,487**
Income from fees and commissions	4, 2.5	25,287,972	18,988,785
Expenses on fees and commissions	4, 2.5	(11,898,220)	(7,561,620)
Net gains from fees and commissions		**13,389,752**	**11,427,165**
Net gains from change in fair value of financial instruments	5, 2.7	1,336,767	878,376
Net gains / (losses) from derecognition of the financial instruments measured at fair value	**6, 2.7**	(2,372)	(4,515)
Net exchange rate gains and gains from agreed currency clause	**7, 2.6**	(559,883)	(418,539)
Net expenses on impairment of financial assets not measured at fair value through income statement	**8, 2.7**	(4,849,217)	(3,266,389)
Net gains / (losses) on derecognition of financial instruments carried at amortized cost	**6, 2.7**	130,057	93,934
Other operating income	9	177,996	151,516
Total net operating income		**33,907,250**	**30,182,035**
Salaries, salary compensations and other personal expenses	10, 2.20	(7,493,706)	(6,862,623)
Depreciation costs	11, 2.16	(2,440,635)	(2,237,239)
Other income	12	747,694	269,933
Other expenses	13	(9,888,427)	(9,504,145)
		14,832,176	11,847,961
Profit before tax	**14, 2.21**	**(2,152,837)**	**(1,476,602)**
Profit tax			
Profit after tax		**12,679.339**	**10,371,359**

Beograd, 28. februar 2023. godine

Nevena Novaković,	Dragica Mihajlović,	Darko Popović,
Head of Accounting Departmen	CFO	CEO

SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME
in the period from 1 January to 31 December 2022

in RSD thousand	2022	2021
Profit for the period	**12,679,339**	**10,371,359**
Components of other comprehensive income which cannot be reclassified to profit or loss:		
Increase/ (decrease) in revaluation reserves based on intangible assets and fixed assets	(5,471)	(2,798)
Negative effects of change in value of equity instruments measured at fair value through other comprehensive income	(1,624)	(802)
Components of other comprehensive income that may be reclassified to profit or loss:		
(Negative) / positive effects of change in value of debt instruments measured at fair value through other comprehensive income	(2,081,540)	(231,862)
Loss/ (income) from tax relating to the comprehensive income of the period	313,052	(111,454)
Total (negative) / positive comprehensive income for the period	(1,775,583)	(346,916)
Total positive comprehensive income for the period	**10,903.756**	**10,024.443**

Beograd, 28. februar 2023. godine

Nevena Novaković,

Head of Accounting Departmen

Dragica Mihajlović,

CFO

Darko Popović,

CEO

SEPARATE STATEMENT OF CHANGES IN EQUITY
in the period from 1 January to 31 December 2022

in RSD thousand	Share capital and other equity	Premium on issue of shares	Reserves from profit and other reserves	Revaluation reserves	Retain earnings	Total
Opening balance as at 1 January, 2021	**21,315,900**	**20,432,569**	**43,488,903**	**1,926,979**	**21,850,279**	**109,014,630**
Increase in revaluation reserves based on intangible assets and fixed assets	-	-	-	(2,753)	-	(2,753)
Negative effects of change in value of equity instruments measured at fair value through other comprehensive income	-	-	-	(802)		(802)
Negative effects of change in value of debt instruments measured at fair value through other comprehensive income	-	-	-	(343,361)	-	(343,361)
Profit for the current year	-	-	-	-	10,371,359	10,371,359
Other	-	-	-	-	2,936	2,936
Balance as at 31 December, 2021	**21,315,900**	**20,432,569**	**43,488,903**	**1,580,063**	**32,224,574**	**119,042,009**
Opening balance as at 1 January, 2022	**21,315,900**	**20,432,569**	**43,488,903**	**1,580,063**	**32,224,574**	**119,042,009**
Increase (decrease) in revaluation reserves based on intangible assets and fixed assets	-	-	-	(4,650)	-	(4,650)
Negative effects of change in value of equity instruments measured at fair value through other comprehensive income	-	-	-	(1,624)		(1,624)
Negative effects of change in value of debt instruments measured at fair value through other comprehensive income	-	-	-	(1,769,309)	-	(1,769,309)
Profit for the current year	-	-	-	-	12,679,339	12,679,339
Dividends paid					(32,182,375)	(32,182,375)
Other	-	-	-	-	5,471	5,471
Balance as at 31 December, 2022	**21,315,900**	**20,432,569**	**43,488,903**	**(195,520)**	**12,727,009**	**97,768,861**

Beograd, 28. februar 2023. godine

Nevena Novaković,

Head of Accounting Departmen

Dragica Mihajlović,

CFO

Darko Popović,

CEO

SEPARATE CASH FLOW STATEMENT in the period from 1 January to 31 December 2022

in RSD thousands	2022	2021
Cash inflow from operating activities	52,808,058	43,353,326
Interest	26,414,136	23,648,599
Fees	25,327,134	18,796,322
Other operating income	1,064,363	897,464
Dividends and profit sharing	2,425	10,941
Cash outflow from operating activities	(30,214,787)	(24,254,938)
Interest	(1,604,403)	(1,011,631)
Fees	(11,818,385)	(7,440,851)
Gross salaries, salary compensations and other personal expenses	(7,567,679)	(6,753,637)
Taxes, contributions and other duties charged to expenses	(147,011)	(79,639)
Other operating expenses	(9,077,309)	(8,969,180)
Net cash inflow from operating activities before an increase or decrease in financial assets and financial liabilities	**22,593,271**	**19,098,388**
Inflow from financial assets and increase in financial liabilities	**114,118,344**	**18,484,530**
Inflow from receivables under securities and other financial assets not intended for investment	20,058,743	8,375,213
Inflow from deposits and other financial liabilities to banks, other financial organisations, central bank and clients	94,059,601	10,109,317
Outflow from financial assets and decrease in financial liabilities	**(122,523,602)**	**(31,419,213)**
Outflow from loans and receivables from banks, other financial organisations, central bank and clients	(122,523,602)	(31,416,624)
Outflow from other financial liabilities	-	(2,589)
Net cash inflow from operating activities before profit tax	**14,188,013**	**6,163,705**
Profit tax paid	(1,757,052)	(949,162)
Dividends paid	(32,182,375)	-
Net cash inflow / outflow from operating activities	**(19,751,414)**	**5,214,543**
Cash inflow from investing activities	**29,634**	**488,957**
Sale of intangible investments, property, plant and equipment	29,634	488,957
Cash outflow from investing activities	**(1,273,774)**	**(1,340,063)**
Purchase of intangible investments, property, plant and equipment	(1,273,774)	(1,340,063)
Net cash inflow from investing activities	**(1,244,140)**	**(851,106)**

in RSD thousands	2022	2021
Cash inflow from financing activities	**21,330,736**	**26,601,626**
Loans taken	21,330,736	26,601,626
Cash outflow from financing activities	**(19,327,112)**	**(23,528,066)**
Loans taken	(18,685,360)	(23,040,278)
Other outflow from financing activities	(641,752)	(487,788)
Net cash outflow / inflow from financing activities	**2,003,624**	**3,073,560**
Total cash inflow	**188,286,772**	**88,928,439**
Total cash outflow	**(207,278,702)**	**(81,491,442)**
Total cash inflow / outflow	(18,991,930)	7,436,997
Cash and cash equivalents at the beginning of the year	**125,858,083**	**117,883,804**
Exchange rate gains	8,032,083	2,249,310
Exchanges rate losses	(7,746,617)	(1,712,028)
Cash and cash equivalents at end-period (Note15)	**107,151,619**	**125,858,083**

Beograd, 28. februar 2023. godine

Nevena Novaković,	Dragica Mihajlović,	Darko Popović,
Head of Accounting Departmen	CFO	CEO

Notes to the Separate Financial Statements For the Year Ended 31 December 2022

1. CORPORATE INFORMATION

Banca Intesa Beograd a.d. Belgrade (hereinafter referred to as the "Bank") was established as a joint stock company, pursuant to the Memorandum on Association and Operations of Delta banka DD Belgrade dated 16 September 1991. On 19 September 1991, the National Bank of Yugoslavia issued a certificate and permission for the foundation of Delta banka DD Belgrade.

On 16 October 1991, the Bank was duly registered with the Commercial Court in Belgrade and subsequently commenced its operations.

Pursuant to the General Manager's Decision no. 18600 dated 7 November 2005, the Approval of National Bank of Serbia and the Decision of the Companies Register no. BD 98737/2005 dated 29 November 2005, the Bank changed its previous name into Banca Intesa a.d. Belgrade.

During the year ended 31 December 2007, the legal status change was carried out through a merger by absorption, whereby the acquirer was Banca Intesa a.d. Belgrade, and the acquired bank was Panonska banka a.d. Novi Sad. Upon registration of the procedure of merger by absorption with the Serbian Business Registers Agency, the Bank as the acquirer and the legal successor has continued to operate under its existing business name, while the acquired bank – Panonska banka a.d. Novi Sad ceased its operations without liquidation process, and its shares were withdrawn and cancelled.

During 2012, upon receipt of the previous approval of the National Bank of Serbia, the Bank's Assembly has adopted changes and amendments to the Memorandum of Association and the Articles of Association, by which it has harmonized its business and enactments with the provisions of the Law on Companies. The Serbian Business Registers Agency has registered these changes by rendering a Decision no. BD 85268/2012 dated 27 June 2012.

During 2015, upon receipt of the previous approval of the National Bank of Serbia, the Bank's Assembly has adopted changes and amendments to the Memorandum of Association and the Articles of Association, by which it has harmonized its business and enactments with the provisions of the Law on Banks. The Serbian Business Registers Agency has registered these changes by rendering a Decision no. BD 56475/2015 dated 26 June 2015.

Furthermore, in August 2015, shareholding structure of the Bank was changed and it reflects in the fact that the minority shareholder International Finance Corporation (IFC) sold its entire stake to majority shareholder Intesa Sanpaolo Holding International S.A. After this change the Bank had two shareholders, Intesa Sanpaolo Holding International S.A. and Intesa Sanpaolo S.p.A. Based on the previous change in the shareholding structure and upon the previous approval of the National Bank of Serbia, Bank's Assembly has adopted changes and amendments to the Memorandum of Association, which was registered with the Decision of the Serbian Business Registers Agency no. BD 2238/2016 dated 18 January 2016.

In December 2016, the shareholding structure of the Bank was changed once more and it reflects in the fact that the minority shareholder Intesa Sanpaolo S.p.A. sold its entire stake to majority shareholder Intesa Sanpaolo Holding International S.A. After this change the Bank has one shareholder and it is Intesa Sanpaolo Holding International S.A.

Based on the previous change of the shareholders structure of the Bank and upon receipt of the consent of the National Bank of Serbia, the Shareholders' Assembly has adopted changes and amendments of the Memorandum on Association. The change was registered at the Business Registers Agency under the decision no. BD 37271/2017 dated 5 May 2017.

The Bank is authorized by National Bank of Serbia and registered to perform the following operations: payment transactions, credit and deposit operations, issuance of payment cards; also, the Bank is registered for operations with securities, issuance of guarantees and other warranties. In accordance with articles of Law on banks, the Bank operates in accordance with principles of liquidity, security and profitability. In addition, the Bank is authorized for selling of investment units as well for representing insurance, with prior consent of National bank of Serbia.

As of 31 December 2022, the Bank operated through its Head Office located in Belgrade, Milentija Popovića 7b. The Bank network consists of associated organizational units as follows: 4 regional centres and 146 branches.

The Bank had 3,061 employees as of 31 December 2022 (31 December 2021: 3,029 employees).

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis for the preparation and presentation of the separate financial statements

The separate financial statements of the Bank for the year ended 31 December 2022 (hereinafter: the "financial statements") have been prepared in accordance with International Financial Reporting Standards (IFRSs).

In accordance with the Law on Accounting, banks must keep their books of accounts and prepare financial statements in accordance with translated IFRSs, while, by the Law on Banks (article 50.2), it has been designated that, when compiling Annual Financial Statements, a bank should apply the IFRSs as of date which the competed authority has designed as the date of the application of these standards.

(a) Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following IFRS amendments which have been adopted by the Group/Company as of 1 January 2022:

- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)**

The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

- ➢ **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the previous version of the IASB's Conceptual Framework for Financial Reporting to the current version issued in 2018 without significantly changing the accounting requirements for business combinations.
- ➢ **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment any proceeds from the sale of items produced while bringing the asset to the location and condition necessary for it be capable of operating in the manner intended by management. Instead, a company recognizes such sales proceeds and related cost in profit or loss.
- ➢ **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous. The amendments clarify, the costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to the contract activities.
- ➢ **Annual Improvements 2018-2020** make minor amendments to **IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture** and the Illustrative Examples accompanying **IFRS 16 Leases**

The amendments had no/had the following impact on the financial statements of the Bank/Group/Company.

- **IFRS 16 Leases-Covid 19 Related Rent Concessions beyond 30 June 2021 (Amendment)**

The Amendment applies to annual reporting periods beginning on or after 1 April 2021, with earlier application permitted, including in financial statements not yet authorized for issue at the date the amendment is issued. In March 2021, the Board amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic. Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.

The amendments had no impact on the financial statements of the Bank.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1. Basis for the preparation and presentation of the separate financial statements (continued)

B) Standards issued but not yet effective and not early adopted

- **IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)**
  The Amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. The requirements of this standard are not expected to have a material impact on the Bank's financial statements.

- **IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)**
  The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty, if they do not result from a correction of prior period error. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The requirements of this standard are not expected to have a material impact on the Bank's financial statements.

- **IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)**
  The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments narrow the scope of and provide further clarity on the initial recognition exception under IAS 12 and specify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement, having considered the applicable tax law, whether such deductions are attributable for tax purposes to the liability or to the related asset component. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. The requirements of this standard are not expected to have a material impact on the Bank's financial statements.

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**
  The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted, and will need to be applied retrospectively in accordance with IAS 8. The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities as either current or non-current. The amendments clarify the meaning of a right to defer settlement, the requirement for this right to exist at the end of the reporting period, that management intent does not affect current or non-current classification, that options by the counterparty that could result in settlement by the transfer of the entity's own equity instruments do not affect current or non-current classification. Also, the amendments specify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification. Additional disclosures are also required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period. The amendments have not yet been endorsed by the EU. The requirements of this standard are not expected to have a material impact on the Bank's financial statements.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1. Basis for the preparation and presentation of the separate financial statements (continued)

- **IFRS 16 Leases: Lease Liability in a Sale and Leaseback (Amendments)**
  The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The amendments are intended to improve the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction in IFRS 16, while it does not change the accounting for leases unrelated to sale and leaseback transactions. In particular, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use it retains. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease. A seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, being the beginning of the annual reporting period in which an entity first applied IFRS 16. The amendments have not yet been endorsed by the EU. The requirements of this standard are not expected to have a material impact on the Bank's financial statements.

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**
  The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The requirements of this standard are not expected to have a material impact on the Bank's financial statements.

The accompanying financial statements are separate financial statements, since they include unconsolidated captions of receivables, liabilities, operating results, changes in equity and cash flows of the Bank, excluding its subsidiaries – Intesa Leasing d.o.o. Belgrade and Intesa Invest, which are 100% owned by the Bank. The Bank recognizes its investment in this subsidiary at cost. Total asset of subsidiary Intesa Leasing is 3.57% (31.12.2021:2.98%), while total assets of subsidiary Intesa Invest is 0.04% (31.12.2021: 0.04%) of the total Bank`s assets as at 31 December 2022.

In accordance with the provisions of IFRS 10 "Consolidated financial statements", the Bank is exempted from preparation of consolidated financial statements, taking into consideration that the ultimate parent company, Intesa Sanpaolo S.p.A., regularly prepares and disclosed consolidated financial statements in accordance with IFRS adopted by EU. These financial statements are published on the official website of Intesa Sanpaolo Group: www.group.intesasanpaolo.com.

Although the Bank is obliged to prepare annual consolidated financial statements and submit them to the Business Registers Agency in accordance with the Law on accounting, still the Bank uses its right specified by Law on banks, article 55 paragraph 4, by which it does not include subsidiaries in annual audit of its consolidated financial statements, based on the consent of National bank of Serbia.

The Bank's financial statements are stated in thousands of Dinars, unless otherwise stated. The Dinar (RSD) is the functional and official reporting currency of the Bank. All transactions in currencies other than functional currency are considered transactions in foreign currency.

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

In the preparation of these financial statements, the Bank has adhered to the principal accounting policies further described in Note 2.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2. Comparative data

Accounting policies and estimates relating to recognition and measurement of assets and liabilities, applied in the preparation of these financial statements, are consistent with those applied in the preparation of the annual financial statements of the Bank for the year31 December 2021.

2.3. Significant accounting estimates and judgments

Use of estimates

The preparation and presentation of the financial statements requires the Bank's management to make estimates and reasonable assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of preparation of the financial statements, as well as income and expenses for the reporting period.

These estimates and assumptions are based on information available as of the date of the preparation of the financial statements. Actual results may differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis, while changes in estimates are recognized in the income statement in the periods in which they become known.

The estimates and assumptions that have a risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Impairment of financial assets

The Bank recognizes impairment for expected credit losses for financial assets that are measured at amortized cost as well as for debt financial assets that are measured at fair value through other comprehensive income, lease receivables, loan commitments and issued guarantees. Carrying value of financial instruments measured at amortized cost is decreased by the amount of impairment for expected credit losses.

Judgments and estimates that the Bank uses as input in the expected credit loss model, together with the assessment on significant increase of credit risk, are disclosed in the Note 28.1. Credit risk.

Classification of financial assets

The Bank assesses business model within the assets are held. Besides, the Bank assesses if contractual cash flows of financial assets are solely payments of principal and interest (Note 2.7.2.).

Useful lives of intangible assets, property, plant and equipment ("tangible assets")

The determination of the useful lives of intangible assets, property, plant and equipment is based on historical experience with similar assets as well as on any anticipated technological development and changes influenced by wide range of economic or industry factors. The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions that are basis for determination of useful life.

Due to the significant share of fixed assets in the total assets of the Bank, the impact of each change in these assumptions could materially affect the Bank's financial position, as well as the results of its operations.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. Significant accounting estimates and judgments (continued)

Impairment of non-financial assets

At each reporting date the Bank's management reviews the carrying amounts of the Bank's intangible assets and property, plant and equipment presented in the financial statements. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount. An impairment review requires from management to make judgment concerning the cash flows, growth rates and discount rates of the cash generating units under review.

Provisions for litigations

The Bank is subject to a number of legal proceedings arising from its daily operations, which relate to commercial, contractual and labour disputes, which are resolved and considered in the course of regular business activity. The Bank regularly estimates the probability of negative outcomes to these matters, as well as the amounts of probable or reasonable estimated losses.

Reasonable estimates include judgments made by management, after considering information including notifications, settlements, estimates performed by the 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 estimation can be made of the obligation after careful analysis of the individual matter (Note 23). The required provision may change in the future, due to new developments and as additional information becomes available. Commitments, as well as positions that do not meet the criteria for provision are disclosed, unless the possibility of transferring economic benefits is remote.

Deferred tax assets

Deferred tax assets are recognized for all unused tax credits to the extent that it is probable that expected future taxable profit will be available against which the unused tax credits can be utilized. The Bank's management necessarily performs significant estimate in order to determine the amount of deferred tax assets that can be recognized, based on the period of occurrence, the amount of future taxable profit and strategy of tax planning strategy (Note 14(c)).

Retirement and other post-employment benefits

The costs of defined employee benefits payable upon termination of employment, i.e. retirement in accordance with the fulfilled legal requirements are determined based on the actuarial valuation. The actuarial valuation includes an assessment of the discount rate, future movements in salaries, mortality rates and fluctuation of employees. As these plans are long-term, significant uncertainties influence the outcome of the estimation. Additional information are disclosed in Note 23.

Leasing

Incremental borrowing rate used as discount rate in valuation of lease payables' present value, is determined by analysing internal sources of information on borrowings and is adjusted to reflect contractual lease terms and type of leased asset.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. Significant accounting estimates and judgments (continued)

Impact of climate risks on accounting estimates and judgements

The Bank, as its customers, is exposed to certain level of risks arising from climate changes, both physical risks as well as risk of transitioning to net-zero economy, i.e. decarbonized economy.
Most climate - related physical risks are expected to manifest over a term that is generally longer than the maturity of most outstanding exposures of the Bank.

The following items that are the subject of accounting estimates and judgements may be impacted by physical and transition risks:

Expected credit losses – the client of the Bank may be significantly exposed to climate risks either directly, through reduced profitability of company or through impairment of the asset, or indirectly, through non-compliance with the legal requirements or through increased reputational risk as a result of negative impact on the environment. Such risks may lead to deterioration of creditworthiness of clients, which could potentially result in increase in expected credit losses.

Fair value measurement – the Bank's portfolio currently does not contain financial exposures measured at fair value which are exposed to the climate changes risk. If such exposures had existed, their fair value would have included the climate changes variable.

2.4. Interest income and interest expenses

Interest income and interest expenses, including penalty interest and other income and other expenses from interest-bearing assets, as well interest bearing liabilities are recognized on an accrual basis, based on obligatory terms defined by a contract between the Bank and its customers.

Interest income and interest expense are recognized in profit and loss using effective interest rate, presenting the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- The gross carrying amount of the financial asset (amortized cost before decrease for expected credit losses), or
- The amortized cost of the financial liability

When calculating effective interest rate for financial instruments that are not POCI (purchased originated credit impaired), the Bank assesses future cash flows taking into consideration all contractual terms of financial instruments, but not including expected credit losses. For POCI loans, credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

Interest income is recognized for financial assets measured at amortized cost as well as for debt instruments measured through other comprehensive income. Interest expense are recognized for financial liabilities measures at amortized cost.

Loan origination fee, as part of effective interest rate, is recognized in interest income and interest expense. Loan origination fees are calculated and collected upfront, while related income is deferred and discounted using the effective interest rate method, over the life of the loan.

After objective evidence of impairment have been identified and impairment recognized, interest income on these receivables is calculated on the amortized cost basis and by applying effective interest rate, which has been used to discount future cash flows for determining impairment losses.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5. Fee and commission income and fee and commission expenses

Fees and commissions income and expenses originating from providing or using the banking services are generally recognized on an accrual basis when the service has been provided.

Fees and commissions mostly comprise of fees for payment operations services, commission for foreign exchange transactions, issued guarantees and other banking services.

Fee and commission income relating to current accounts and financial instruments maintenance services are recognized over time, when the service is provided.

Income relating to transaction fees are recognized in the moment of transaction occurrence.

A contract with a customer that results in recognition of financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

2.6. Foreign currency translation

The items included in the Bank's financial statements are measured by using currency of the Bank's primary economic environment (functional currency). As disclosed in Note 2.1., the accompanying financial statements are stated in thousands of Dinars (RSD), which represents the functional and official reporting currency of the Bank.

Transactions denominated in foreign currency are translated into dinars at the official median exchange rate determined on the Interbank Foreign Currency Market, published by National Bank of Serbia, prevailing at the transaction date.

Assets and liabilities denominated in foreign currency at the balance sheet date are translated into dinars at the official median exchange rate determined on the Interbank Foreign Currency Market, published by National Bank of Serbia, prevailing at the balance sheet data (Note 31).

Foreign exchange gains or losses arising upon the translation of balance sheet items denominated in foreign currencies are credited or charged as appropriate, to the income statement, as foreign exchange gains or losses within Net foreign exchange gains/Net foreign exchange losses and effects of contracted foreign currency clause (Note 7).

Income and expenses incurred in realized transactions of purchase and sale of foreign currency and effective foreign currency with individuals and legal entities are recorded in the income statement Income / expenses from fees and commissions (Note 4).

Gains and losses arising on translation of financial assets and liabilities indexed with the contracted foreign currency clause are credited or charged as appropriate, to the income statement, and presented within Net foreign exchange gains/Net foreign exchange losses and effects of contracted foreign currency clause (Note 7).

Commitments and contingencies denominated in foreign currency are translated into dinars at the official median exchange rate prevailing at the balance sheet date.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial instruments

2.7.1. Initial recognition of financial instruments

Financial instruments are initially measured at fair value, increased by transaction costs (except financial assets or financial liabilities measured at fair value through profit and loss), that are directly related to acquisition or issuance of financial asset or financial liability.

Financial assets and financial liabilities are recorded in the Bank's balance sheet in the moment when the Bank is contractually committed to the instrument. Acquisition or sale of financial assets is recorded as of the settlement date, presenting the date when asset is delivered to the counterparty.

In order to determine classification and measurement, all financial assets, except derivatives and equity investments, are analyzed by the Bank through the combination of business model managing the financial asset as well as characteristics of contractual cash flows.

2.7.2. Classification

Financial assets

At initial recognition, financial asset is classified in accordance with one of the following methods of measurement: at amortized cost, at fair value through other comprehensive income (FVOCI) or at fair value through profit and loss (FVTPL).

Financial asset is measured at amortized cost if it meets both of the following conditions and is designated as at FVTPL:
- Asset is held within a business model whose objective is to hold assets to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified fates to cash flows that are solely payments of principal and interest

Debt instrument is measured as FVOCI only if it meets both the following conditions and is not designated as at FVTPL:
- The assets is held within the business model whose objective is achieved by both collecting contractual cash flows and selling contractual assets, and
- The contractual terms of the financial asset give rise on specified fates to cash flows that are solely payments of principal and interest

Debt instruments held with the aim to collect contractual cash flows and selling comprise treasury bills and the bonds of Republic of Serbia.

On initial recognition of an equity instrument that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value through OCI, at the level of particular equity instrument. As of 31 December 2022, the Bank opt for FVOCI accounting of equity investment, other than investment in subsidiaries, since these instruments are not held for trading. This choice is made based on the each particular instrument in the moment of initial recognition and cannot be recalled.

Besides, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measures at amortized cost or at FVOCI as at FVTPL, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial instruments (continued)

2.7.2. Classification (continued)

Business model assessment

Then Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level, because this better reflects the way the business is managed, and information is provided to management.

The information considered includes policies and strategies for the portfolio, as well as their application in practice. In particular, it is important if management strategy is focused on earning contractual interest revenue, matching duration of the financial assets to the duration of liabilities that are funding those assets or realizing cash flows through the sale of the assets. Also, the Bank considers information on how the performance of the portfolio is evaluated and reported, together with information on risks affecting the performance of the portfolio and how they are managed. Besides, the Bank considers frequency, volume and timing of financial assets sales in prior periods, the reasons for sales and plans for future sales of financial assets.

Financial assets that are managed with the aim of trading, and whose performances are assessed based on the fair value, are measured as FVTPL since they are neither held in portfolio with the purpose to collect contractual cash flows nor they are held with the double purpose of collecting the contractual cash flows and selling.

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

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

In assessing whether contractual cash flows are solely payment of principal and interest (SPPI), the Bank considers the contractual terms of the instrument and analyses if they contain contractual terms that could change the timing or amount of contractual cash flows, resulting in fair value measurement of the instrument. Main contractual terms that are considered in assessment are: leverage features, extension and prepayment terms, characteristics that limit the Bank's claim to cash flows to specified assets as well as features that modify consideration of time value of money, such as periodical reset of interest rates in case of financial assets with variable interest rate.

Reclassifications

Financial assets are reclassified only in case when the business model for managing financial assets is changed. Reclassification is performed in line with the principles defined by IFRS.

Financial liabilities are not reclassified.

Financial liabilities

The Bank measured financial liabilities at amortized costs, except derivatives that are measured at FVTPL, where fair value adjustment is recognized in profit or loss.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7.3. Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when any of the following criteria are fulfilled:

- the rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement;
- either the Bank has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset;
- financial asset is written-off;
- Subsequent changes of contractual cash-flows of financial asset occurred, resulting in significant modification of cash flows of financial asset (Note 2.7.4.).

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the Bank’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

In case when financial asset is derecognized, cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit and loss in case of debt securities measured at FVOCI. However, in case of equity instruments measured at FVOCI, accumulated gain/loss recognized through other comprehensive income will not be recognized in profit and loss in the moment of derecognition but in equity.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is satisfied, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified such exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, while the difference in the respective carrying amounts is recognized in profit or loss.

The Bank ceases to recognize financial liability when the contractual terms are modified, while cash flows of modified liability are significantly changed. In that case, new financial liability is based on the modified terms and is recognized at fair value. Difference between carrying amount of financial liability and new financial liability with modified terms is recognized in profit and loss.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial instruments (continued)

2.7.4. Modification of contractual cash flows

Financial assets

If contractual terms of financial asset are subsequently modified, the Bank evaluates whether the cash flows of the modified assets are substantially different. If so, then contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

Key criteria for significant modification are renegotiation of contracts with purpose to adjust to commercial terms, change in currency, change in debtor, negotiation of contractual clauses “pay if you can” or conversion debt to equity.

If the originally contracted cash flows of financial asset are subsequently contractually modified and such modification does not lead to derecognition of financial asset, the Bank recalculates gross carrying amount of financial asset as present value of renegotiated future cash flows, discounted at original effective interest rate and recognizes the amount, arising from adjustment with the new gross carrying amount, as modification gain or loss presented in position Net losses arising from impairment of financial assets not carried at fair value through profit and loss.

Abovementioned gains or losses are amortized during residual lifetime of modified financial asset. In accordance with IFRS9 requirements, in the subsequent periods the modification loss will be amortized through interest income by the end of loans’ maturity.

2.7.5. Impairment of financial assets and provisions for risks

Financial liabilities

The Bank derecognizes financial liability when contractual terms are modified and the cash flows of the modified liability are substantially different. In this case, new financial liability is based on the modified terms and is recognized at fair value. The difference between the carrying amount of the financial liability and new financial liability with modified terms is recognized in profit and loss.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial instruments (continued)

2.7.5. Impairment of financial assets and provisions for risks (continued)

Recognition of expected credit losses

Bank calculates expected credit losses for financial assets measured at amortized cost or for debt securities measured at fair value through other comprehensive income (FVOCI). Carrying amount of financial instruments measured at amortized cost is decreased by the amount of expected credit losses.

Expected credit loss for financial assets measured at fair value through other comprehensive income (FVOCI) is recognized through other comprehensive income and income statement, and it should not decrease the carrying value of the asset in the balance sheet.

After the initial recognition, expected credit loss is calculated at every reporting date. Bank assesses, at each reporting date, the level of financial assets impairment for assets measured at amortized cost or at fair value through other comprehensive income (FVOCI). Bank's assessment is based on "forward-looking" expected credit loss (ECL) model.

Loss allowances is measured on either of the following bases:
- 12-month ECLs - these are ECLs that result from possible default events within the 12 months after the reporting date and applied to financial instruments that belonging to the stage impairment 1
- ECL during the whole life of the financial instrument ("Lifetime") - these are ECLs that result from all
- possible default events over the expected life of a financial instrument and applied to financial instruments that belonging to the stage impairment 2 and 3

Lifetime ECL measurement during the whole life of the financial instrument applies if the credit risk of a financial asset at the reporting date has increased significantly since its initial recognition, while in the opposite case 12-month ECL measurement applies.

Details regarding credit risk policy are presented in Note 28.1 Credit Risk.

Uncollectable receivables write-off

Financial assets' write-off / transferring to off-balance sheet is performed in accordance with the Procedure on Write-off of Uncollectable Receivables. The procedure relates to the write-off / transferring to off-balance sheet of receivables that meet the following criteria: delay in payment of receivable is more than 360 days; the Bank has failed to collect receivables despite the implementation of all activities of collection specified by its policies and procedures; judicial or extrajudicial procedures of settlement of receivables have been initiated; receivables are fully impaired. Exceptionally, receivables that do not fulfil the abovementioned requirements may be written-off / transferred to off-balance sheet if such decision is made by the competent authority, PAC (Problem Asset Committee), in accordance with the authorizations delegated by the Board of Directors.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Financial instruments (continued)

2.7.6. Renegotiated loans

If the Bank estimates that the problems of debtors and their delay in payment is temporary and that, under adjusted agreed conditions, the client could fulfil obligations toward Bank regularly, the Bank seeks to restructure loans rather than to activate collaterals. This may involve extending repayment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Renegotiated loans are continuously reviewed and monitored, to ensure that all requirement are met and that future payments are likely to occur.

2.8. Loans and receivables from banks and other financial organizations and Loans and receivables from customers (hereinafter: Loans and receivables)

Loans and receivables include:

- Loans and receivables valued at amortized cost. Initial recognition of these loans and receivables is at fair value increased by direct transactional costs, while subsequently they are measured at amortized cost using effective interest rate method (Note 2.7.2) and
- Loans and receivables measured at fair value through profit or loss, in accordance with business model or cash flow characteristics

As of 31 December 2022, the Bank's portfolio does not include loans that meet the criteria to be valued at fair value through profit or loss.

2.9. Securities

Securities caption in the Statement of financial position includes:

- Debt securities measured at fair value through other comprehensive income (FVOCI)

For debt securities measured at FVOCI, gains or losses are recognized in OCI, except interest income, expected credit losses and foreign exchange differences that are recognized in profit and loss.

- Debt securities measured at amortized cost

For corporate bonds in RSD, which are classified as debt securities measured at amortized cost, interest income determined using the effective interest rate and expected credit losses are recorded through profit and loss.

When debt securities measured at FVOCI are derecognized, accumulated gain or loss previously recognized in OCI in equity is reclassified from equity to profit and losses.

- Equity investments measured at fair value through other comprehensive income, excluding investments in subsidiaries and associates

For equity investments that are accounted as FVOCI, changes in fair value after initial recognition are recognized in equity and are never recognized in profit and loss, not even on sale. Accumulated gains or losses recognized in other comprehensive income are transferred to retained earnings when equity investment is derecognized.
Equity investments that are accounted at FVOCI are not subject of impairment. Dividends on equity investments are accounted in profit and loss.

- Debt securities measures at fair value through profit and loss (FVTPL)

For debt securities measured at FVTPL, gains and losses from fair value adjustments are recorded through profit and loss and are not subject to impairment.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9. Securities (continued)

Interest income on treasury government bonds of the Republic of Serbia is calculated and recognized daily in the income statement.

- Shares measured at fair value through profit and loss (FVTPL)

For shares measured at FVTPL, gains and losses on fair value adjustments are recognized through profit and loss.

Dividend income in respect of investments in shares of other legal entities, and income from investments in equity instruments of other legal entities is recognized as income when the shareholder's right to receive payment is established.

2.10. Receivables from derivatives and Liabilities based on derivatives (hereinafter: derivatives)

The Bank has in its portfolio financial derivatives, for which foreign exchange rate is basic underlying variable. Derivatives used by the Bank are currency swap (FX swap) and currency forward (FX forward) contracts. For accounting purposes, derivatives are classified as financial instruments held for trading and are recorded in the balance sheet at fair value.

Derivatives are initially recognized when the Bank becomes a party to an agreement with the other contractual party (the agreement date). The notional amount of the derivative contract is recorded in the off-balance sheet, and initial positive or negative fair value of the derivative is recorded in the balance sheet as an asset or a liability. The initial recognition of fair value applies to cases when the market price for the same or a similar derivative on an organized market is available, and when the price differs from the price at which the Bank contracted the derivative. Hence, the derivatives contracted by the Bank with the customers operating in Serbia do not have initially recognized fair value, since there is no active market for similar derivatives in the country. When an active market for such derivatives develops, i.e. when the relevant market information becomes available, the Bank will recognize in the balance sheet (as asset or liability) and the income statement (initially positive or negative fair value) the difference between the market value of transactions and initial fair value of derivatives determined using valuation techniques.

In accordance with the existing accounting policy of the Bank, adjustments to fair value of financial instruments held for trading are recognized at the end of each month, and the effect of changes in fair value are recognized in the income statement as the increase or decrease of fair value. Derivatives are recognized as derivatives receivable or liabilities based on derivatives, depending on whether their fair value is positive or negative. Derivatives are derecognized at the moment of expiry of contracted rights and obligations arising from derivatives (exchange of cash flows), i.e. at termination date. At that moment, the ultimate effect fair value adjustment of currency financial derivatives (that the Bank currently solely as in derivatives portfolio) is recorded against realized foreign exchange differences, while all previously recognized changes in fair value (monthly recorded through unrealized foreign exchange gains/losses) are reversed.

Since there is neither an active market for derivatives in Serbia, nor a possibility for determining fair value of derivatives by reference to a quoted market price, the Bank uses the methodology of discounting future cash flows arising from derivatives in order to determine fair value. This methodology of calculation is generally accepted by market participants in countries that have developed markets with active trading in derivatives and the calculated fair value represents a reliable estimate of the fair value of derivatives that would be achieved on an active market.

The methodology mainly incorporates market factors (middle exchange rate, market interest rates and similar) to the best possible extent and is consistent with generally accepted methodologies for valuation of derivatives. At least once per month, the Bank performs back-testing and calibration of the implemented methodology for calculation of fair value by using market variables and alternative calculation methods.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11. Deposits and other financial liabilities due to banks, other financial organizations and Central Bank and Deposits and other financial liabilities due to customers

Deposits and other financial liabilities due to banks, other financial organizations and central banks, as well as deposits and other financial liabilities due to customers are initially recognized at fair value decreased by transaction costs, except for financial liabilities at fair value through profit and loss. After initial recognition, mentioned financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

Within this caption, borrowings are initially measured at fair value net of transaction costs incurred and are subsequently measured at amortized cost.

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

2.12. Other liabilities

Trade payables and other short-term operating liabilities are presented at nominal value.

2.13. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.14. Cash and balances with central bank

Cash and balances with central bank, in Balance sheet, are comprised of cash in dinars and in foreign currency, i.e. is cash at gyro and current accounts, cash on hand and other cash in dinars and foreign currency, gold and other precious metals, deposited liquid surpluses and obligatory reserves in foreign currency held at accounts with the National Bank of Serbia. Mentioned assets are highly liquid financial assets with contractual maturity up to 3 months and bear insignificant risk of their fair value change.

Cash and cash equivalents are measured at amortized cost in the balance sheet statement.

2.15. Intangible assets

Intangible assets consist of software, licenses and intangible assets under construction. Intangible assets are carried at cost less any accumulated amortization.

Licenses are initially recognized at cost. They have limited useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method in order to fully write off the cost of these assets over their estimated useful lives (from 5 to 10 years).

Computer software licenses are capitalized for costs incurred in acquiring and brining the specific software into use. Costs associated with software maintenance are recognized as an expense when incurred.

Costs that are directly associated with identifiable and unique software controlled by the Bank, and which will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include the salaries of the team that developed the software, as well as appropriate portion of related overheads.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15. Intangible assets (continued)

Amortization of intangible assets is calculated using the straight-line method to write down the cost of intangible assets over their estimated useful lives, in all accounting periods, as follows:

	2022	2021
Licenses and similar rights	10% - 20%	10% - 20%
Licenses and similar rights	20% - 50%	20% - 50%
Core information system	10% - 14.29%	10% - 14.29%

Compared to 2021, there were no changes in the estimated useful life of intangible assets.

Intangible assets include unamortized software in progress, since it is still not in use.

2.16. Property, plant, equipment, leased assets, investment property and non-current assets held for sale

2.16.1. Property, plant and equipment and investment property

(a) Property, plant and equipment

Fixed assets (property, plant and equipment) are tangible assets:

- that are held by the Bank for the own use in providing services within its registered business or for administrative purposes; and
- for which it is expected to be used more than one year period.

Property, plant and equipment are recognized as an asset:

- when it is probable that future economic benefits on the basis of such asset will inflow to the Bank, and
- when the cost of such asset can be reliably measured.

At initial recognition, property, plant and equipment are stated at cost.

Cost includes expenditure that is directly attributable to the acquisition of an asset.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, 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 repairs and maintenance are charged to the income statement of the financial period in which they are incurred.

Property, plant and equipment are subsequently measured at fair value using the revaluation model or at cost.

Revaluation is performed regularly, in a frequency sufficient for providing that the carrying amount does not differ significantly from the amount that would be obtained by applying the fair values model at the end of the reporting period.

2.16. Property, plant, equipment, leased assets, investment property and non-current assets held for sale (continued)

2.16.1. Property, plant and equipment and investment property (continued)

(b) Investment property

As of 31 December 2022, the Bank is not owns property as investments for generating rental income and/or increase in the market value of the property.

In accordance with IAS 40, investment property is recognized as an asset if and only if:
- it is probable that the entity will in the future realize the economic benefits from investment property, and
- when the cost such asset can be reliably measured.

Investment property is initially measured at cost. Transaction costs are included in the initial measurement. Upon initial recognition, the investment property is measured at fair value. The gain or loss arising from the change in the fair value of an investment property is recognized in the income statement of the period in which it is incurred.

(c) Leased assets

At inception of a contract, the Bank assesses whether a contract is, one contains, a lease. A contract is, or contains lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses definition of lease in IFRS 16. This policy is applied for contracts entered into (or changed) on or after 1 January 2019.

Bank acting as lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative stand-alone price.

The Bank recognizes a right-to-use asset and lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches offices.

Besides, cost of right-to-use asset also includes:
- all payments on lease performed up to the first day of lease term, reduced by eventually received incentives in respect of leasing;
- all initial direct costs generated by lessee and
- estimate of costs that lessee will generate with dismantling and removal of the property in question, restoration of the location of the property or restoration of the property as it is specified in the lease agreement itself. Liability for related costs for lessee occurs at the first day of lease term, or as a consequence of leased asset usage during the particular period.

Right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-to-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The Bank as lessee uses exemptions allowed by standard in a way that short-term lease (up to 1 year) and low-value lease (if the value of leased asset, when new, is below 5,000 EUR net of tax) are not recognized as right-of-use-assets, while all payments that occur in respect to such leases are recognized as expense for the period.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16. Property, plant, equipment, leased assets, investment property and non-current assets held for sale (continued)

2.16.1. Property, plant and equipment and investment property (continued)

c) Leased assets (continued)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. Future lease payments are discounted using the interest rate implicit if such rate is readily available. If rate is not easily determinable, the Bank uses incremental borrowing rate of lessee effective at the inception date of lease term.

Lease payments included in the measurement of the lease liability at commencement of lease comprise the following payments related to right-of-use assets during lease term, which are not settled by the commencement date:
- fixed payments, reduced by eventually received incentives in relation to lease;
- variable payments that depend on certain index or rate and which are initially measured using index or rate at the commencement date.
- amounts expected to be payable under residual value guarantee;
- the exercise price under a repurchase option that the Bank is reasonably certain to exercise;
- penalties for early termination of a lease, if lease term shows that the lessee used such option

After initial recognition, lease liabilities are subsequently measured in a way to:
- increase their carrying value, so that interest on lease liability is included
- decrease their carrying value by the amounts paid on leasing; and
- remeasure carrying value with the aim to include all eventual reassessments or changes in lease relevant for its reassessment

Interest on lease liabilities during the lease period will be equal to amount that brings constant periodical rate on the residual lease liability.

Lessee remeasures lease liability by discounting of revised lease payments at revised discount rate (for the remaining lease term) in case of one of the following:
- change in lease maturity
- change in the repurchase option of leased asset

Lease modifications

Lease modification is treated as separate lease when:
- such modification expands the lease scope, by adding the right to use of one or more assets, and at the same time
- rent is increased proportionately to stand-alone price of such expansion and all necessary adjustments of that stand-alone price, in order to reflect the circumstances of the particular contract

If modification of lease is not treated as separate lease, than with the effective date of such modification, the Bank applies standards and allocates compensation from modified contract, determines duration of modified lease term and remeasures lease liability by discounting revised lease payments at revised discount rate.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16. Property, plant, equipment and investment property and non-current assets held for sale (continued)

2.16.1. Property, plant and equipment and investment property (continued)

(c) Leased assets (continued)

In case of modification that are is treated as separate lease, lease liability is remeasured in a way to:
- decrease carrying value of right-to-use asset, in order to reflect partial or complete termination of lease for those modifications which decrease the scope of lease. Any gain or loss in respect to partial or full lease termination is recognized in income statement;
- adjust right-to-use asset for all other lease modifications

The Bank discloses right-to-use assets in position Property, plant and equipment and they relate to lease of real estate, vehicles, ICT equipment and other equipment, while disclosed lease liability within item other liabilities in financial statements.

(d) Depreciation

Depreciation was calculated using the straight-line method applied to the cost of property, plant and equipment, using the following prescribed annual rates in order to write them off over their useful lives, in all accounting periods:

	2022	2021
Buildings	3-%-5%	3% - 5%
Computer equipment	20%	20%
Furniture and other equipment	7% - 25%	7% - 25%

Depreciation of right-of-use assets is calculated at rates that correspond the type of particular leased asset.

In determining the basis for depreciation, the depreciable values of assets equal their cost or revalued amount are not decreased by residual value, since the Bank assesses the residual values of assets as nil.

Calculation of depreciation of property and equipment commences at the beginning of the month following the month when an asset is put into use. Depreciation charge is recognized as expense for the period when incurred.

The useful live of asset is reviewed periodically, and adjusted if necessary, at each balance sheet date. Change in the expected useful life of an asset is considered as a change in an accounting estimate.

Gains or losses from the disposal of property, plant and equipment are credited or debited in the income statement, included in other operating income or other expenses, respectively.

The calculation of depreciation for tax purposes is determined in accordance with the Law on Corporate Income Tax of the Republic of Serbia and the Rules on the Manner of Fixed Assets Classification in Groups and Depreciation for Tax Purposes, which gives rise to deferred taxes (Note 14(c)).

2.16.2. Non-current assets held for sale

In accordance with IFRS 5 "Non-current assets held for sale and discontinued operations", the Bank classifies a fixed asset as a non-current asset held for sale if its carrying amount is expected to be recovered primarily through a sales transaction, rather than through further use. An asset classified as held for sale must be available for immediate sale in its present condition and its sale must be probable.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16. Property, plant, equipment and investment property and non-current assets held for sale (continued)

2.16.2. Non-current assets held for sale (continued)

In order to make sale probable, management of the Bank must be committed to a plan to sell the asset and an active program to locate a buyer and completion of the plan must have been initiated, and the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. The sale should occur within one year from the date of recognition. Events or circumstances out of the Bank's control may prolong sale completion period to more than one year.

A non-current asset classified as held for sale is measured at the lower of: the:
- carrying amount; or
- fair value less costs to sell.

Once a non-current asset is recognized as a held-for sale it is no longer depreciated.

2.17. Impairment of non-financial assets

In accordance with the adopted accounting policy, at each balance sheet date, the Bank's management reviews the carrying amounts of the Bank's intangible assets, property, plant and equipment and investment property.

If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount, being the higher of an asset's fair value less costs to sell and value in use. Impairment losses, representing the difference between the carrying amount and the recoverable amount of tangible and intangible assets, are recognized in the income statement as required by IAS 36 "Impairment of Assets".

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

borro2.18. Provisions and conting

encies

Provisions are recognized when the Bank has a present obligation, legal or constructive, as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

In order to be maintained, the best possible estimates are considered, determined and, if necessary, adjusted at each balance sheet date. When the outflow of the economic benefits is no longer probable in order to settle legal or constructive liabilities, provisions are derecognized in income. Provisions are taken into account in accordance with their type and they can be used only for the expenses they were initially recognized. Provisions are not recognized for future operating losses.

Contingent liabilities are not recognized in the financial statements. Contingent liabilities are disclosed in the notes to the financial statements (Note 29), unless the possibility of outflow of resources embodying economic benefits is remote.

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

2.19. Equity

Equity consists of share capital (ordinary shares), other capital, share premium, reserves from profit and retained earnings.

Dividends on ordinary shares are recognized as a liability in the period in which the decision on their payment has been made. Dividends for the year that are declared after the balance sheet date are disclosed as an event after the reporting period.

2.20. Employee benefits

(a) Employee taxes and contributions for social security

In accordance with the regulations prevailing in the Republic of Serbia, the Bank is obliged to pay taxes and contributions to various state social security funds. These obligations involve the payment of contributions on behalf of the employee and by the employer, in an amount calculated by applying specific rates prescribed by law.

The Bank is also legally obligated to withhold contributions from gross salaries to employees, and on their behalf to transfer the withheld portions directly to the appropriate government funds. The Bank has no legal obligation to pay further benefits due to its employees by the Pension Fund of the Republic of Serbia upon their retirement.

(b) Termination benefits arising from restructuring

Termination benefits are payable when employment is terminated or employee is voluntarily retired, or whenever an employee accepts voluntary redundancy in exchange for these benefits.

The Bank recognizes termination benefits when it is demonstrably committed to either: terminate the employment of current employees according to a detailed formal plan; or provide termination benefits as a result of an offer made to encourage voluntary redundancy in order to decrease number of employees.

(c) Other employee benefits - retirement benefits

In accordance with the Labor Law and Article 32 of the General Collective Agreement and with Executive Board Decision, the Bank is obligated to pay retirement benefits. The entitlement to these benefits usually depends on the employee remaining in service up to retirement age and/or the completion of a minimum service period. The expected costs of these benefits are accumulated over the period of employment.

Provision for retirement benefits and unused days of vacation are calculated by an independent actuary and are recognized in the balance sheet at the present value of discounted estimated future outflows (Note 23).

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21. Taxes and contributions

(a) Income tax

Current income tax

Current income tax represents the amount that is calculated and paid in accordance with the effective Corporate Income Tax Law of the Republic of Serbia. During the year, the Bank pays income tax in monthly instalments, based on the prior year's Tax return. Final tax base used for calculating income tax at the prescribed rate of 15% is disclosed in the Tax return.

In order to determine the amount of taxable income, accounting profit is adjusted for certain permanent differences, as defined by the tax regulations through Tax balance, which is to be submitted within 180 days after the end of the period for which the tax liability is determined, except in the case of status changes:
- of status changes resulting with taxpayer termination, when tax return is submitted within 60 days from the date of status change
- Bankruptcy debtor or legal entity in liquidation, under which bankruptcy proceeding has been suspended due to sell of bankruptcy debtor as legal entity, or liquidation procedure has been terminated – tax return is submitted within 15 days from the date of the decision on termination of bankruptcy/liquidation proceedings validity.

Deferred income tax

Deferred income tax is recognized using the balance sheet method on temporary differences at the balance sheet date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rate enacted at the balance sheet date is used to determine the deferred income tax amount.

Deferred tax liabilities are recognized for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of goodwill or from an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit, nor taxable profit or loss; and in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures when deferred tax assets are recognized only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on the official tax rates and regulations that have been enacted or substantively enacted as of the balance sheet date.

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

Deferred income taxes related to items that are recorded directly in equity are also recorded in equity.

2.21. Taxes and contributions (continued)

(a) Income tax (continued)

Transfer pricing

Up to the date of Bank's financial statements, Tax balance for 2022 has not been submitted, considering that deadline for its submission is 180 days from the date for which the tax is determined. Bank has calculated tax effects in accordance with provisions of corporate income tax law. Bank has not yet finished transfer pricing study, however, the management believes that there will not be material effects on 2022, since so far there were no or minimal corrections based on related parties transactions, and there was no significant changes of services types in 2022, compared to the previous year.

(b) Taxes and contributions not related to operating result

Taxes and contributions not related to operating result include property tax, value added tax, contributions on salaries charged to employer, as well as other taxes and contributions that are paid in accordance with the tax regulations of the Republic of Serbia and local tax regulations. These taxes and contributions are included within other expenses (Note 13).

2.22. Funds managed on behalf of third parties

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

3. INTEREST INCOME AND INTEREST EXPENSES

(a) Interest income and expenses by sector structure are presented as follows:

		In RSD thousand
	2022	**2021**
Interest income		
– Central bank and other banks	891,232	173,870
– Corporate customers	7,891,579	5,792,787
– Retail customers	16,201,011	14,404,879
– Public sector	1,469,755	1,750,195
– Foreign banks and financial organizations	74,497	49,075
– Foreign entities	51,350	70,147
– Other customers	109,270	74,316
Total	**26,688,694**	**22,315,269**
Interest expenses		
– Central bank and other banks	(236,820)	(44,535)
– Corporate customers	(904,943)	(131,047)
– Retail customers	(329,335)	(323,921)
– Public sector	(236,755)	(177,639)
– Foreign banks and financial organizations	(626,497)	(289,646)
– Foreign entities	(2,167)	(2,221)
– Other customers	(68,027)	(25,773)
Total	**(2,404,544)**	**(994,782)**
Net interest income	**24,284,150**	**21,320,487**

Total interest income on impaired loans for the year ended 31 December 2022 amounts to RSD 3.027 thousand (2021: RSD 9.421 thousand).

3. INTEREST INCOME AND INTEREST EXPENSES (continued)

(b) Interest income and expenses by type of financial instruments are presented as follows:

		In RSD thousand
	2022	**2021**
Interest income		
Loans	24,087,073	20,203,893
REPO transactions	361,662	35,104
Obligatory reserves	196,450	41,801
Deposits	334,660	66,372
Securities	1,426,599	1,805,572
Other placements	282,250	162,527
Total	**26,688,694**	**22,315,269**
Interest expenses		
Loans	(392,768)	(293,652)
REPO transactions	-	(3,794)
Deposits	(1,967,471)	(663,263)
Leasing	(44,305)	(34,061)
Other interest expenses	-	(12)
Total	**(2,404,544)**	**(994,782)**
Net interest income	**24,284,150**	**21,320,487**

(c) Interest income and expenses by measurement method are presented as follows:

		In RSD thousand
	2022	**2021**
Interest income		
Financial assets at amortized cost	25,553,319	20,734,651
Financial assets fair value through OCI	1,135,375	1,580,618
Total	**26,688,694**	**22,315,269**
Interest expenses		
Financial assets at amortized cost	(2,404,544)	(994,782)
Total	**(2,404,544)**	**(994,782)**
Net interest income	**24,284,150**	**21,320,487**

Interest income calculated using the effective interest method as of 31 December 2022 is RSD 26.688.694 thousand (2021: RSD 22.315.269 thousand).

4. FEE AND COMMISSION INCOME AND EXPENSES

						In RSD thousand
	RETAIL		CUSTOMERS (except retail)		UKUPNO	
	2022	2021	2022	2021	2022	2021
Fee and commission income						
Fee for banking services:						
– Domestic payment transaction services	1,073,206	1,093,343	2,161,185	2,436,823	3,234,392	3,530,166
– International payment transaction services	289,947	260,446	1,080,739	900,058	1,370,686	1,160,504
– Loan operations	147,908	124,979	400,515	308,425	548,423	433,404
– Cards operations	1,430,030	1,388,096	5,779,944	4,297,465	7,209,973	5,685,561
Total	2,941,092	2,866,864	9,422,383	7,942,771	12,363,475	10,809,635
Commissions related to issued guaranties and letter of credits	233,444	217,506	662,776	583,271	896,219	800,777
Current accounts maintenance	2,779,690	2,208,730	482,139	477,602	3,261,829	2,686,332
Fees slips, EDB and Telekom	93,653	104,258	-	-	93,653	104,258
Other fee and commission	301,639	235,067	265,831	214,315	567,470	449,382
Fees for the purchase and sale of foreign means of payment	1,523,165	989,531	6,582,161	3,148,870	8,105,326	4,138,401
Total	**7,872,682**	**6,621,956**	**17,415,290**	**12,366,829**	**25,287,972**	**18,988,785**
Fee and commission expenses						
Payment services fee:						
– Domestic	-	-	(253,365)	(217,196)	(253,365)	(217,196)
– International	-	-	(221,314)	(195,196)	(221,314)	(195,196)
National Bank of Serbia's fee and commission	-	-	(95,052)	(88,667)	(95,052)	(88,667)
Credit Bureau's fees	-	-	(125,132)	(129,884)	(125,132)	(129,884)
Cards operations fee	-	-	(5,699,804)	(4,348,847)	(5,699,804)	(4,348,847)
Other fees and commissions	-	-	(532,194)	(596,824)	(532,194)	(596,824)
Fees for the purchase and sale of foreign means of payment	(290,181)	(234,974)	(4,681,180)	(1,750,032)	(4,971,360)	(1,985,006)
Total	**(290,181)**	**(234,974)**	**(11,608,039)**	**(7,326,646)**	**(11,898,220)**	**(7,561,620)**
Net fee and commission income	**7,582,501**	**6,386,982**	**5,807,250**	**5,040,183**	**13,389,752**	**11,427,165**

5. NET GAINS/LOSSES FROM CHANGES IN FAIR VALUE OF FINANCIAL INSTRUMENTS

		In RSD thousand
	2022	**2021**
Gains from changes in value of:		
- currency swap	1,611,533	514,053
- forward	3,854	363,802
- financial instruments measured at fair value through profit and loss account- Securities	44,842	22,954
- gold and silver	14,776	15,263
- liabilities at arising from purchased shares-ISP	36	-
Total	**1,675,041**	**916,072**
Losses from changes in value of:		
- currency swap	(328,179)	(12,155)
- financial instruments measured at fair value through profit and loss account- Securities	-	(13,818)
- gold and silver	(10,095)	(11,705)
- liabilities at arising from purchased shares-ISP	-	(18)
Total	**(338,274)**	**(37,696)**
Net gains	**1,336,767**	**878,376**

6. NET GAINS/LOSSES ARISING FROM DERECOGNATION OF FINANCIAL INSTRUMENTS

a) Measured at fair value

		In RSD thousand
	2022	**2021**
Gains arising from derecognition of:		
- financial instruments measured at fair value through profit and loss	1,117	461
Total	**1,117**	**461**
Losses arising from derecognition of:		
- financial instruments measured at fair value through profit and loss	(3,489)	(4,976)
Total	**(3,489)**	**(4,976)**
Net gains/(losses)	**(2,372)**	**(4,515)**

b) Measured at amortized cost

		In RSD thousand
	2022	**2021**
Gains arising from derecognition of:		
- financial instruments measured at amortized cost	130,057	93,934
Total	**130,057**	**93,934**
Net gains/(losses)	**130,057**	**93,934**

7. NET FOREIGN EXCHANGE GAINS AND EFFECTS OF CONTRACTED FOREIGN CURRENCY CLAUSE

		In RSD thousand
	2022	**2021**
Net foreign exchange gains	152,822	-
Net foreign exchange losses	-	(417,762)
Net negative effects of contracted foreign currency clause application	(712,705)	(777)
Net gains	**(559,883)**	**(418,539)**

8. NET GAINS/LOSSES ARISING FROM IMPAIRMENT OF FINANCIAL ASSETS NOT CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS

a) Overview by classes

	2022	2021
Revenue from reversal of impairment of financial assets at amortized cost	6,010,232	3,770,034
Revenue from reversal of provisions from off-balance sheet items	613,045	275,163
Revenues from collected written-off financial assets at amortized cost	345,785	290,142
Revenue from reversal of impairment of financial assets at fair value through OCI	151,577	71,703
Total	**7,120,639**	**4,407,042**
Impairment losses of financial assets at amortized cost	(11,020,088)	(7,055,941)
Provisions losses from off-balance sheet items	(873,545)	(239,606)
Written-off uncollectible financial assets at amortized cost	(43,161)	(29,377)
Impairment losses on financial assets at fair value through OCI	(33,062)	(348,507)
Total	**(11,969,856)**	**(7,673,431)**
Net impairment loss	**(4,849,217)**	**(3,266,389)**

8. NET GAINS/LOSSES ARISING FROM IMPAIRMENT OF FINANCIAL ASSETS NOT CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

a) Overview by classes (continued)

According to the Bank's management assessment, modification loss on financial assets for 2022, that does not result in derecognition of financial asset, was not material, and therefore was not recognized in statement of profit and loss.

Modified financial assets

The following table provides information on financial assets that were modified while they had a loss allowance measured at an amount equal to lifetime ECL.

	In thousands RSD
	2020
Financial assets modified since initial recognition	
Gross carrying amount of financial assets previously modified for which loss allowance has changed during the period to an amount equal to 12 month ECL from lifetime	6,227,844

The gross book value of financial assets which were modified in 2020, while the expected credit losses were valued at Lifetime ECL, as on 31st December 2022, is RSD 18,457,456 (in thousands). Out of that amount, RSD 11,872,844 (in thousands) refers to the receivables for which the expected losses are valued on 31st December 2022 and onwards for the entire Lifetime of the financial instrument.

b) Movements in the allowance for impairment of financial assets and provisions for credit risk-weighted off-balance sheet items

Movements in the allowance for impairment of balance-sheet items and provisions during the years ended 31 December 2022 and 2021 were as follows:

Movements in the allowance for impairment and provisions in 2022	**In RSD thousand**
Opening balance – 1st January 2022	**17,192,776**
Charge for the year	11,893,634
Reversal of impairment losses and release of provisions during the year	(6,623,278
Increase in provisions due to exchange rate changes	21,814
Reversal of provisions due to exchange rate changes	(37,214)
Transfer to off-balance sheet items	(1,976,187)
Sale (transfer) of receivables	(178,391)
Reversal of provisions due to passage of time (unwinding)	(3,027)
Closing balance - 31 December 2022	**20,290,127**

Off-balance exposure that are written-off during 2022 amount 1,976 million dinars as of 31 December 2022 and are still subject of collection techniques.

Movements in the allowance for impairment and provisions in 2021	**In RSD thousand**
Opening balance – 1st January 2021	**15,841,335**
Charge for the year	7,295,547
Reversal of impairment losses and release of provisions during the year	(4,045,197)
Increase in provisions due to exchange rate changes	14,120
Reversal of provisions due to exchange rate changes	(7,337)
Transfer to off-balance sheet items	(1,775,050)
Sale (transfer) of receivables	(121,220)
Reversal of provisions due to passage of time (unwinding)	(9,421)
Closing balance - 31 December 2021	**17,192,776**

9. OTHER OPERATING INCOME

		In RSD thousand
	2022	**2021**
Property rental income	26,959	24,871
Reimbursed expenses	795	1,910
Income from dividends and equity interests	2,425	10,941
Income from fees from Credit biro	32,088	33,271
Income from IT services from foreign banks	27,499	15,841
Other income	88,230	64,682
Total	**177,996**	**151,516**

10. SALARIES, COMPENSATIONS AND OTHER PERSONAL EXPENSES

		In RSD thousand
	2022	**2021**
Net salaries	4,548,413	4,154,423
Tax on employee benefits	556,195	506,075
Contributions on employee benefits	2,176,735	2,007,207
Expenses for temporary and occasional work	52,041	49,338
Other personal expenses	123,462	122,373
Provisions for retirement benefits and other employee benefits	36,860	23,207
Total	**7,493,706**	**6,862,623**

11. DEPRECIATION AND AMORTIZATION

		In RSD thousand
	2022	**2021**
Depreciation and amortization:		
– Amortization of intangible assets (Note 18)	987,037	1,024,498
– Depreciation of fixed assets and investment property (Note 19)	1,453,598	1,212,741
Total	**2,440,635**	**2,237,239**

12. OTHER INCOME

		In RSD thousand
	2022	2021
Release of unused provisions of liabilities	600,847	74,689
Gains from sales of fixed assets	19,680	71,632
Gains from use of write-offs assets and variable lease payments	7,739	1,776
Surpluses	59,269	35,031
Other income	60,159	86,805
Total	**747,694**	**269,933**

13. OTHER EXPENSES

	2022	2021
Material, energy and spare parts	454,119	351,009
IT costs	2,324,334	1,488,362
Maintenance of software	575,937	624,455
Professional services	396,613	382,917
Advertising, marketing and entertainment expenses	295,250	239,877
Mail and telecommunication expenses	394,095	413,795
Insurance premiums	2,527,291	2,481,594
Maintenance of property, plant and equipment	269,637	249,341
Rental cost	79,012	303,154
Fees and commissions	229,892	124,347
Taxes and contributions	110,359	102,878
IFRS 16 tax expenses	131,631	98,365
Physical-technical security	197,942	210,415
General and administrative expenses	430,560	412,402
Expenses for provisions for liabilities	821,853	1,337,459
Losses from write-off property with right of use and variable lease payments	2,275	1,042
Other expenses	647,627	682,733
Total	**9,888,427**	**9,504,145**

14. INCOME TAXES

a) Components of income taxes

The components of income taxes are:

	2022	2021
Current income tax	1,906,312	1,503,828
Income from deferred tax assets and reduction of deferred tax liabilities	(27,023)	(213,179)
Expenses from reduction of deferred tax assets and creation of deferred tax liabilities	273,548	185,953
Total income tax expense	**2,152,837**	**1,476,602**

b) Numerical reconciliation of income tax recognized in the income statement and profit for the year before tax multiplied by the prescribed income tax rate

		In thousand RSD
	2022.	**2021.**
Profit before tax	**14,832,176**	**11,847,960**
Income tax at the rate of 15%	**2,224,826**	**1,777,194**
Tax effects of expense reconciliation	(23,840)	5,350
Tax effects of revenue reconciliation	(295,415)	(253,988)
Temporary differences on the basis of:	113,203	(50,832)
Depreciation differences recognized for tax and statutory reporting	(4,084)	587
Other Payment to employees	7,491	(3,020)
Unpaid and paid taxes and similar tax duties	-	16,022
Changes within real estate properties	(13,052)	(157,767)
Created and used provisions for liabilities and charges	142,967	142,966
The first-time IFRS9 adoption	741	90
Other adjustments	-	(24,818)
Tax credit established in accordance with the Law on Conversion of Housing Loans Indexed in CHF	-	24,818
Effects of temporary differences		
Current income tax stated in the income statement	**2,152,837**	**1,476,602**
Effective tax rate	***14.51%***	***12.46%***

For the purpose of determining legal obligations arising from income tax for the period 1 January - 31 December 2022, the Bank has adjusted expenditure and income reported in the income statement in accordance with the legal provisions.

The most significant amount is tax exemption of interest income generated from debt securities issued by the Republic, local governments and the National Bank of Serbia, and they are excluded from the tax base in the total amounting to RSD 1,497,037 thousand, which resulted in a tax effect in the amount of RSD 224,555 thousand, for 2022 (31 December, 2021, tax base: RSD 1,615,723 thousand; tax effect RSD 242,358 thousand).

Also, in accordance with the regulations, the Bank has decreased tax base for one fifth (last of five) of the IFRS 9 first time adoption tax effects 953,110 thousand RSD, registered at the date of the standard first application (1 January, 2018) by debiting Retained earnings from previous years in full amount of 4,765,550 thousand RSD, which resulted in tax effect of RSD 142,966 thousand (total for five years: 714,832 thousand dinars).

14. INCOME TAXES (continued)

c) Deferred Tax Assets and Liabilities

In accordance with IAS 12, ˝Income Tax˝, deferred tax assets and liabilities relate to taxable temporary differences between carrying amounts of tangible and intangible assets and their tax bases, temporary differences based on unpaid taxes that will be recognized in subsequent period, as well as for other temporary differences.

The Bank netted deferred tax assets and liabilities in Balance sheet.

Components of deferred tax assets / (liabilities):

		In RSD thousand
	31.12.2022	**31.12.2021**
Temporary differences of depreciation recognized for tax and statutory reporting	-	190,578
Temporary differences of depreciation recognized for liabilities and statutory reporting	(90,064)	(168,259)
DTA in respect to payment to employees	5,577	18
Temporary differences based on unpaid and paid taxes and similar tax duties	13,033	20,524
DTA based on provisions	263,107	251,529
DTA based on real estate property impairment	10,176	10,176
DTA based on impairment of other assets	402	402
Tax effects of the first-time IFRS9 adoption	-	142,968
Deferred tax liabilities based on gains/losses from debt instruments - FV OCI	200,732	(111,499)
Net balance of deferred tax assets / (liabilities)	**402,963**	**336,437**

Movements in deferred tax assets (liabilities) were as follows:

				In RSD thousand
2022. **U hiljadama dinara**	**Balance as of 1 January**	**Recognized to income statement**	**Recognized to OCI**	**Balance as of 31 December**
Temporary differences of depreciation recognized for tax and statutory reporting	190,578	(113,203)	820	(90,065)
Temporary differences of depreciation recognized for liabilities and statutory reporting	(168,260)	-	-	-
DTA in respect to payment to employees	18	5,559	-	5,577
Temporary differences based on unpaid and paid taxes and similar tax duties	20,524	(7,491)	-	13,033
DTA based on provisions	251,529	11,578		263,107
DTA based on real estate property impairment	10,176	-	-	10,176
DTA based on impairment of other assets	402	-		402
Tax effects of the first-time IFRS9 adoption	142,968	(142,968)	-	-
Deferred tax liabilities based on gains/losses from debt instruments - FV OCI	(111,499)	-	312,231	200,732
Total	**336,436**	**(246,525)**	**313,051**	**402, 963**

14. INCOME TAXES (continued)

c) Deferred Tax Assets (continued)

Movements in deferred tax assets were as follows:

				In RSD thousand
2021	**Balance as of 1 January**	**Recognized to income statement**	**Recognized to OCI**	**Balance as of 31 December**
Temporary differences of depreciation recognized for tax and statutory reporting	139,746	50,832	-	190,578
DTA in respect to payment to employees	605	(587)	-	18
Temporary differences based on unpaid and paid taxes and similar tax duties	17,504	3,020	-	20,524
DTA based on provisions for liabilities and charges	92,201	15,328	-	251,529
DTA based on other liabilities	1,561	(1,561)	-	-
DTA based on real estate property impairment	26,197	(16,021)	-	10,176
DTA based on impairment of other assets	402	-	-	402
Tax effects of the first-time IFRS9 adoption	285,934	(142,966)	-	142,968
Tax credit in amount of 2% of remaining debt determined in accordance with Law on Conversion of housing loans indexed in CHF	24,818	(24,818)	-	-
Total	**588,968**	**27,227**	**-**	**616,195**

Movements in deferred tax liabilities were as follows:

2021 **In RSD thousand**	**Balance as of 1 January**	**Recognized to income statement**	**Recognized to OCI**	**Balance as of 31 December**
Deferred tax liabilities based on real estate fair value model and its sale	168.745	-	(486)	168.259
Deferred tax liabilities based on gains/losses from debt instruments - FV OCI	-	-	111.499	111.499
Total	**168,745**	**-**	**111,013**	**279,758**

d) Final current tax liability

Bank has finally calculated current tax liability reported in the balance sheet at 31 December 2022 amount to RSD 505.457 thousand (31 December 2021: RSD 355,986 thousand, current tax assets), and has been created by decreasing the amount of current income tax liability by the amount of prepaid income taxes for 2022, paid during 2022.

15. CASH AND BALANCES WITH CENTRAL BANK

a) Cash and balances with central bank

		In RSD thousand
	2022	**2021**
In RSD		
Gyro account	47,433,927	65,979,162
Cash on hand	17,147,575	15,689,075
Deposits of surplus liquid assets	30,000,000	-
Accruals on cash and cash equivalents with Central Bank	9,223	297
	94,590,725	81,668,534
In foreign currency		
Cash on hand	11,321,748	7,295,528
Other monetary assets	31,446	24,725
Obligatory reserves with the National Bank of Serbia	47,060,187	46,631,680
	58,413,381	**53,951,933**
	88,444	83,763
Gold and precious metals		
Balance as of 31 December	**153,092,550**	**135,704,230**

15. CASH AND BALANCES WITH CENTRAL BANK (continued)

b) Overview of the differences between cash stated in the Statement of Cash Flows and Balance Sheet as of 31 December 2022 and 2021:

			In RSD thousand
	Balance sheet	**Cash flows***	**Difference**
In RSD			
Gyro account	47,433,927	47,433,927	-
Cash on hand	17,147,575	17,147,575	-
Deposits of surplus liquid assets	30,000,000	-	30,000,000
Accruals on cash and cash equivalents with Central Bank	9,223	-	9,223
Total	**94,590,725**	**64,581,502**	**30,009,223**
In foreign currency			
Cash on hand	11,321,748	11,321,748	-
Other monetary assets	31,446	31,446	-
Obligatory reserve with the NBS	47,060,187	-	47,060,187
Foreign currency accounts (Balance-sheet item Loans and receivables from banks and other financial organizations/customers)	-	31,112,513	(31,112,513)
Cheques in foreign currency (Balance-sheet item Loans and receivables from banks and other financial organizations/customers)	-	15,966	(15,966)
Total	**58,413,381**	**42,481,673**	**15,931,708**
Gold and other precious metals	88,444	88,444	-
Balance as of 31 December	**153,092,550**	**107,151,619**	**45,940,931**

	Balance sheet	**Cash flows**	**Difference**
In RSD			
Gyro account	65,979,162	65,979,162	-
Cash on hand	15,689,075	15,689,075	-
Accruals on cash and cash equivalents with Central Bank	297	-	297
	81,668,534	**81,668,237**	**297**
In foreign currency			
Cash on hand	7,295,528	7,295,528	-
Other monetary assets	24,725	24,725	-
Obligatory reserve with the NBS	46,631,680	-	46,631,680
Foreign currency accounts (balance-sheet item Loans and receivables from banks and other financial organizations/customers)	-	36,773,301	(36,773,301)
Cheques in foreign currency (balance-sheet item Loans and receivables from banks and other financial organizations/customers)	-	12,529	(12,529)
	53,951,933	**44,106,083**	**9,845,850**
Gold and other precious metals	83,763	83,763	-
Balance as of 31 December	**135,704,230**	**125,858,083**	**9,846,147**

15. CASH AND BALANCES WITH CENTRAL BANK (continued)

c) Changes on financing activities, received loans

		In RSD thousand
	2022	**2021**
Opening balance 1 January	**33,201,457**	**29,643,082**
Inflow from borrowings	9,352,024	8,603,056
Outflow from borrowings	(7,275,535)	(5,053,061)
Exchange Rate Effect	(16,113)	8,380
Closing balance - 31 December	**35,261,833**	**33,201,457**

16. FINANCIAL ASSETS CLASSIFICATION

a) Receivables from derivatives

		In RSD thousand
	2022	2021
In RSD		
Financial derivatives	468,597	433,793
Balance as of 31 December	**468,597**	**433,793**

Nominal values regarding financial derivatives are disclosed within Note 28.1 Credit risk, Derivative financial instruments part and refers to Currency (FX) Swap and Forward.

b) Investments in subsidiaries and securitites

					In RSD thousand
			2022		
	Securities carried at fair value through Profit and Loss	**Securities carried at fair value through OCI**	**Securities carried at amortized cost**	**Investments in subsidiaries**	**Total**
– Shares and equity investment	46,689	11,727	-	1,199,472	**1,257,888**
– Debt securities issued by the Republic of Serbia	-	54,306,402	-	-	**54,306,402**
- Accrued interest on debt securities issued by the Republic of Serbia	-	1,053,649	-	-	**1,053,649**
-Corporate bonds	-	-	5,851,405	-	**5,851,405**
Balance as of 31 December	**46,689**	**55,371,778**	**5,851,405**	**1,199,472**	**62,469,344**

					In RSD thousand
			2021		
	Securities carried at fair value through Profit and Loss	**Securities carried at fair value through OCI**	**Securities carried at amortized cost**	**Investments in subsidiaries**	**Total**
– Shares and equity investment	143,408	13,351	-	1,199,472	**1,356,231**
– Debt securities issued by the Republic of Serbia	1,161,901	72,331,121	-	-	**73,493,022**
- Accrued interest on debt securities issued by the Republic of Serbia	37,401	2,382,476	-	-	**2,419,877**
-Corporate bonds	-	-	5,836,652	-	**5,836,652**
Balance as of 31 December	**1,342,710**	**74,726,948**	**5,836,652**	**1,199,472**	**83,105,782**

16. FINANCIAL ASSETS CLASSIFICATION (continued)

c) Securities and investments per share

		In RSD thousand
	2022	**2021**
Investment in subsidiaries		
– Intesa Leasing d.o.o., Beograd share 100%	962,496	962,496
– Intesa Invest, Beograd share 100%	236,976	236,976
Total	1,199,472	1,199,472
Debt securities carried at fair value through profit and loss		
INTESA SANPAOLO	46,689	143,408
BONDS OF THE MINISTRY OF FINANCE OF THE REPUBLIC OF SERBIA	-	1,199,302
Total	**46,689**	**1,342,710**
Debt securities carried at fair value through OCI		
BONDS OF THE MINISTRY OF FINANCE OF THE REPUBLIC OF SERBIA	55,360,051	74,713,597
Other	11,727	13,351
Total	**55,371,778**	**74,726,948**
Debt securities carried at amortized cost		
Corporate bonds	5,875,000	5,875,000
Allowance for impairment	(23,595)	(38,348)
Total	**5,851,405**	**5,836,652**
Balance as of 31 December	**62,469,344**	**83,105,782**

17. LOANS AND RECEIVABLES FROM BANKS, CUSTOMERS AND OTHER FINANCIAL ORGANIZATIONS

a) Loans and receivables from banks and other financial organizations

		In RSD thousand
	2022	**2021**
In RSD		
Loans under reverse repo transactions	20,000,000	7,000,000
Receivables for calculated interest	172	-
Liquidity and current assets loans	4,855,549	2,315,211
Investment loans	18,508	1,011
Other loans	7,342	5,499
Receivables based on factoring without the right of recourse and reverse factoring	91,950	178,830
Other placements (a)	5,749,380	3,470,310
Deferred income on receivables carried at amortized cost using the effective interest rate	(4,956)	(3,006)
Accrued interest calculated on the basis of loans, deposits and other placements	12,339	1,421
Total in RSD	**30,730,284**	**12,969,276**
In foreign currency		
Foreign currency accounts	31,114,844	36,778,788
Cheques	15,966	12,529
Placements approved and due with one day (overnight)	-	1,542,889
Other loans	3,090	1,981
Other non-purpose deposits	6,879,589	4,572,753
Special-purpose deposits	4,693	4,703
Other purpose deposits	255,763	256,329
Other placements (a)	1,374,284	433,242
Accrued interest calculated on the basis of loans, deposits and other placements	73,793	27
Total in foreign currency	**39,722,022**	**43,603,241**
Gross loans and receivables	**0,452,306**	**56,572,517**
Less: Allowance for impairment		
– in RSD	(151,003)	(6,322)
– in foreign currency	(6,331)	(8,739)
	(157,334)	(15,061)
Balance as of 31 December	**70,294,972**	**56,557,456**

Other placements in as at 31 December 2022 in amount of RSD 5,749,380 thousand (31 December 2021: RSD 3,470,310 thousand) and in foreign currency as at 31 December 2022 RSD 1,374,284 (31 December 2021: RSD 433.242 thousand) refers to the purchase and sale of foreign currency.

17. LOANS AND RECEIVABLES FROM BANKS, CUSTOMERS AND OTHER FINANCIAL ORGANIZATIONS (continued)

b) Loans and receivables from customers

		In RSD thousand
	2022	**2021**
In RSD		
Current account loans	4,656,483	4,534,302
Consumer loans	2,984,253	2,625,648
Liquidity and current assets loans	154,567,431	129,666,021
Loans for export	-	110,648
Investment loans	110,512,547	88,700,949
Mortgage loans	128,726,898	115,490,670
Cash loans	79,567,953	66,905,561
Other loans	21,628,335	29,485,499
Receivables based on purchased placements - forfeiting	548,319	813,308
Receivables based on factoring without the right of recourse and reverse factoring	7,692,426	7,872,411
Receivables based on factoring with the right of recourse	563,481	524,107
Placements based on acceptances, endorsements and payments made under guarantees	18,073	4,384
Placements on ceded receivables on other grounds	1,725,252	1,739,827
Accrued interest calculated on the basis of loans, deposits and other placements	(974,046)	(954,913)
Accrued other income calculated on the basis of loans, deposits and other placements	1,614,152	895,724
Total in RSD	**513,831,556**	**448,414,147**
In foreign currency		
Loans for payment of import of goods and services in foreign currency	15,875,698	14,979,797
Loans for the purchase of immovable property in the country approved to a natural person	13,847	4,722
Other loans	1,202,190	1,732,621
Receivables from factoring without recourse factoring and reverse	1,038,007	714,635
Accrued interest calculated on the basis of loans, deposits and other placements	46,538	42,193
Total in foreign currency	**18,176,280**	**17,473,968**
Gross loans and receivables	**532,007,836**	**465,888,115**
Less: Allowance for impairment		
– in RSD	(18,461,749)	(16,393,142)
– in foreign currency	(546,058)	(176,861)
	(19,007,807)	(16,570,003)
Balance as of 31 December	**513,000,029**	**449,318,112**

17. LOANS AND RECEIVABLES FROM BANKS, CUSTOMERS AND OTHER FINANCIAL ORGANIZATIONS (continued)

c) Overview by type of client

			2022			2021
	Short-term (up to one year)	Long-term (more than one year)	Total	Short-term (up to one year)	Long-term (more than one year)	Total
In RSD						
– Central bank, banks and other financial sector and insurance	28,663,749	1,597,536	30,261,285	8,889,191	1,080,085	9,969,276
– Corporate customers	59,949,383	175,871,666	235,821,049	50,365,121	157,099,159	207,464,280
– Retail customers	4,451,905	249,683,595	254,135,500	3,973,525	225,905,307	229,878,832
– Public sector	133,383	20,078,238	20,211,621	15,059	8,067,056	8,082,115
– Foreign banks and financial organizations	469,000	-	469,000	3,000,000	-	3,000,000
– Foreign entities	891	285,694	286,585	733	265,326	266,059
– Other customers-non-profit institutions	662	15,421	16,083	648	25,732	26,380
– Other customers non-budgeted legal entities and institutions	33,671	1,201,601	1,235,272	28,241	1,318,244	1,346,485
– Other customers- companies and other legal entities in bankruptcy	1,975,928	149,519	2,125,447	1,031,653	318,341	1,349,994
Total in RSD	**95,678,572**	**448,883,270**	**544,561,842**	**67,304,171**	**394,079,250**	**461,383,421**
In foreign currency						
– Central bank, banks and other financial sector and insurance	1,298,150	3,091	1,301,241	357,450	1,982	359,432
– Corporate customers	93,838	15,922,656	16,016,494	206,262	14,836,200	15,042,462
– Retail customers	31,390	1,003,288	1,034,678	49,144	755,497	804,641
– Public sector	1,281	113,524	114,805	1,813	160,449	162,262
– Foreign banks and financial organizations	38,420,780	-	38,420,780	43,243,810	-	43,243,810
– Foreign entities	991,189	15,230	1,006,419	672,232	789,745	1,461,977
– Other customers-non-profit institutions	-	3,204	3,204	-	1,738	1,738
– Other customers non-budgeted legal entities and institutions	-	672	672	-	412	412
– Other customers- companies and other legal entities in bankruptcy	7	-	7	434	43	477
Total in foreign currency	**40,836,635**	**17,061,665**	**57,898,300**	**44,531,145**	**16,546,066**	**61,077,211**
Gross loans and receivables	**136,515,207**	**465,944,935**	**602,460,142**	**111,835,316**	**410,625,316**	**522,460,632**
Less: Allowance for impairment - banks and other financial organizations	(143,911)	(13,423)	(157,334)	(14,473)	(588)	(15,061)
Less: Allowance for impairment- customers	(2,370,677)	(16,637,130)	(19,007,807)	(1,595,909)	(14,974,094)	(16,570,003)
	(143,911)	(13,423)	(157,334)	(14,473)	(588)	(15,061)
As of 31 December	**134,000,619**	**449,294,382**	**583,295,001**	**110,224,934**	**395,650,634**	**505,875,568**

17. LOANS AND RECEIVABLES FROM BANKS, CUSTOMERS AND OTHER FINANCIAL ORGANIZATIONS (continued)

Short-term loans have been granted to companies for funding business activities within the following sectors: trade and services, manufacturing, construction, agriculture and food industry, as for the other purposes, with interest rates ranging from 2.40% and 10.20% per annum on RSD loans, and from 0.46% and 10.48% per annum on loans with the foreign currency clause and foreign currency loans.

Interest rates on the long-term loans to legal entities in RSD range from 1.94% and 9.78%, and on RSD long-term loans with the foreign currency clause, as well as on foreign currency loans, from 0.90% and 9.25% per annum.

Short-term loans to retail customers, have been approved with interest rates ranging from 4.99% to 15.00% per annum for loans with no currency clause.

Short-term loans to small business customers, have been approved with interest rates ranging from 3.00% to 16% per annum for loans with no currency clause, and from 1.80% do 11.00% per annum for loans with the foreign currency clause.

Interest rates on overdrafts on retail current accounts range from 23.88% to 29.85% per annum and for small corporate customers from 4.50% to 24% per annum.

Short-term loans to registered agriculture farmers have been approved with interest rates ranging from 5.00% to 9.90% per annum for loans with no currency clause, and from 4.50% to 7.50% per annum for loans with the foreign currency clause.

Long-term loans to retail customers have been granted as non-purpose loans, consumer goods purchase loans, renovation, adaptation and the purchase of the residential and business space for the period from 13 months to 30 years with interest rates ranging from 1.13% to 9.63% per annum for loans with the foreign currency clause, as well as from 5.13% to 15.00% for the loans with no currency clause.

Long-term loans to small businesses have been granted as non-purpose loans, consumer goods purchase loans, for the period from 13 to 36 months with interest rate ranging from 3.48% to 16% per annum on loans without the foreign currency clause and from 1.6% to 10.00% per annum on loans with the foreign currency clause, while long-term loans for adaptation and the purchase of the residential and business space for the period from 13 months to 10 years with interest rates ranging from 1.23%+3m EURIBOR to 5.80%+3M EURIBOR per annum for loans with the foreign currency clause.

Long-term loans to registered agriculture farmers have been granted as purpose loans (loans for fixed assets) and non-purpose loans (for the period from 12 months to maximum 24 months), and for working capital. Loans with a term of repayment over 24 months have been approved with interest rates ranging from 4.50% to 9.20%+6m EURIBOR, for loans with the foreign currency clause, i.e. from 5.00% to 13.81% for loans from 13 months to 24 months for loans with no currency clause.

18. INTANGIBLE ASSETS

				In RSD thousand
	Licenses	**Software**	**Intangible assets under construction**	**Total**
COST				
Balance as of 1 January 2021	**482.612**	**9,261,288**	**72,096**	**9,815,996**
Additions during the year	-	-	919,248	919,248
Transfers	-	801,372	(801,372)	-
Disposals and write offs	-	(497,922)	-	(497,922)
Balance as of 31 December 2021	**482,612**	**9,564,738**	**189,972**	**10,237,322**
Additions during the year	-	-	734,266	734,266
Transfers	-	726,188	(726,188)	-
Disposals and write offs	-	(1,874,073)	-	(1,874,073)
Balance as of 31 December 2022	**482,612**	**8,416,853**	**198,050**	**9,097,515**
ACCUMULATED AMORTIZATION				
Balance as of 1 January 2021	**482,612**	**3,947,638**	**-**	**4,430,250**
Amortization charge (Note 11)	-	1,024,498	-	1,024,498
Disposals and write offs		(76,592)	-	(76,592)
Balance as of 31 December 2021	**482,612**	**4,895,544**	**-**	**5,378,156**
Amortization charge (Note 11)	-	987,037,	-	987,037
Disposals and write offs	-	(1,870,378)	-	(1,870,378)
Balance as of 31 December 2022	**482,612**	**4,012,203**	**-**	**4,494,815**
Carrying value as of:				
– 31 December 2022	**-**	**4,404,650**	**198,050**	**4,602,700**
– 31 December 2021	**-**	**4,669,194**	**189,972**	**4,859,166**

The largest part of the investment in software in 2022 relates to software Digital integration RSD 219,333.

19. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY AND NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

a) Property, plant and equipment and investment property

In RSD thousand

	Land and buildings	Equipment and equipment under finance lease	Leasehold improvements	Construction in progress	Right of use assets	Total property, plant and equipment
COST/ REVALUATION						
Balance as of 1 January 2021	**6,807,234**	**4,131,528**	**1,055,156**	**23,979**	**2,693,638**	**14,711,535**
Additions during the year				1,054,366		1,054,366
Transfers from construction in progress	50,040	335,020	104,119	(1,037,203)	548,024	-
Disposals and write offs	(6,114)	(370,421)	(22,431)		(63,432)	(462,398)
Balance as of 31 December 2021	**6,851,160**	**4,096,127**	**1,136,844**	**41,142**	**3,178,230**	**15,303,503**
Balance as of 1 January 2022	**6,851,160**	**4,096,127**	**1,136,844**	**41,142**	**3,178,230**	**15,303,503**
Additions during the year				1,594,771		1,054,366
Transfers from construction in progress	28,783	345,913	135,911	(1,481,674)	971,067	-
Disposals and write offs	-	(379,358)	(114,484)		(175,827)	(669,669)
Balance as of 31 December 2022	**6,879,943**	**4,062,682**	**1,158,270**	**154,239**	**3,973,470**	**16,228,604**
ACCUMULATED DEPRECIATION						
Balance as of 1 January 2021	**-**	**2,871,802**	**782,408**	**-**	**927,385**	**4,581,595**
Depreciation charge (Note 11)	243,542	362,512	93,769	-	512,918	1,212,741
Disposals and write/offs	(305)	(368,011)	(22,432)	-	(35,833)	(426,581)
Balance as of 31 December 2021	**243,237**	**2,866,303**	**853,745**	**-**	**1,404,470**	**5,367,755**
Depreciation charge (Note 11)	245,266	375,218	117,080	-	716,034	1,453,598
Disposals and write/offs		(377,402))	(111,306)	-	(100,432)	(589,140)
Balance as of 31 December 2022	**488,503**	**2,864,119**	**859,519**	**-**	**2,020,072**	**6,232,213**
Carrying value as of:						
– 31 December 2022	**6,391,440**	**1,198,563**	**298,751**	**154,239**	**1,953,398**	**9,996,391**
– 31 December 2021	**6,607,923**	**1,229,824**	**283,099**	**41,142**	**1,773,760**	**9,935,748**

19. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY AND NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)

a) Property, plant and equipment and investment property (continued)

As of 31 December 2022, the Bank has title deeds for property it owns and has no buildings pledged as collateral.

In accordance with the accounting policies changes from 2017 (passage from the cost model to the redetermination of value for measurement subsequent to initial disclosure of functional property; passage from accounting at cost to accounting at fair value for investment property), Parent bank has engaged the authorized appraisal company to assess fair value of the properties, at the level of the Intesa Sanpaolo Group, including Banca Intesa a.d. Beograd. On 31 December 2022, the authorized appraiser carried out the assessment of the properties fair value that Banca Intesa ad Beograd uses for its own business, and has concluded that market prices of real estates did not significantly oscillated (more than+/-10%) compared to the actual prices as of December 31, 2021, so that new assessment are not recorded as of December 31, 2022.

If the Bank continued to apply cost model for real estate valuation, net present value would amount to RSD 4,764,600 thousand, at December 31, 2022 (31 December 2021: RSD 4.996.495 thousand).

b) Right of use assets

Bank leases certain number of real estates for its branches, offices and other business premises.

Lease contracts are typically concluded to the period of 5 years, with possibility of its renewal by the will of both contracting parties, as well as with the possibility to be terminated by the Lessee, with a contracted notice period of 30 or 60 days for most contracts.

Bank has also leased certain number of cars, with contract period of 5 years, as well as one lease of an equipment (server) contract with useful life period of two years.

Related to the lease contract for POS terminals and accompanying devices, the Bank used the portfolio approach (grouping of multiple leased assets of the same characteristics that met the condition to be identified as an asset), when recognizing the right of use asset.

Information about right of use assets, amounts recognized in the income statement and cash flow are shown as follows:

19. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY AND NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)

b) Right of use assets (continued)

				In RSD thousand
	Automobile	**Real estate**	**Equipment**	**Total**
COST				
Balance as of 1 January 2021	**189,994**	**2,497,830**	**5,814**	**2,693,638**
Additions during the year	45,610	496,661	5,753	548,024
Disposals during the year	1,214	(62,218)	-	(63,432)
Balance as of 31 December 2021	**234,390**	**2,932,273**	**11,567**	**3,178,230**
Additions during the year	**38,066**	**109,392**	**823,610**	**971,068**
Disposals during the year	**(3,783)**	**(17,045)**	**-**	**(175,828)**
Balance as of 31 December 2022	**268,673**	**2,869,620**	**835,177**	**3,973,470**
ACCUMULATED DEPRECIATION				
Balance as of 1 January 2021	**78,312**	**845,924**	**3,149**	**927,385**
Depreciation charge (Note 11)	48,814	461,197	2,907	512,918
Contracts ending and disposals	(766)	(35,067)	-	(35,833)
Balance as of 31 December 2021	**126,360**	**1,272,054**	**6,056**	**1,404,470**
Depreciation charge (Note 11)	53,552	479,017	183,466	716,035
Contracts ending and disposals	(2,332)	(98,101)	-	(100,433)
Balance as of 31 December 2022	**177,580**	**(1,652,970)**	**189,522**	**2,020,072**
Carrying value as of:				
– 31 December 2022	**91,092**	**1,216,650**	**645,655**	**1,953,398**
– 31 December 2021	**108,029**	**1,660,219**	**5,511**	**1,773,760**

Amount recognized in profit and loss

Leases under the IFRS 16

		In RSD thousand
	2022.	**2021.**
Interest on lease liabilities (Note 3b)	44,305	34,061
Expenses relating short-term leases (exempt from the IFRS16, Note 13)	25,387	23,008
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets (exempt from the IFRS16, Note 13)	53,625	280,146
Tax expenses – IFRS 16 (Note 13)	131,631	98,365
Net effects (gain) relating to variable payments and right of use assets disposals (Note 12 and 13)	(5,464)	(734)
Total amount recognized in profit and loss	**249.484**	**434.846**

Amounts recognized in statement of cash flows

		In RSD thousand
	2022.	**2021.**
Total cash outflow for leases IFRS 16	**503.205**	**487.788**

20. OTHER ASSETS

	2022	2021
		In RSD thousand
	2022	**2021**
Trade receivables	201	307
Receivables from employees	4,413	5,082
Receivables for overpaid taxes, except income tax	123	638
Advances paid	141,821	55,508
Other receivables from operating activities (a)	8,711,624	3,053,089
Assets received through collection of receivables	152,690	152,690
Other assets (b)	956,207	739,464
Fee and commission receivables related to other assets:		
– in RSD	373,276	416,112
– in foreign currency	22,900	16,987
Accrued interest expenses:		
– in RSD	391,266	512,402
Accrued other expenses:	149,364	207,258
– in RSD	4	-
Total other assets	**10,903,889**	**5,159,537**
Less: Allowance for impairment	(413,424)	(142,011)
Balance as of 31 December	**10,490,465**	**5,017,526**

Other receivables from operating activities in amount of RSD 8,711,624 thousand as of 31 December 2022 (31 December 2021: RSD 3,053,089 thousand) mostly relate to receivables in RSD with respect to payment cards from other cards issuers - Master Card, VISA, DINA, AMEX and debit cards in the amount of RSD 7,397,939 thousand (31 December 2021: RSD 1,308,542 thousand) and receivables from the Pension Fund RSD 460,716 thousand (31 December 2021: RSD 382,829 thousand).

Other assets as at 31 December 2022 in amount of RSD 956,207 thousand (31 December 2021: 739,464 thousand) mostly consist of transient account for payment cash on ATM which as at 31 December 2022 in amount of RSD 915,722 thousand (31 December 2021: RSD 693,730 thousand) mostly consist of transient account for payment cash on ATS.

21. LIABILITIES BASED ON DERIVATIVES

		In RSD thousand
	2022	**2021**
Liabilities based on derivatives - swap	8,305	-
Balance as of 31 December	**8,305**	**-**

22. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, CUSTOMERS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK

a) Deposits and other liabilities due to banks, other financial organizations and Central Bank

		In RSD thousand
	2022	**2021**
In RSD		
Transaction deposits	2,259,061	1,348,095
Deposits underlying granted loans	7,433	23,149
Special-purpose deposits	557,112	335,432
Other deposits	11,221,471	4,092,014
Received loans	585,000	-
Interest payable	113,456	28,918
Accrued expenses for liabilities at amortized value, by applying the effective interest rate method	(5,282)	-
Fee and commission payable	19	18
Total in RSD	**14,738,270**	**5,827,626**
In foreign currency		
Transaction deposits	1,165,461	613,973
Deposits underlying granted loans	1,643	1,646
Special-purpose deposits	251,282	424,417
Other deposits	37,372,536	-
Received loans (a)	34,971,695	32,738,968
Other financial liabilities (b)	3,427,431	2,019,366
Interest payable	343,920	39,563
Accrued expenses for liabilities at amortized value, by applying the effective interest rate method	(177,697)	(173,272)
Total in foreign currency	**77,356,271**	**35,664,661**
Balance as of 31 December	**92,094,541**	**41,492,287**

(a) During 2022 received loans in foreign currency increased in the amount of RSD 2.232.727 thousand (31 December 2021 RSD 3,731,210 thousand) due to new credit lines withdrawn from international financial institutions

(b) Other financial liabilities in amount of RSD 3,427,431 thousand as of 31 December 2022 (31 December 2021 RSD 2,019,364 thousand) mostly related to liabilities for outstanding payments received from foreign country in foreign currency in amount of RSD 3,420,548 thousand (31 December 2021 RSD 2,016,533 thousand).

22. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, CUSTOMERS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK (continued)

b) Deposits and other liabilities due to customers

		In RSD thousand
	2022	**2021**
In RSD		
Transaction deposits	193,172,588	195,985,134
Savings deposits	6,847,967	6,716,816
Deposits underlying granted loans	2,099,842	838,293
Special-purpose deposits	8,773,482	7,676,808
Other deposits	36,084,042	15,866,340
Deposits and loans due within one day (overnight)	1,551,693	-
Interest payable	539,321	294,557
Total in RSD	**249,068,935**	**227,377,948**
In foreign currency		
Transaction deposits	282,108,033	291,666,389
Savings deposits	53,953,743	36,979,649
Deposits underlying granted loans	5,656,007	4,792,556
Special-purpose deposits	3,025,903	3,987,480
Other deposits	18,374,961	7,355,083
Received loans	290,138	462,488
Interest payable	372,789	255,960
Total in foreign currency	**363,781,574**	**345,499,605**
Balance as of 31 December	**612,850,509**	**572,877,553**

22. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, CUSTOMERS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK (continued)

c) Deposits and other liabilities to banks, customers, other financial organizations and Central Bank by contractual maturity

In RSD thousand

	2022			2021		
	Short-term (up to one year)	Long-term (more than one year)	Total	Short-term (up to one year)	Long-term (more than one year)	Total
In RSD						
Transaction deposits	195,431,650	-	195,431,650	197,333,230	-	197,333,230
Saving deposits	4,617,112	2,230,855	6,847,967	4,451,179	2,265,637	6,716,816
Deposits related to granted loans	166,774	1,940,501	2,107,275	91,997	769,444	861,441
Special-purpose deposits	8,374,472	956,122	9,330,594	7,113,764	898,476	8,012,240
Other deposits	46,962,304	343,208	47,305,512	18,617,785	1,340,569	19,958,354
Overnight deposits and loans	1,551,693	-	1,551,693	-	-	-
Received loans	-	585,000	585,000			
Interest payable	652,778	-	652,778	323,475	-	323,475
Accrued expenses for liabilities at amortized value, by applying the effective interest rate method	-	(5,282)	(5,282)	-	-	-
Fee and commission payable	19	-	19	18	-	18
Total in RSD	**257,756,802**	**6,050,404**	**263,807,206**	**227,931,448**	**5,274,126**	**233,205,574**
In foreign currency						
Transaction deposits	283,273,494	-	283,273,494	292,280,362	-	292,280,362
Saving deposits	39,029,263	14,924,480	53,953,743	28,794,148	8,185,501	36,979,649
Deposits related to granted loans	1,709,904	3,947,746	5,657,650	2,101,373	2,692,829	4,794,202
Special-purpose deposits	2,959,046	318,139	3,277,185	4,250,168	161,729	4,411,897
Other deposits	52,654,697	3,092,799	55,747,496	6,974,857	380,228	7,355,085
Received loans	-	35,261,833	35,261,833	-	33,201,456	33,201,456
Other financial liabilities	3,427,431	-	3,427,431	2,019,364	-	2,019,364
Interest payable	716,709	-	716,709	295,523	-	295,523
Accrued expenses for liabilities at amortized value, by applying the effective interest rate method	-	(177,697)	(177,697)	-	(173,272)	(173,272)
Total in foreign currency	**383,770,544**	**57,367,300**	**441,137,844**	**336,715,795**	**44,448,471**	**381,164,266**
Balance as of 31 December	**641,527,346**	**63,417,704**	**704,945,050**	**564,647,243**	**49,722,597**	**614,369,840**

22. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, CUSTOMERS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK (continued)

d) Deposits and other liabilities to banks, customers, other financial organizations and Central Bank by type of customers

						In RSD thousand
			2022			2021
	Short-term (up to one year)	Long-term (more than one year)	Total	Short-term (up to one year)	Long-term (more than one year)	Total
In RSD						
– Central bank, banks and other financial sector and insurance	12,919,968	341,000	13,260,968	4,384,521	1,338,356	5,722,877
– Holding companies	81	-	81	139	-	139
– Corporate customers	124,709,675	2,861,488	127,571,163	107,411,033	1,642,358	109,053,391
– Retail customers	101,424,650	2,245,961	103,670,611	98,719,423	2,277,142	100,996,565
– Public sector	6,084,025	2,208	6,086,233	5,202,232	2,213	5,204,445
– Foreign banks and financial organizations	897,585	579,718	1,477,303	104,749	-	104,749
– Foreign entities	353,927	12,323	366,250	508,572	13,157	521,729
– Other customers – non-profit institutions	7,381,799	-	7,381,799	6,047,555	-	6,047,555
– Other customers – banks in bankruptcy	1,625,266	7,706	1,632,972	1,523,822	900	1,524,722
– Other customers non-budgeted legal entities and institutions	350,411	-	350,411	-	-	-
– Other customers- companies and other legal entities in bankruptcy	1,967,253	-	1,967,253	3,837,595	-	3,837,595
– Other customers –other financial organization in bankruptcy	1,256	-	1,256	96	-	96
– Other customers – public sector in bankruptcy	40,906	-	40,906	191,711	-	191,711
Total in RSD	**257,756,802**	**6,050,404**	**263,807,206**	**227,931,448**	**5,274,126**	**233,205,574**
In foreign currency						
– Central bank, banks and other financial sector and insurance	2,769,550	829,423	3,598,973	1,029,401	2,822	1,032,223
– Corporate customers	80,550,599	4,738,487	85,289,086	68,792,495	1,563,059	70,355,554
– Retail customers	253,388,804	16,605,526	269,994,330	256,328,468	9,636,719	265,965,187
– Public sector	1,164,673	291,113	1,455,786	1,516,261	463,450	1,979,711
– Foreign banks and financial organizations	38,963,299	34,793,998	73,757,297	2,066,742	32,565,696	34,632,438
– Foreign entities	4,545,740	108,284	4,654,024	4,612,653	192,151	4,804,804
– Other customers - non-profit institutions	1,862,540	469	1,863,009	2,076,343	24,575	2,100,918
– Other customers - non-budgeted legal entities and institutions	321,244	-	321,244	226,521	-	226,521
– Other customers- companies and other legal entities in bankruptcy	204,095	-	204,095	66,829	-	66,829
– Other customers – public sector in bankruptcy	-	-	-	81	-	81
Total in foreign currency	**383,770,544**	**57,367,300**	**441,137,844**	**336,715,794**	**44,448,472**	**381,164,266**
Balance as of 31 December	**641,527,346**	**63,417,704**	**704,945,050**	**564,647,242**	**49,722,598**	**614,369,840**

22. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, CUSTOMERS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK (continued)

On the corporate transaction deposits, the Bank pays interest at rates up to 90.00% of the annual reference interest rate depending on the currency and the amount of deposit.

On term deposits in RSD and foreign currency, the Bank pays interest at rates ranging up to 8.00% per annum, depending on the maturity period and the currency.

On special-purpose deposits of customers and natural persons the Bank does not pay interest.

On short-term retail deposits in RSD the interest is paid at rates ranging from 0.00 % to 1.75% per annum, depending on the maturity period, Interest rates on short-term retail deposits in foreign currency range from 0,00% to 0.30%% per annum, depending on the maturity period and the currency.

On short-term small business client deposits in RSD the interest is paid at rates ranging from 0.45 % to 5.09% per annum, depending on the maturity period, Interest rates on short-term small business deposits in foreign currency range from 0.01% to 3.1% per annum, depending on the maturity period and the currency.

Long-term retail deposits in foreign currency are deposited at interest rates ranging from 0.01% to 0.70% per annum, depending on the maturity period and the currency. Long-term retail deposits in RSD are deposited at interest rates ranging from 2.00% to 3.00% per annum, depending on the maturity period.

23. PROVISIONS

		In RSD thousand
	2022	**2021**
Provisions for off-balance sheet items (a)	689,968	429,352
Provisions for employee benefits:		
– restructuring (b)	86,352	152,265
– long-term retirement benefits and unused days of vacation (c)	294,133	257,273
Provisions for litigations (Note 29 (a))	1,549,992	1,562,375
Balance as of 31 December	**2,620,445**	**2,401,265**

23. PROVISIONS (continued)

		In RSD thousand
	2022	**2021**
Movements in provisions for off-balance sheet items		
Opening balance	**429,353**	**463,317**
Release of provisions	(613,045)	(275,163)
Release of provisions - exchange rate	(1,427)	(644)
Increase of provisions	873,670	239,606
Increase of provisions – exchange rate	1,417	2,238
Balance as of 31 December	**689,968**	**429,353**
Movements in provisions for restructuring		
Opening balance	152,264	48,136
Release of provisions directly from provisions	(125,310)	(48,136)
Increase of provisions	59,398	152,265
Balance as of 31 December	**86,352**	**152,265**
Movements in provisions for employee retirement benefits and unused days of vacation		
Opening balance	257,273	234,066
Increase of provisions	36,860	23,207
Balance as of 31 December	**294,133**	**257,273**
Movements in provisions for litigations		
Opening balance	1,562,375	627,526
Release of provisions through profit and loss	(600,847)	(64,285)
Release of provisions directly from provisions	(173,991)	(186,062)
Increase of provisions	762,455	1,185,196
Balance as of 31 December (Notes 29)	**1,549,992**	**1,562,375**
Movements in provisions liabilities		
Opening balance	-	10,405
Release of provisions directly from provisions	-	(10,405)
Provisions	-	-
Balance as of 31 December	**-**	**-**

(a) According to the Bank's internal policy, provisioning for off-balance sheet items exposed to risk is performed in the same manner as for balance sheet assets, i,e, off-balance sheet items are classified into recoverability categories based on the estimation of the recoverable amount of receivables when it comes to outflow of resources and probability of outflow of resources,

(b) The project of considering and analysing efficiency of business processes, which may lead to restructuring and decrease in number of employees (redundancies), which started, but is still not fully completed, therefore, the Bank made provisions in the same manner as in previous years, based on estimated number of employees that potentially could be redundant, For the purpose of estimate, available laws and regulations, as well as internal acts have been observed (Labour Law and Collective agreement),

(c) Long-term provision for retirement benefits has been recognized on the basis of an independent actuary's calculation at the balance sheet date in the amount of present value of estimated future cash outflows, The present value of estimated future cash outflows is calculated using the discount rate of 4% per annum, which reflects the long-term rate of return on high quality debt securities, Republic of Serbia bonds and treasury bonds of the Ministry of Finance Republic of Serbia,

23. PROVISIONS (continued)

The provision was determined in accordance with the Bank's Collective Agreement, using the assumption of average salary increase rate of 8% per annum over the period for which the provision has been formed,

The provision for unused days of vacation is calculated on the basis of an independent actuary's report at the balance sheet date, In accordance with article 114 of the Labour Law in Republic of Serbia, during vacation an employee is entitled to compensation in the amount of average salary for the last twelve months, When calculating the provision for unused vacation days, the following factors are significant:

- average gross salary in the Bank, and
- number of unused days of vacation,

24. OTHER LIABILITIES

		In RSD thousand
	2022	**2021**
Net salaries and compensations	499,172	409,050
Taxes, VAT, contributions and other duties payable, excluding income tax payable	375,810	289,860
Vendor liabilities	873,481	1,066,350
Advances received	75,746	86,353
Other liabilities (a)	6,526,450	3,557,779
	8,350,659	5,409,392
Accruals and deferred income		
Accrued liabilities for other expenses:		
– in RSD	116	207
Deferred interest income:		
– in RSD	30,621	68,599
Other deferred income:		
– in RSD	75,490	67,492
Other deferrals (b)		
– in RSD	2,454,740	975,555
– in foreign currency	5,948,401	666,892
	8,509,368	1,778,745
Lease liabilities (c)	2,032,438	1,788,118
Total	**18,892,465**	**8,976,255**
Other tax liabilities	93,225	145,334
Balance as of 31 December	**18,985,690**	**9,121,589**

(a) Other liabilities in 2022 and 2021 mostly consist of payment for credit card obligations and liabilities in RSD for calculated payment orders - payment cards.

(b) Other accruals in foreign currency in 2022 and 2021 mostly consist of accruals accounts balances – buy or sales of foreign currency.

24. OTHER LIABILITIES (continued)

(c) Liabilities from long-term real-estate, vehicles and equipment leases in accordance with IFRS 16, as of December 31, 2022 and 2021 are shown as follows:

	2022.			2021.
Minimal lease payments	**Present value**	**Contractual undiscounted cash flows**	**Present value**	**Contractual undiscounted cash flows**
Up to 1 year	67,791	68,494	467,322	495,726
From 1 to 5 years	1,496,405	1,644,384	1,140,596	1,191,562
Over 5 years	468,242	507,225	180,200	185,819
Balance as of 31 December	**2,032,438**	**2,220,103**	**1,788,118**	**1,873,107**

(e) Changes on liabilities in accordance IFRS 16, are shown as folow:

In RSD thousand	2022.	2021.
	1,788,118	**1,754,971**
Increase during the year	832,483	548,024
Decrease during the year	(82,405)	(28,282)
Payments	(547,510)	(521,849)
Interest	44,305	34,061
Changes in the value of liabilities - exchange rate difference	(2,553)	1,193
Balance as of 31 December	**2,032,438**	**1,788,118**

25. EQUITY

a) Equity structure

The Bank's equity as of 31 December 2022 consists of shares capital, share premium, reserves, revaluation reserves and current and previous year profit.

Structure of the Bank's equity is presented in table below:

		In RSD thousand
	2022	**2021**
Share capital – ordinary shares	21,315,900	21,315,900
Share premium	20,432,569	20,432,569
Reserves from profit	43,488,903	43,488,903
Fair value reserves of securities	(1,144,341)	626,592
Revaluation reserves arising from changes in fair value of buildings	948,821	953,471
Retained earnings	47,670	21,853,215
Current year profit	12,679,339	10,371,359
Balance as of 31 December	**97,768,861**	**119,042,009**

/i/ Share capital

As of 31 December 2022, the Bank's registered share capital consists of 213,159 ordinary shares with nominal value of RSD 100 thousand per share.

The Bank's shareholder as of 31 December 2022and 2021 is presented in the table below:

Shareholder	**Number of shares**	**Nominal share value (RSD thousand)**	**Share in %**
Intesa Sanpaolo Holding International S,A,, Luxembourg	213,159	21,315,900	100,00
Total	213,159	21,315,900	100,00

The amount of paid dividend during the period as well as related dividend per share are presented as follows:

/ii/ Share premium

Share premium amounting to of RSD 20,432,569 thousand as of 31 December 2022 (31 December 2021: RSD 20,432,569 thousand) is the result of the Bank's status change, i.e., the merger of Panonska banka a,d, Novi Sad in the amount of RSD 2,989,941 thousand in 2007, as well as the result of the 4th, 5th and 6th issues of ordinary shares without public offer for the purpose of share capital increase.

/iii/ Reserves

		In RSD thousand
	2022	**2021**
Reserves from profit for estimated losses	43,488,903	43,488,903
Losses from the change in the value of equity instruments	(6,858)	(5,234)
Gains from the change in the value of debt instruments	(1,137,483)	631,826
Revaluation reserves arising from changes in fair value of buildings	948,821	953,471
Total	**43,293,383**	**45,068,966**

25. EQUITY (continued)

b) Performance indicators – compliance with legal requirements

The Bank is required to reconcile the scope and the structure of its operations and risk placements with performance indicators prescribed by the Law on Banks and relevant decisions of the National Bank of Serbia passed on the basis of the aforementioned Law.

As of 31 December 2022, the Bank was in compliance with all prescribed performance indicators.

Performance indicators	Prescribed		Realized
		31 December 2022	31 December 2021
Regulatory capital	Minimum EUR 10 million	EUR 689 millions	EUR 693 millions
Minimum ratio of the adequacy of the basic share capital specified by the bank	Minimum 4,5%	17.30%	19.29%
Minimum ratio of the adequacy of the basic capital specified by the bank	Minimum 6%	17.30%	19.29%
Minimum ratio of the adequacy of the capital specified by the bank	Minimum 8%	17.30%	19.29%
Permanent investments indicator	Maximum 60%	12.37%	12.22%
Indicator of large and the largest permissible loans	Maximum 400%	113.87%	86.65%
Liquidity ratio	Minimum 0,8	1.88	2.02
Acid-test ratio (quick ratio)	Minimum 0,5	1.47	1.70
Liquidity coverage ratio – LCR	Minimum 1,0	2.22%	2.71%
Foreign currency risk indicator	Maximum 20%	0.81%	1.48%
Exposure to a single entity or to a group of related parties	Maximum 25%	22.24%	21.66%
Bank's investment in non-financial legal entity	Maximum 10%	0.01%	0.02%
Risk concentration ratio	Maximum 30%	7.27%	7.40%

26. OFF-BALANCE SHEET ITEMS

a) Classification of off-balance sheet items by the classification category

		In RSD thousand
	Off-balance sheet items to be exposed to credit risk 2022,	**Provisions for Off-balance sheet items to be exposed to credit risk**
Guarantees and other irrevocable commitments	106.098.193	(610.096)
Other off-balance sheet items	91.511.329	(79.873)
Balance as of 31 December	**197.609.522**	**(689.969)**

		In RSD thousand
	Off-balance sheet items to be exposed to credit risk 2021,	**Provisions for Off-balance sheet items to be exposed to credit risk**
Guarantees and other irrevocable commitments	105,302,086	(355,801)
Other off-balance sheet items	86,443,705	(73,552)
Balance as of 31 December	**191,745,791**	**(429,353)**

26. OFF-BALANCE SHEET ITEMS

b) Guarantees and other irrevocable commitments

		In RSD thousand
	2022	**2021**
Financial guarantees:		
– in RSD	10,493,566	8,498,529
– in foreign currency	13,794,245	11,536,197
	24,287,811	**20,034,726**
Commercial guarantees:		
– in RSD	13,122,357	12,060,114
– in foreign currency	19,634,540	18,088,453
	32,756,897	**30,148,567**
Uncovered letters of credit in foreign currency	423,257	564,419
Sureties and Acceptances	-	-
Sureties*	177,255	177,647
Irrevocable commitments for undisbursed loans	46,913,661	52,486,162
Other irrevocable commitments	1,539,312	1,890,565
	49,053,485	**55,118,793**
Balance as of 31 December	**106.098.193**	**105,302,086**

c) Other off-balance sheet items

		In RSD thousand
	2022	**2022**
Revocable commitments for undisbursed loans	91.511.329	86.443.705
Balance as of 31 December	91.511.329	86.443.705

27. RELATED PARTY DISCLOSURES

A number of banking transactions are entered into with the shareholder and other related parties in the ordinary course of business. The Bank realizes business transactions with its shareholder and other related party. The Bank enters into business relationship with Parent company and other members of Intesa Sanpaolo Group. Outstanding balances of receivables and liabilities as of 31 December 2022 and 2021, as well as income and expenses for the years then ended, resulting from transactions with the shareholder and other Bank's related parties within Intesa Sanpaolo Group, stated in RSD thousand, are presented as follows:

2022	**Intesa Sanpaolo S.p.A. , Italy, USA , England, Germany**	**Privredna banka d.d., Zagreb, Croatia**	**Intesa Leasing d.o.o., Belgrade**	**Vseobecna Uverova bank A.S., Slovakia**	**Banka Koper d.d., Slovenia**	**Intesa Sanpaolo Banka Bosnia and Herzegovina**
Loans and receivables from banks and other financial organisations	15.658.728	281.563	4.045.862	197.075	84.110	3.443
Receivables from derivatives	462.171	-	-	-	-	-
Other assets	8.377	-	19.851	-	-	-
Total assets	**16.129.276**	**281.563**	**4.065.713**	**197.075**	**84.110**	**3.443**
Deposits and other liabilities due to banks, other financial organisations and Central bank	36.854.561	4.502	5.078.690	-	-	7.799
Obaveze derivata namenjenih zaštiti od rizika	8.305	-	-	-	-	-
Other liabilites	84.787	-	-	-	-	-
Total liabilities	**36.947.653**	**4.502**	**5.078.690**	**-**	**-**	**7.799**
Interest income	77.554	-	30.088	-	-	-
Fee and commission income	35.466	32	10.646	-	3	15
Net profit from changes in fair value of financial instruments	453.866	-	-	-	-	-
Other income	14.541	-	25.927	-	2.694	5.532
Total income	**581.428**	**32**	**66.661**	**-**	**2.697**	**5.546**
Interest expense	(248.139)	-	(49.308)	-	-	-
Fee and commission expenses	(169.834)	(6.295)	-	-	(189)	(12)
Other expenses	(257.369)	(3.422)	-	-	-	-
Total expenses	**(675.342)**	**(9.717)**	**(49.308)**	**-**	**(189)**	**(12)**
Off-balance sheet items - derivatives FX SWAPs	33.235.444	-	-	-	-	-
Off-balance sheet items - guarantees	623.913	-	2.287.787	-	-	-
Total off-balance sheet items	**33.859.357**	**-**	**2.287.787**	**-**	**-**	**-**

27. RELATED PARTY DISCLOSURES (continued)

2022	Intesa Sanpaolo Holding International S.A., Luxemburg	Branch of ISP International Value Service doo Belgrade	Eurizon Capital SGR S.p.a.	ISP Innovation center SPA	Intesa Sanpaolo Romania S.A. Commercial Bank	Intesa Sanpaolo Albania SH.A.
Loans and receivables from banks and other financial organisations	-	198	-	-	-	-
Receivables from derivatives	-	-	-	-	-	-
Other assets	-	1.009	251	48	-	2.367
Total assets	**-**	**1.207**	**251**	**48**	**-**	**2.367**
Deposits and other liabilities due to banks, other financial organisations and Central bank	481	327.855	-	-	-	-
Obaveze derivata namenjenih zaštiti od rizika	-	-	-	-	-	-
Other liabilites	-	2.332	-	-	-	-
Total liabilities	**481**	**330.187**	**-**	**-**	**-**	**-**
Interest income	-	-	-	-	-	-
Fee and commission income	134	416	-	-	-	-
Net profit from changes in fair value of financial instruments	-	-	-	-	-	-
Other income	-	10.103	-	-	2.366	2.367
Total income	**134**	**10.519**	**-**	**-**	**2.366**	**2.367**
Interest expense	-	-	-	-	-	-
Fee and commission expenses	-	-	-	-	-	-
Other expenses	-	(1.683.584)	-	-	-	-
Total expenses	**-**	**(1.683.584)**	**-**	**-**	**-**	**-**
Off-balance sheet items - derivatives FX SWAPs	-	-	-	-	-	-
Off-balance sheet items - guarantees	-	-	-	-	-	-
Total off-balance sheet items	**-**	**-**	**-**	**-**	**-**	**-**

27. RELATED PARTY DISCLOSURES

2021	Intesa Sanpaolo S.p.A., Italy,USA, England,Germany	Privredna banka d.d., Zagreb, Croatia	Intesa Leasing d.o.o., Belgrade	Vseobecna Uverova bank A.S., Slovakia	Banka Koper d.d., Slovenia
Loans and receivables from banks and other financial organisations	7.848.781	452.838	2.304.979	3.752.498	18.710
Receivables from derivatives	432.937	-	-	-	-
Other assets	16.731	6.005	19.588	-	-
Total assets	**8.298.449**	**458.843**	**2.324.567**	**3.752.498**	**18.710**
Deposits and other liabilities due to banks, other financial organisations and Central bank	1.599.014	4.504	1.230.258	-	-
Other liabilites	313.384	-	-	-	-
Total liabilities	1.912.398	4.504	1.230.258	-	-
Interest income	**49.075**	**-**	**75.793**	**-**	**-**
Fee and commission income	32.823	12	5.955	-	81
Net profit from changes in fair value of financial instruments	69.991	-	-	-	-
Other operating income	4.049	6.005	25.096	-	5.788
Other income	-	-	-	-	-
Total income	**155.938**	**6.017**	**106.844**	**-**	**5.869**
Interest expense	(2.534)	-	(297)	-	-
Fee and commission expenses	(192.206)	(403)	-	-	(170)
Other expenses	(783.271)	(3.415)	-	-	-
Total expenses	**(978.011)**	**(3.818)**	**(297)**	**-**	**(170)**
Off-balance sheet items - derivatives FX SWAPs	37.031.218	-		-	-
Off-balance sheet items - guarantees	934.083	-	1.528.567	-	-
Total off-balance sheet items	**37.965.301**	**-**	**1.528.567**	**-**	**-**

27. RELATED PARTY DISCLOSURES (continued)

2021	"Intesa Sanpaolo Banka D.D. Bosnia and Herzegovina"	Intesa Sanpaolo Holding International S.A., Luxemburg	Branch of ISP International Value Service doo Belgrade	Eurizon Capital SGR S.p.a.	ISP Innovation center SPA
Loans and receivables from banks and other financial organisations	7.716	-	74	-	-
Receivables from derivatives	-	-	-	-	-
Other assets	-	-	-	895	406
Total assets	**7.716**	**-**	**74**	**895**	**406**
Deposits and other liabilities due to banks, other financial organisations and Central bank	8.567	617	216.254	-	-
Other liabilites	-	-	74.328	-	-
Total liabilities	8.567	617	290.582	-	-
Interest income	**-**	**-**	**-**	**-**	**-**
Fee and commission income	7	-	205	-	-
Net profit from changes in fair value of financial instruments	-	-	-	-	-
Other operating income	-	-	8.516	-	-
Other income	-	-	64.227	-	-
Total income	**7**	**-**	**72.948**	**-**	**-**
Interest expense	-	-	-	-	-
Fee and commission expenses	(1)	-	-	-	-
Other expenses	-	-	(489.416)	-	-
Total expenses	**(1)**	**-**	**(489.416)**	**-**	**-**
Off-balance sheet items - derivatives FX SWAPs	-	-	-	-	-
Off-balance sheet items - guarantees	-	-	-	-	-
Total off-balance sheet items	**-**	**-**	**-**	**-**	**-**

27. RELATED PARTY DISCLOSURES (continued)

The above stated receivables and liabilities at the balance sheet date, as well as income and expenses arising from transactions with the related parties from the Intesa Sanpaolo Group, are the result of ordinary business activities.

Interest on the Bank's receivables and payables is calculated at the usual rates.

(a) Gross salaries and other benefits of the Executive Board's members and other key management personnel of the Bank, including the Board of Directors' members, during 2022 and 2021, are presented as follows:

		In RSD thousand
	2022	**2021**
Remunerations to the members of the Executive Board, Board of Directors and other key management of the Bank	556,716	278,304
Total	**556,716**	**278,304**

(b) Loans and receivables from the members of the Executive Board and the Board of Directors and other key management personnel of the Bank, are presented as follows:

		In RSD thousand
	2022	**2021**
Loans	108.040	50.218
Total allowances for impairment	(59)	(96)
Balance as of 31 December	**107.981**	**50.122**

28. RISK MANAGEMENT

Risk is an inherent part of the Bank's activities and cannot be eliminated completely. It is important to manage risks in such a way that they can be reduced to limits acceptable for all interested parties: shareholders, creditors, depositors, regulators. Risk management is the process of permanent identification, assessment, measurement, monitoring and controlling of the Bank's exposure to risks. An important part of risk management is reporting and mitigating risk. An adequate system of risk management is a critical element in ensuring the Bank's stability and profitability of its operations.

The Bank is exposed to the following major risks: credit risk, liquidity risk, interest rate risk, foreign currency risk, operational risk, risk of exposure toward a single entity or a group of related entities (concentration risk), risk of permanent investments, risk related to the country of origin of the entity to which the Bank is exposed and other risks.

The Board of Directors and the Executive Board are responsible for implementation of an adequate risk management system and for its consistent application.

The Bank's Board of Directors adopts the procedures for identification, measurement and assessment of risks, and is responsible for implementing a unique risk management system and supervision over that system.

The Bank's Executive Board is responsible for identifying, assessing and measuring risks the Bank is exposed to in its operations, and applies the principles of risk management approved by the Bank's Board of Directors. The Executive Board approves internal acts which define risk management and proposes strategies and policies for risk management to Audit Committee and Board of Directors.

The Committee for monitoring business activities (Audit Committee) analyses and adopts proposals of policies and procedures with respect to risk management and internal controls, which are submitted to the Board of Directors for consideration and adoption. Furthermore, the Committee analyses and monitors the application and adequate implementation of adopted policies and procedures for risk management, and recommends new ways for their improvement, if necessary.

The Risk Management Department has been established in the Bank in order to implement a special and unique system for risk management, as well as to enable functional and organizational segregation of risk management activities from regular business activities. This department is directly responsible to the CRO.

The Bank has developed the comprehensive risk management system by introducing policies and procedures, as well as limits for risk levels acceptable for the Bank.

The Bank's organizational parts authorized for risk management constantly monitor changes in regulations, while analysing their influence on the risks at entity level of the Bank. They take necessary measures to make the Bank's business activities and procedures fully compliant with new procedures within the scope of controlled risk. In addition, introduction of new services is followed by necessary market and economic analysis in order to optimize the relation between income and the provision for estimated risks.

28.1. Credit risk

Credit risk is the possibility of occurrence of negative effects on the bank's financial results and capital due to non-fulfilment of the debtor's obligations to banks.

Through its internal acts, policies and procedures, the Bank has implemented an adequate system of credit risk management, thus reducing credit risk to an acceptable level. The Bank manages credit risk through setting credit risk limits, establishing acceptable credit limits for individual customers or for groups of customers.

Credit risk is managed by the Bank at a counterparty specific level, group of related parties, and at total credit portfolio level. For the purpose of implementing the policy of optimal credit risk exposure, the Bank evaluates creditworthiness of each client, both at the moment of loan application, as well as through subsequent regular and continuous performance analysis.

Analysis of the client's creditworthiness, timely settlement of liabilities in the past, value of collateral at customer level and at transaction level, is performed within the Credit Management Department.

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

Maximal exposure to credit risk

Maximal exposure to credit risk by the type of client as of 31 December 2022 and 2021 are presented as follows:

In RSD thousand

December 31st 2022	Balance sheet assets to be exposed to credit risk	Allowances for impairment for balance sheet assets to be exposed to credit risk	Balance sheet assets not to be exposed to credit risk	Balance sheet as of 2022
Cash and balances with Central Bank	94,534,783	-	58,557,767	153,092,550
Receivables from derivatives	-	-	468,597	468,597
Securities	61,293,467	(23,595)	-	61,269,872
Loans and receivables from banks and other financial organizations	70,452,306	(157,334)	-	70,294,972
Loans and receivables from banks	*65,202,872*	*(142,732)*	-	*65,060,140*
Loans and receivables from other financial organizations	*5,249,434*	*(14,602)*	-	*5,234,832*
Loans and receivables from customers	532,007,835	(19,007,806)	-	513,000,029
Investments in subsidiaries	-	-	1,199,472	1,199,472
Intangible assets	-	-	4,602,701	4,602,701
Property, plants and equipment	-	-	9,996,392	9,996,392
Deferred tax assets	-	-	402,963	402,963
Non-current assets held for sale and discontinued operations	-	-	15,795	15,795
Other assets	9,903,615	(411,424)	998,274	10,490,465
Total Balance assets	**768,192,006**	**(19,600,159)**	**76,241,961**	**824,833,808**
Off-Balance receivables from banks	1,934,232	(493)	-	-
Off-Balance receivables from customers	195,675,290	(689,475)	-	-
Total Off-Balance assets	**197,609,522**	**(689,968)**	**-**	**-**
Total assets	**965,801,528**	**(20,290,127)**	**76,241,961**	**824,833,808**

28. RISK MANAGEMENT (continued)

28.1.Credit risk (continued)

Maximal exposure to credit risk (continued)

In RSD thousand

December 31st 2021	Balance sheet assets to be exposed to credit risk	Allowances for impairment for balance sheet assets to be exposed to credit risk	Balance sheet assets not to be exposed to credit risk	Balance sheet as of 2021
Cash and balances with Central Bank	112,635,567	-	23,068,663	135,704,230
Receivables from derivatives	-	-	433,793	433,793
Securities	80,459,870	(38,348)	1,484,789	81,906,311
Loans and receivables from banks and other financial organizations	56,572,517	(15,061)	-	56,557,456
Loans and receivables from banks	46,800,980	(10,896)	-	46,790,084
Loans and receivables from other financial organizations	9,771,537	(4,165)	-	9,767,372
Loans and receivables from customers	465,888,115	(16,570,003)	-	449,318,112
Investments in subsidiaries	-	-	1,199,472	1,199,472
Intangible assets	-	-	4,859,166	4,859,166
Property, plants and equipment	-	-	9,935,747	9,935,747
Investment property	-	-	616,195	616,195
Deferred tax assets	-	-	22,439	22,439
Non-current assets held for sale and discontinued operations	3,720,357	(140,011)	1,437,180	5,017,526
Other assets	**719,276,426**	**(16,763,423)**	**43,057,444**	**745,570,447**
Total balance assets	**690,892,836**	**(15,378,018)**	**41,670,836**	**717,185,654**
Off-Balance receivables from banks	2,663,648	(658)	-	-
Off-Balance receivables from customers	189,082,143	(428,695)	-	-
Total Off-Balance assets	**191,745,791**	**429,353**	**-**	**-**
Total assets	**911,022,217**	**(17,192,776)**	**43,057,444**	**745,570,447**

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

Maximal exposure to credit risk (continued)

Classification of off-balance sheet items is shown in Note 26.

Permanent monitoring of a client's internal rating, the level of risk with respect to each client, the necessary amount of reserve for risk coverage, concentration risk (large exposures), portfolio credit risk, the level of capital necessary for coverage of all credit risks is performed by the Risk Management Department.

The Bank established a special organizational unit, the Delinquency Management Department, in order to manage receivables with a problem in collectability in a timely manner.

The Credit Management Department, the Risk Management Department and the Delinquency Management Department are independent units in the Bank.

Principles prescribed by the National Bank of Serbia, as well as the Bank's internal procedures are applied in these analyses in order to anticipate potential risks that can arise in terms of a client's inability to settle liabilities when they fall due and according to contracted terms.

In that sense, an assessment of the level of required reserves level for potential losses, both at the moment of approval of certain loan, as well as through a continuous, portfolio analysis on a monthly level, are carried out. The analysis entails measuring the adequacy of provision/reserves according to client type, risk type, according to sub-portfolios and total portfolio of the Bank.

Decision making on exposure to credit risk is performed based on proposals provided by the Credit Management Department. The terms for approval of each corporate loan are determined individually, depending on the client type, purpose of loan, estimated creditworthiness and current market position. Types of collateral that accompany each loan are also determined according to a client's creditworthiness analysis, type of credit risk exposure, term of placement, as well as the amount of a particular loan. Conditions for loan approvals to retail clients and entrepreneurs are determined by defining standard conditions for different types of products.

Risk price for standard types of products is calculated according to the analysis of credit costs which the Bank had in the past and historical probability of getting into default status per the same or similar type of product. Risk price for the SME and Corporate segment is calculated on the basis of the client's internal rating or historically adjusted probability of getting into default status per each rating category.

Considering the importance of credit risk, dispersion of authorizations was carried out in respect of the decision making process related to loan approval activities. This dispersion is provided with prescribed limits up to which an authorized person or management body can make loan approval decisions. Organizational parts making decisions with respect to loan approvals, with different levels of authorizations, are as follows: branch managers, regional managers, Credit Management Department, Credit Board, Credit Committee, Executive Board and Board of Directors. For credit exposures exceeding the determined limit, approval of the Parent Bank is necessary.

The Bank manages credit risk by setting up limits with respect to period, amount and results of an individual customer's creditworthiness, through diversification of loans to a larger number of customers and contracting foreign exchange clauses and index-linking to a consumer price index in order to maintain the real value of loans.
Furthermore, the Bank manages credit risk through assessment and analysis of received collaterals, by providing allowances for impairment of financial assets, provisions for off-balance sheet items, reserves for estimated credit losses, as well as by determining the adequate price of a loan which covers the credit risk of a particular placement.

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

In addition to a clients' creditworthiness, risk limits are also set based on different types of collateral. Risk exposure toward a single debtor, including banks, is limited and includes balance sheet and off-balance sheet items exposures. Total risk exposure to a single customer (or a group of related parties) regarding exposure limits, is considered thoroughly and analysed before executing a transaction.

Decision making about credit risk exposure is performed on the basis of considering the proposal made by Credit Management Department.

Loan concentration risk

Loan concentration risk is the risk arising, directly or indirectly, from the Bank's exposure to the same or similar source or type of risk. The Bank controls loan concentration risk by limiting the exposure, which enables the diversification of the loan portfolio. In order to monitor more efficiently concentration risk, the Bank has determined three categories of limits: specific limits ("Top of the House"), credit risk propensity limits, general limits and regulatory limits.

Derivative financial instruments

Derivative financial instruments result in the Bank's exposure to credit risk when the fair value of such instruments is positive for the Bank.

Credit exposure arising from derivatives is calculated using the current exposure method, i.e. the sum of the positive fair value of the contract and the nominal value of the derivative multiplied by a coefficient which depends on the type and maturity of the financial derivative, as prescribed by the National Bank of Serbia.
The credit risk of derivatives is limited by determining maximum credit exposure arising from a derivative for each individual customer.

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

Derivative financial instruments (continued)

In accordance with the above mentioned, as of 31 December 2022 and 31 December 2021 the Bank has the following exposures to counterparties:

In RSD thousand	Nominal value	Total exposure
Total 2022	37,172,025	840,318
Currency (FX) Swap	36,210,398	826,848
By currency:		
CHF	4,770,172	71,991
EUR	18,953,710	626,936
CAD	845,567	8,456
AUD	507,404	7,408
GBP	1,579,161	16,513
NOK	88,990	890
DKK	102,516	1,025
USD	9,362,878	93,629
Currency(FX) Forward	**961,627**	**13,470**
By currency:		
EUR	961,627	13,470

In RSD thousand	Nominal value	Total exposure
Total 2021	**37,094,689**	**802,198**
Currency (FX) Swap	15,388,224	223,873
By currency:		
EUR	9,706,284	146,006
CHF	5,681,940	77,867
Currency(FX) Forward	**21,706,465**	**578,325**
By currency:		
EUR	21,706,465	578,325

Stated amounts represent credit exposure on derivatives, calculated as the sum of the positive fair value of the contract and the nominal value of the derivative, multiplied by a coefficient prescribed by the National Bank Serbia.

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

Derivative financial instruments (continued)

The Bank calculates capital requirements for credit valuation adjustment (CVA), in accordance with the new Decision on Capital Adequacy of Banks published by the National Bank of Serbia.

Adjustment of credit exposure, calculated only for derivative instruments, represents an adjustment to the mid-market valuation of the portfolio of transactions with a counterparty. This adjustment reflects the market value of the credit risk of that counterparty to the Bank.

During 2022 the exposure to the CVA risk was negligible. As of 31 December 2022, the Bank has the following exposure to the CVA risk:

	In RSD thousand	
		Total exposure
	2022	2021
Total	**13,470**	**1,967**
Currency (FX) Forward	13,470	1,967

Credit-related risks

The Bank issues guarantees and letters of credit to its clients, based on which the Bank commits to make payments on behalf of third parties. In this way the Bank is exposed to risks similar to credit risks, which can be mitigated by the same control processes and policies applied for credit risk.

Collaterals and other instruments of credit risk protection

The amount and type of the collateral required depends on an assessment of credit risk of each customer. Terms of collateral with respect to each placement are determined by the analysis of a customer's creditworthiness, type of exposure to the credit risk, placement's maturity, as well as the amount itself.

Contractual authorization, as well as bills of exchange are provided by customers as standard collaterals while, depending on the assessment, additional collaterals may be required, such as real estate mortgages, movable property pledges, partial or entire coverage of placements with deposits, state guarantees, guarantees issued by another bank or a legal entity, pledging of securities, or joint loan contracting with another legal entity which then becomes the joint debtor.

In cases of real estate mortgages or movable property pledges, the Bank always obtains valuation of the assets, carried out by an authorized appraiser, in order to minimize potential risk. Decisions on placements to retail clients and small business (entrepreneurs) are mostly based on appraisal of standardized, previously defined conditions, using a scoring model, with additional analysis by credit analysts.

28.1.Credit risk (continued)

Assessment of impairment of financial assets

Bank applies expected credit losses model for valuating financial assets measured at amortized cost or fair value through other comprehensive income (FVOCI), except equity instruments. Banks performs this valuation on individual and collective basis.

- ***Individual assessment of impairment***

The Bank performs an individual assessment of impairment i.e. impairment financial assets for each individually materially significant exposure (exposure the amount over EUR 250,000) if it is in the status of default (materially significant amount overdue more than 90 days, i.e. if there is objective evidence that the loan has been impaired) and if it belongs to the credit risk class "Unlikely to Pay" and "Doubtful".

The level of impairment of loans is determined based on the projection of expected cash flows which shall be collected pursuant to contracts with clients, taking into consideration the assessment of financial position and creditworthiness of the client, the realizable value of collateral, as well as the timing of the expected cash flows from realization of collaterals, etc. In order to calculate expected credit loss different scenarios have been introduced (weighted by different probabilities) to assess future cash flows, with additional correction which take into consideration assessed macroeconomic impact (add-on).

Projected cash flows are discounted to their present value using the effective interest rate. Impairment loss is measured as the difference between the carrying amount of a loan and its estimated recoverable amount, being the present value of expected future cash flows. Individual assessment of the impairment of placements is performed at least semi-annually.

If new information becomes available that, as estimated by credit analysts, have an effect on the client's creditworthiness and the value of collateral, as well as the certainty of settling the liabilities toward the Bank, an extraordinary assessment of the impairment of a loan is performed.

- ***Collective assessment of impairment***

The Bank has defined the criteria for classifying financial instruments into corresponding impairment stages (Stage 1, 2 and 3), depending on the level of increase in credit risk since initial recognition. The subject of the classification are financial instruments that are measured at amortized cost, as well as financial instruments valued at fair value through other comprehensive income (FVOCI).

Stage 2 relates to exposures with a significant increase in credit risk (compared to the moment of initial recognition). The criteria defined by the Bank for detecting a significant increase in credit risk are:

1.) Days past due over 30 days,
2.) Forborne status,
3.) Significant increase in PD (*Probability of Default*)

Stage 3 consists of loans, where objective or subjective evidence that the loan has been impaired exists. Objective evidence of impairment implies a continuous delay in payment of more than 90 days in a materially significant amount. The relative materiality threshold is 1% of total balance sheet exposure, while the absolute threshold differs depending on the exposure class (RSD 1,000 for debtors in the retail exposure class, and RSD 10,000 for other debtors). Subjective proof of the existence of default status i s based on Bank's assessment that the client will not be able to fully settle its obligations to the Bank, without considering collection from the collateral realization. The subjective assessment of the default status is based on quantitative and qualitative, internal and externally obtained information about the debtor (for example: number of days of current account blocking, bankruptcy / liquidation, sue and other adverse events and negative signs identified in the subjective assessment that indicate a significant deterioration of the client's financial condition and inability to settle liabilities completely).

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

- ***Collective assessment of impairment (continued)***

Assessment of impairment of financial assets (continued)

When the client ceases to meet all the criteria for obtaining the status of default, the Probation Period begins, which lasts at least 90 days. During this period, the regularity in setting the client's obligations and his financial situation is monitored, in order to determine the absence of any trigger/event for obtaining the status of default. Only after the expiration of the Probation Period Bank can reconsider the reclassification of the client to the Performing status.

In order to respond in a timely manner to the expected negative effects of the current economic crisis and uncertainties caused by the war in Ukraine as well as sanctions against Russia and Belarus, strong inflationary pressures and the energy crisis, and for the sake of prudent credit portfolio management, the Bank has conducted additional analyses and established additional evaluation criteria impact of this crisis on expected credit losses. Based on the assessment of the impact of the crisis on various industries and clients, therefore, it is justified to resort to a cautious and conservative approach when assessing the quality of the credit portfolio and the adequacy of provisions for credit losses.

In the case of legal entities, the bank analysed the impact of the crisis on the financial position of clients based on the estimated decline in turnover in the industries from which the clients originate. Based on the estimated decline in industry revenues, the financial position of clients and their debt servicing capacity was assessed. In the case of private individuals, two criteria have been established to identify clients particularly sensitive to the crisis. The first criterion is the level of indebtedness. The second criterion is the industry, ie the primary business activity of the legal entity in which a private individual is employed.

For all clients, legal entities and individuals who are assessed as sensitive to the crisis based on the criteria defined above, the rating is downgraded by one to two rating categories, for the purposes of calculating the expected credit loss and staging. The application of these rules led to the growth of balance assets classified in stage 2 as of 31 December 2022 in the amount of RSD 86,718,869 thousand and off-balance sheet assets in stage 2 as of 31 December 2022 in the amount of RSD 8,149,811 thousand.

Different impairment stages result in different ways of calculating the expected credit losses:
- Stage 1 exposures the 12-month expected credit losses are calculated
- Stage 2 and Stage 3 exposures - "*lifetime*" expected credit losses

Bank has developed an internal methodology and calculated the risk parameters (EAD, PD, LGD, CCF) for purpose of calculating Expected Credit Losses in accordance with IFRS 9. The discount rate used in the calculation is the effective interest rate of the individual contract.

In the context of calculating the lifetime expected credit losses, the Bank has developed a methodology for determining EAD (Exposure at Default) for all periods until the final maturity of a financial instrument. For amortizing products for which repayment plans are available, the future EAD is determined on the basis of repayment plans. For other products, EAD on the reporting date is used, with the credit conversion factors applied. Credit conversion factors, depending on the type of products and segments, can be regulatory or internally calculated on the basis of historical data on usage of available limits.

As the basis for calculating the "*lifetime*" PD parameter, the existing (Basel II) PD models have been used. The models have been adjusted in accordance with the requirements of IFRS 9:
- transition from TTC (Through the cycle) to PIT (Point in time) concept,
- introduction of coefficients (as PD corrections) that reflect the macroeconomic impact on the parameter for future periods, using three scenarios (baseline, best, adverse),
- "*lifetime*" projection (Markovian approach is used).

28.1. Credit risk (continued)

Assessment of impairment of financial assets (continued)

For segments not covered by PD models, the historical default rates have been used as approximation, with additional (above mentioned) adjustments.

For clients/exposures subject to collective assessment, the LGD (Loss Given Default) parameter is calculated on the basis of average historical loss rates for defined segments, whereby obtained values are additionally corrected by coefficients representing a measure of the estimated macroeconomic impact on LGD for future periods. For the purpose of macroeconomic adjustment of the LGD parameter, three scenarios are used (baseline, best, adverse). The discounting of the LGD thus obtained is carried out using the effective interest rate of the individual contract.

The Bank incorporates forward-looking information both into the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of Expected Credit Losses.

Inclusion of forward-looking information has been performed through the adjustment of PD and LGD values in order to consider the expectations of its change linked to macroeconomic environments that can occur in the future years with respect to reporting date.

The macroeconomic conditioning of PD is thus carried out by stress coefficients obtained by obtained through internal macroeconomic models. Internal PD rate as of 30 September 2022 was used as a foundation upon which the change of PDs was calculated based on stress parameters.
The table below shows the conditional default rates applied to the migration matrix to include elements relating to future events for the next 3 years from the reporting date:

			PD Conditioning – First group								
			Adverse			Baseline			Best		
Segment	**Model**	**30.09.2022**	***t***	***t+1***	***t+2***	***t***	***t+1***	***t+2***	***t***	***t+1***	***t+2***
Corporate	*SME&LC-2015*	*1.28%*	*1.07%*	*0.94%*	*0.83%*	*1.06%*	*0.90%*	*0.77%*	*1.05%*	*0.86%*	*0.71%*
	SME Retail	*4.24%*	*4.23%*	*3.88%*	*3.54%*	*4.20%*	*3.84%*	*3.47%*	*4.20%*	*3.79%*	*3.41%*
	SB-SE-2013	*3.16%*	*3.15%*	*2.89%*	*2.63%*	*3.13%*	*2.86%*	*2.58%*	*3.12%*	*2.82%*	*2.54%*
Retail	*IDV-2015 – Mortgage*	*0.83%*	*0.79%*	*0.71%*	*0.64%*	*0.78%*	*0.70%*	*0.62%*	*0.77%*	*0.69%*	*0.60%*
	IDV-2015 – Other Retail	*3.07%*	*2.90%*	*2.63%*	*2.37%*	*2.87%*	*2.59%*	*2.30%*	*2.86%*	*2.53%*	*2.22%*

			PD Conditioning – Second group								
			Adverse			Baseline			Best		
Segment	**Model**	**30.09.2022**	***t***	***t+1***	***t+2***	***t***	***t+1***	***t+2***	***t***	***t+1***	***t+2***
Corporate	*CORPORATE – OTHER*	*1.28%*	*1.07%*	*0.94%*	*0.83%*	*1.06%*	*0.90%*	*0.77%*	*1.05%*	*0.86%*	*0.71%*
	RETAIL - OTHER	*4.24%*	*4.23%*	*3.88%*	*3.54%*	*4.20%*	*3.84%*	*3.47%*	*4.20%*	*3.79%*	*3.41%*

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

Assessment of impairment of financial assets (continued)

The macro-conditioning of LGD has been carried out by using EBA Stress Test Coefficients in the absence of internally developed stress satellite models. Since EBA releases only Baseline and Adverse coefficients, Best scenario coefficients have been calculated internally on the basis of Group's methodology defined for that purpose. The forward-looking elements are calculated for the next 3 years of the residual maturity with respect to the reporting date so that Baseline risk parameters are adjusted with Add-on which considers all three scenarios. EBA coefficients for Rest of the World have been used for macroeconomic conditioning of LGDs, since the coefficients are not available for the state of Serbia. The value of the coefficients varies depending on the exposure segment.
The table below shows the coefficients used for macroeconomic conditioning of LGD values as well as the value of the additional component (Add on) obtained on the basis of all three scenarios:

	Best			Baseline			Adverse			
Segment	**t**	**t+1**	**t+2**	**t**	**t+1**	**t+2**	**t**	**t+1**	**t+2**	Add on
"Consumer credit"	*0.70*	*0.70*	*0.70*	*1.00*	*1.00*	*1.00*	*1.33*	*1.33*	*1.33*	*3.69%*
"Household mortgage"	*0.70*	*0.70*	*0.70*	*1.00*	*1.00*	*1.00*	*1.33*	*1.33*	*1.33*	*3.69%*
"NFC non RE"	*0.70*	*0.70*	*0.70*	*1.00*	*1.00*	*1.00*	*1.33*	*1.33*	*1.33*	*3.69%*
"NFC RE"	*0.70*	*0.70*	*0.70*	*1.00*	*1.00*	*1.00*	*1.33*	*1.33*	*1.33*	*3.69%*

For exposures belonging to the segment "Low Default Portfolio" (states, local governments and banks), the parameters obtained internal models of Parent Bank, since the Bank in this part of the portfolio does not have enough historical data to make them herself charged.

In response to the crisis caused by the Covid-19 virus pandemic, the Bank implemented a set of measures adopted by the National Bank of Serbia with the aim of supporting citizens and the economy as well as preserving the stability of the financial system of the Republic of Serbia in the pandemic situation. Some of these measures included the obligation of commercial banks to offer their clients - individuals, farmers, entrepreneurs and companies a delay in repayment (moratorium).

The repayment delay was implemented during 2021 on the basis of the following decisions of the National Bank of Serbia:
- Decision on temporary measures for banks with the aim of facilitating the access to financing private individuals ("Official Gazette of RS" , No. 108/2020 and 119/2021)
- Decision on temporary measures for banks with the aim of adequate Credit Risk Management in the COVID-19 pandemic conditions ("Official Gazette of RS" No 150/2020 and 21/2021)

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

Assessment of impairment of financial assets (continued)

The following table shows the structure of the Bank's portfolio (gross exposures) to which the measures defined by the aforementioned decisions of the National Bank of Serbia were applied, as repayment delays (Moratorium 3), as of 31 December 2022:

In thousands of dinars	Gross exposure	Allowances for impairment	Net exposure
Gross exposures with agreed moratorium			
Private individuals	**5,615,180**	**1,297,180**	**4,318,000**
Performing	3,869,044	274,128	3,594,916
Past Due	468,874	213,915	254,959
Unl,to Pay	267,993	143,305	124,688
Doubtful	1,009,269	665,832	343,437
Commercial entities	**1,737,062**	**234,363**	**1,502,699**
Performing	1,505,778	59,292	1,446,486
Past Due	3,014	1,343	1,671
Unl,to Pay	65,842	42,976	22,866
Doubtful	162,428	130,752	31,676
Total	**7,352,242**	**1,531,543**	**5,820,699**

The following table shows the structure of the Bank's portfolio (gross exposures) to which the measures defined by the aforementioned decisions of the National Bank of Serbia were applied, as repayment delays (Moratorium 3), as of 31 December 2021:

In thousands of dinars	Gross exposure	Allowances for impairment	Net exposure
Gross exposures with agreed moratorium			
Private individuals	**6,535,381**	**745,629**	**5,789,752**
Performing	5,898,480	357,911	5,540,569
Past Due	131,670	55,130	76,540
Unl,to Pay	178,340	103,484	74,856
Doubtful	326,891	229,104	97,787
Commercial entities	**3,689,132**	**466,212**	**3,222,920**
Performing	3,446,913	325,714	3,121,199
Past Due	14,359	6,729	7,630
Unl,to Pay	177,022	92,255	84,767
Doubtful	50,838	41,514	9,324
Total	**10,224,513**	**1,211,841**	**9,012,672**

On 14 December 2020 the National Bank of Serbia has adopted a Decision on temporary measures for banks in order to adequately manage credit risk in the conditions of the COVID-19 pandemic ("Official Gazette of RS", No. 150/2020). This decision prescribes new measures and activities that banks are obliged to apply in order to adequately manage credit risk in the conditions of the COVID-19 pandemic, while enabling new repayment reliefs However, on December 31st 2020 the Bank did not have the implemented repayment reliefs defined by this decision, having in mind the short period of time between the decision adoption and the end of the calendar year.In that respect the Bank allowed reliefs during the period between January 1st and May 30th 2021.

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

Assessment of impairment of financial assets (continued)

As an additional incentive for measures to mitigate the negative effects of the pandemic, the Government of the Republic of Serbia passed on April 16th 2020. Decision on establishing a guarantee scheme as a measure of support to the economy to mitigate the consequences of the COVID-19 pandemic caused by the SARS-CoV-2 virus ("Official Gazette of RS", No. 57/2020, 62/20-dr. Regulation and 65/20-dr. regulation). The National Assembly of the Republic of Serbia is on December 17th 2020. adopted the Law on Determining the Guarantee Scheme as a Measure of Support to the Economy for Mitigating the Consequences of the COVID-19 Pandemic SARS-COV-2 (Official Gazette of the RS, No. 153/2020), which repealed the decision, thus supporting the economy continues to operate under the auspices of this Law. Afterwards, on April 22nd 2021 the National Assembly of the Republic of Serbia adopted the new Law on determining another guarantee scheme as a measure of additional support to economy due to prolonged negative effect of the COVID-19 pandemic caused by the SARS COV-2 virus ("Offical Gazette of RS", No 40/2021 and 129/2021). According to this Law the measures of support to economy were extended by June 30th 2022 (hereinafter: the guarantee scheme 2). Under the guarantee scheme, the Republic of Serbia has undertaken the obligation as a guarantor to settle future uncollected receivables of banks arising from loans approved for the purpose of financing liquidity and working capital of commercial entities, all with the aim of mitigating the negative economic and financial consequences of the pandemic.

Under the guarantee scheme, commercial banks provide loans to the commercial entities with a repayment period of no more than 36 months, including a grace period of 9 to 12 months. Under the guarantee scheme 2 the repayment period of maximum 60 months was envisaged with the grace period from 18 to 24 months. The maximum loan amount is an amount equal to less than two amounts:

- 25% for guarantee scheme 1 or 30% for guarantee scheme 2 of the loan client's income from 2019 according to the financial statements to the Business Registers Agency for statistical purposes for that year, or
- the amount of EUR 3,000,000

The maximum allowed amount of the Individual Guarantee provided by the State under the Law is calculated as the product of the insured portfolio of an individual bank, the coverage rate (80%) and the maximum guarantee rate (30% for guarantee scheme 1 or 32% for guarantee scheme 2). The maximum total amount of the guarantee at the level of the insured portfolio of the banking sector of the Republic of Serbia is EUR 480,000,000 for guarantee scheme 1 or EUR 128,000,000 for guarantee scheme 2.

The following table shows the structure of the Bank's portfolio (gross exposures) disbursed from the guarantee scheme with the Republic of Serbia, as of 31 December 2022 and 31 December 2021.

In thousands of dinars 31 December 2022	Gross Exposure	Allowances for Impairment	Net Exposure
Performing	23,192,135	378,517	22,813,618
Past Due	988	358	630
Unl,to Pay	348,046	195,757	152,289
Doubtful	230,159	197,692	32,467
TOTAL	**23,771,328**	**772,324**	**22,999,004**

In thousands of dinars 31 December 2021	Gross Exposure	Allowances for Impairment	Net Exposure
Gross exposures from the guarantee scheme			
Performing	42,278,160	422,249	41,855,911
Past Due	1,572	688	884
Unl,to Pay	201,660	76,532	125,128
Doubtful	29,490	20,269	9,221
TOTAL	**42,510,882**	**519,738**	**41,991,144**

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

a) Portfolio quality

The Bank manages the quality of its financial assets using the internal classification of placements, which is in compliance with the standards of the Parent Bank.

The following tables present the quality of the portfolio (gross balance exposure and off-balance sheet exposure) as of 31 December 2022 and 2021 based on the Bank's rating system:

	Balance sheet assets to be classified *						Off-Balance Sheet			Total	Total
	Loans to Customers			Loans to Banks			Items to be Classified				
In thousands RSD	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**	**2022.***	**2021.***
Class:											
Performing	427,653,794	109,932,212	-	159,737,655	-	-	184,124,154	12,679,845	-	894,127,660	822,413,631
Past Due	-	-	2,763,206	-	-	-	-	-	103,324	2,866,530	1,977,060
Unlikely to Pay	-	-	3,702,868	-	-	-	-	-	546,749	4,249,617	4,320,071
Doubtful	-	-	8,983,805	-	-	-	-	-	155,448	9,139,254	7,726,585
Total	**427,653,794**	**109,932,212**	**15,449,879**	**159,737,655**	**-**	**-**	**184,124,154**	**12,679,845**	**805,521**	**910,383,061**	**836,437,347**

	Allowances for impairment and provision customers			Allowances for impairment and provision banks				
In thousands RSD	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**	**Total 2022.***	**Total 2021.***
Class:								
Performing	2,088,821	7,447,234	-	142,732	-	-	9,678,787	8,055,532
Past Due	-	-	1,294,827	-	-	-	1,294,827	911,895
Unlikely to Pay	-	-	1,802,891	-	-	-	1,802,891	2,285,079
Doubtful	-	-	6,823,655	-	-	-	6,823,655	5,940,270
Total	**2,088,821**	**7,447,234**	**9,921,372**	**142,732**	**-**	**-**	**19,600,158**	**17,192,776**

**Total assets exposed to credit risk does not include securities relating to the bonds of the Republic of Serbia that are entirely classified as level 1.*

Categories Past due, Unlikely to pay and Doubtful are non-performing receivables (impaired receivables)

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

The following tables present the portfolio structure as od 31 December 2022 and 31 December 2021 based on type of receivables and number of days in default (gross balance exposure and off-balance sheet exposure):

In RSD thousand	Large Corporate			SME and Entrepreneurs			Mortgage loans to natural persons		
31 December 2022	**Gross exposure**	**Allowances of impairment and provision**	**Coverage ratio**	**Gross exposure**	**Allowances of impairment and provision**	**Coverage ratio**	**Gross exposure**	**Allowances of impairment and provision**	**Coverage ratio**
Up to 90 days of default	1,774,999	762,786	43%	715,712	368,064	51%	524,561	199,883	38%
Over 90 days of default	53,655	47,818	89%	3,333,255	2,338,720	70%	1,713,166	927,057	54%
TOTAL	1,828,654	810,604	44%	4,048,967	2,706,783	67%	2,237,727	1,126,939	50%

In RSD thousand	Other loans to natural persons			TOTAL		
31 December 2022	**Gross exposure**	**Allowances of impairment and provision**	**Coverage ratio**	**Gross exposure**	**Allowances of impairment and provision**	**Coverage ratio**
Up to 90 days of default	2,097,738	864,603	41%	5,113,010	2,195,336	43%
Over 90 days of default	6,042,315	4,713,080	78%	11,142,391	8,026,674	72%
TOTAL	8,140,053	5,577,683	69%	16,255,401	10,222,010	63%

In RSD thousand	Large Corporate			SME and Entrepreneurs			Mortgage loans to natural persons		
31 December 2021	**Gross exposure**	**Allowances of impairment and provision**	**Coverage ratio**	**Gross exposure**	**Allowances of impairment and provision**	**Coverage ratio**	**Gross exposure**	**Allowances of impairment and provision**	**Coverage ratio**
Up to 90 days of default	1,391,562	688,972	50%	1,072,414	624,227	58%	715,861	233,520	33%
Over 90 days of default	53,528	48,080	90%	3,320,452	2,371,041	71%	1,646,902	957,225	58%
TOTAL	1,445,090	737,052	51%	4,392,866	2,995,268	68%	2,362,763	1,190,745	50%

In RSD thousand	Other loans to natural persons			TOTAL		
31 December 2021	**Gross exposure**	**Allowances of impairment and provision**	**Coverage ratio**	**Gross exposure**	**Allowances of impairment and provision**	
Up to 90 days of default	1,599,531	663,165	41%	4,779,368	2,209,884	46%
Over 90 days of default	4,223,466	3,551,014	84%	9,244,348	6,927,360	75%
TOTAL	5,822,997	4,214,179	72%	14,023,716	9,137,244	65%

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

The following tables present the quality of the portfolio as of 31 December 2022 based on type of receivables:

				In RSD thousand
Cash and balances with the central bank	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Bank account	47,474,596	-	-	47,474,596
Mandatory reserve with the NBS	47,060,187	-	-	47,060,187
Total	**94,534,783**	**-**	**-**	**94,534,783**
Securities				
Bonds of the Republic of Serbia	55,360,051	-	-	55,360,051
Other securities	5,933,416			5,933,416
Total	**61,293,467**	**-**	**-**	**61,293,467**
Loans to Customers				
Balance sheet assets to be classified	239,179,024	64,846,212	5,382,132	309,407,368
Off-balance sheet items to be classified	152,719,829	10,227,782	495,489	163,443,100
Total	**391,898,853**	**75,073,994**	**5,877,621**	**472,850,468**
Loans to Retail				
Balance sheet assets to be classified	188,474,770	45,085,999	10,067,747	243,628,516
Off-balance sheet items to be classified	29,470,095	2,452,063	310,033	32,232,191
Total	**217,944,865**	**47,538,062**	**10,377,780**	**275,860,707**
Loans to Banks				
Balance sheet assets to be classified	159,737,655	-	-	159,737,655
Off-balance sheet items to be classified	1,934,231	-	-	1,934,231
Total	**161,671,886**	**-**	**-**	**161,671,886**

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

The following table presents the quality of the portfolio for performing clients (gross balance exposure and off-balance sheet exposure) based on the Bank's internal rating as of 31 December 2022:

	Loans to Customers		Loans to banks		Balance sheet assets to be classified Total	Off balance sheet items to be classified		
In thousands RSD	**Stage 1**	**Stage 2**	**Stage 1**	**Stage 2**		**Stage 1**	**Stage 2**	**Total**
Rating								
A	154,025,766	235,359	-	-	154,261,125	93,902,643	167,426	248,331,194
B	211,013,493	47,337,477	-	-	258,350,970	66,795,120	6,045,871	331,191,960
C	12,418,777	62,125,802	-	-	74,544,579	518,897	6,466,473	81,529,948
Satisfactory	126,885	-	-	-	126,885	-	-	126,885
Good	2,047,581	-	-	-	2,047,581	297,938	-	2,345,519
Strong	11,374,446	-	-	-	11,374,446	4,416,936	-	15,791,382
Weak	-	-	-	-	-	-	-	-
Not covered by models	16,515,404	100,743	111,875,500	-	128,491,647	6,854,835	76	135,346,558
I	0	-	21,280,410	-	21,280,410	663,915	-	21,944,325
M	556	-	2,584,742	-	2,585,298	1,132	-	2,586,430
R	-	-	351,905	-	351,905	2,373	-	354,278
S	20,130,886	132,831	23,645,098	-	43,908,815	10,670,367	-	54,579,182
Total	**427,653,794**	**109,932,212**	**159,737,655**	**-**	**697,323,661**	**184,124,155**	**12,679,845**	**894,127,661**

28.1. Credit risk (continued)

Overview of stock and movement in the allowance for impairment and provisions in 2022 by type of financial instrument:

	Loans and receivables			In RSD thousand
Movement in the allowance for impairment and provisions in 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance - 01.01.2022.	**2,836,410**	**5,219,122**	**9,137,244**	**17,192,776**
Transfer to stage 1	1,198,061	(1,090,813)	(107,248)	-
Transfer to stage 2	(517,076)	716,033	(198,957)	-
Transfer to stage 3	(76,183)	(477,685)	553,868	-
Re-measurement	(1,604,547)	1,952,986	1,350,804	1,699,243)
New production *	1,319,083	2,044,533	1,349,235	4,712,851
Collection	(782,207)	(669,600)	(1,862,937)	(3,314,744)
Transfer to off balance	-	-	-	-
Sale of receivables	-	-	-	-
Closing balance - 31.12.2022.	**2,373,541**	**7,694,576**	**10,222,010**	**20,290,126**

	Securities (FVOCI)**			In RSD thousand
Movement in the allowance for impairment and provisions in 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance - 01.01.2022	**480,974**	**-**	**-**	**480,974**
Re-measurement	(26,964)	-	-	(26,964)
			-	
New production	102,046	-	-	102,046
Collection	(208,519)		-	(208,519)
Closing balance - 31.12.2022	**347,537**	**-**	**-**	**347,537**

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

Overview of stock and movement in the allowance for impairment and provisions in 2022 by client type:

	Banks	In RSD thousand		
Movement in the allowance for impairment and provisions in 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Total 2021**
Opening balance - 01.01.2022	**11,554**		**-**	**11,554**
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Re-measurement	(2,823)	-	-	(2,823)
New production	140,414		-	140,414
Collection	(5,920)	-		(5,920)
	-	-	-	-
	-	-	-	-
Closing balance - 31.12.2022	**143,225**	**-**	**-**	**143,225**

		Retail		
Movement in the allowance for impairment and provisions in 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Total 2021**
Opening balance - 01.01.2022	**1,461,407**	**3,261,023**	**5,995,483**	**10,717,913**
Transfer to stage 1	1,107,848	(1,003,875)	(103,973)	-
Transfer to stage 2	(302,060)	500,196	(198,136)	-
Transfer to stage 3	(65,416)	(440,477)	505,893	-
Re-measurement	(1,500,187)	623,650	967,220	90,683
New production	453,801	1,325,524	420,620	2,199,945
Collection	(344,983)	(432,778)	(882,485)	(1,660,247)
Transfer to off balance	-	-	-	-
	-	-	-	-
Closing balance - 31.12.2022	**810,410**	**3,833,263**	**6,704,622**	**11,348,294**

		Corporate		
Movement in the allowance for impairment and provisions in 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Total 2021**
Opening balance - 01.01.2022.	**1,325,102**	**1,958,098**	**3,141,760**	**6,424,961**
Transfer to stage 1	90,213	(86,938)	(3,276)	-
Transfer to stage 2	(215,016)	215,836	(821)	-
Transfer to stage 3	(10,767)	(37,208)	47,975	-
Re-measurement	(86,833)	1,329,337	383,585	1,626,089
New production	724,868	719,009	928,615	2,372,492
Collection	(431,303)	(236,822)	(980,451)	(1,648,576)
Transfer to off balance	-	-	-	-
Sale of receivables	-	-	-	-
Closing balance - 31.12.2022.	**1,396,311**	**3,861,313**	**3,517,387**	**8,775,011**

* New production is the classification under the level of 31 December 2022, and not during the initial approval

In 2022 and 2021, there are no financial assets that are credit-impaired, and where the contractual terms have been significantly changed so that the recognition of the original asset ceases and the recognition of the new financial asset occurs (POCI).

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

Overview of stock and movement in the allowance for impairment and provisions in 2021 by type of financial instrument:

	Loans and receivables			In RSD thousand
Movement in the allowance for impairment and provisions in 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance - 01.01.2021.	**2,733,384**	**5,507,991**	**7,599,960**	**15,841,335**
Transfer to stage 1	1,564,897	(1,384,238)	(180,659)	-
Transfer to stage 2	(174,976)	332,660	(157,684)	-
Transfer to stage 3	(52,642)	(467,002)	519,644	-
Re-measurement	(1,666,844)	1,889,460	2,799,948	(3,022,564)
New production *	1,314,941	1,593,833	1,215,559	4,124,333
Collection	(882,350)	(2,253,582)	(763,254)	(3,899,186)
Transfer to off balance	-	-	(1,775,050)	(1,775,050)
Sale of receivables	-	-	(121,220)	(121,220)
Closing balance - 31.12.2021.	2,836,410	5,219,122	9,137,244	17,192,776

	Securities (FVOCI)**			In RSD thousand
Movement in the allowance for impairment and provisions in 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance - 01.01.2021	**164,136**	**-**	**-**	**164,136**
Re-measurement	174,307	-	-	174,307
	179,690		-	179,690
New production	(75,707))	-	-	(75,507)
Collection			-	
Closing balance - 31.12.2021	**442,626**	**-**	**-**	**442,626**

	Securities (AC)			
Movement in the allowance for impairment and provisions in 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance - 01.01.2021	**33,972**	**-**	**-**	**33,972**
Re-measurement	4,376		-	4,376
New production	-	-	-	-
Collection	-		-	-
Closing balance - 31.12.2021	**38,348**	**-**	**-**	**38,348**

**In accordance with IFRS 9, the effect of allowance of impairment of debt securities measured through FVOCI recognized through comprehensive income and profit and loss, and they do not reduce carrying amount of debts securities in balance sheet, therefore there is a mismatch with value adjustments in the table of maximum exposure to credit risk 31 December 2021 where presented the allowance for impairment based on debts securities measured at amortized cost.

* New production is the classification under the level of 31 December 2021, and not during the initial approval

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

Overview of stock and movement in the allowance for impairment and provisions in 2021 by client type:

		Banks		In RSD thousand
Movement in the allowance for impairment and provisions in 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total 2021**
Opening balance - 01.01.2021	**31,355**		**-**	**31,355**
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Re-measurement	(4,252)	-	-	(4,252)
New production	5,599		-	5,599
Collection	(21,148)	-		(21,148)
	-	-	-	-
	-	-	-	-
Closing balance - 31.12.2021	**11,554**	**-**	**-**	**11,554**

		Retail		
Movement in the allowance for impairment and provisions in 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total 2021**
Opening balance - 01.01.2021	**803,000**	**2,496,462**	**4,692,203**	**7,991,665**
Transfer to stage 1	1,122,460	(946,982)	(175,477)	-
Transfer to stage 2	(93,868)	250,065	(156,198)	-
Transfer to stage 3	(40,636)	(387,660)	428,296	-
Re-measurement	(776,261)	1,608,590	2,309,275	3,141,604
New production	620,591	546,835	391,859	1,559,285
Collection	(173,879)	(306,287)	(131,744)	(611,910)
Transfer to off balance	-	-	(1,362,731)	(1,362,731)
	-	-	-	-
Closing balance - 31.12.2021	**1,461,407**	**3,261,023**	**5,995,483**	**10,717,913**

* New production is the classification under the level of 31 December 2021, and not during the initial approval

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

		Corporate		
Movement in the allowance for impairment and provisions in 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total 2021**
Opening balance - 01.01.2021.	**1,865,055**	**3,011,529**	**2,907,757**	**7,784,341**
Transfer to stage 1	442,438	(437,256)	(5,182)	-
Transfer to stage 2	(81,108)	82,595	(1,487)	-
Transfer to stage 3	(12,005)	(79,343)	91,348	-
Re-measurement	(890,707)	280,870	490,674	(119,163)
New production	688,750	1,046,998	823,699	2,559,447
Collection	(687,320)	(1,947,295)	(631,510)	(3,266,078)
Transfer to off balance	-	-	(412,319)	(412,319)
Sale of receivables	-	-	(121,220)	(121,220)
Closing balance - 31.12.2021.	**1,325,102**	**1,958,098**	**3,141,760**	**6,424,961**

* New production is the classification under the level of 31 December 2022 and 31 December 2021, and not during the initial approval

a) Maximum exposure to credit risk*

Analysis of the Bank's maximum exposure to credit risk, by geographical locations, before taking into account collaterals and other hedging funds, as of 31 December 2022 and 2021 is presented in the table below:

					In RSD thousand
	Balance sheet assets to be classified*		**Off-balance sheet items to be classified****		**Total ** 2022**
	Loans to customers	***Loans to banks***	***Loans to customers***	***Loans to banks***	***Loans to customers and banks***
Serbia	551,675,536	121,119,603	195,630,446	644,031	869,069,617
Europe	1,320,076	32,990,347	39,834	987,589	35,337,846
America	33,911	5,586,964	3,756	0	5,624,630
Rest of the world	6,362	40,740	1,254	302,612	350,968
Total	**553,035,885**	**159,737,655**	**195,675,290**	**1,934,231**	**910,383,061**

					In RSD thousand
	Balance sheet assets to be classified*		**Off-balance sheet items to be classified****		**Total ** 2021**
	Loans to customers	***Loans to banks***	***Loans to customers***	***Loans to banks***	***Loans to customers and banks***
Serbia	483,382,519	113,461,595	188,755,318	566,509	786,165,941
Europe	1,840,809	30,044,637	322,632	1,373,960	33,582,038
America	25,411	15,198,059	3,202	-	15,226,672
Rest of the world	6,270	732,256	991	723,179	1,462,696
Total	**485,255,009**	**159,436,547**	**189,082,143**	**2,663,648**	**836,437,347**

**Exposure relating to the Republic of Serbia bonds was excluded,*

28. RISK MANAGEMENT (continued)

28.1.Credit risk (continued)

a) Maximum exposure to credit risk* (continued)

Analysis of the Bank's exposure to credit risk by industry sectors as of 31 December 2022 and 2021 is presented in the table below:

	Balance sheet assets to be exposed to credit risk*	Off-balance sheet items to be exposed to credit risk**	Total 2022
Industry	**299,004,624**	**162,611,014**	**461,615,638**
Trade	96,993,783	41,998,389	138,992,172
Transportation and communication	23,534,946	9,645,560	33,180,505
Construction	18,721,635	49,978,342	68,699,977
Services, tourism and accommodation services	30,950,771	13,995,892	44,946,663
Food and beverage production	24,092,009	5,387,041	29,479,049
Permanent goods production	45,000,460	21,619,620	66,620,080
Agriculture, hunting, fishing and forestry	14,824,003	4,607,175	19,431,178
Other	44,887,018	15,378,996	60,266,014
Banks	**159,737,655**	**1,934,231**	**161,671,886**
Local government	**10,402,744**	**832,085**	**11,234,829**
Retail loans	**243,628,516**	**32,232,191**	**275,860,707**
Mortgage loans	128,604,514	-	128,604,514
Other	115,024,002	32,232,191	147,256,193
TOTAL	**712,773,539**	**197,609,522**	**910,383,061**

**Exposure relating to the Republic of Serbia bonds was excluded*

28. RISK MANAGEMENT (continued)

28.1.Credit risk (continued)

b) Portfolio quality

			In RSD thousand
	Balance sheet assets to be exposed to credit risk*	Off-balance sheet items to be exposed to credit risk**	Total 2021
Industry	**260,130,103**	**157,827,360**	**417,957,463**
Trade	62,439,755	29,290,307	91,730,061
Transportation and communication	23,226,171	8,492,026	31,718,196
Construction	17,034,291	33,488,680	50,522,971
Services, tourism and accommodation services	30,666,962	17,563,535	48,230,497
Food and beverage production	17,852,912	5,666,790	23,519,702
Permanent goods production	44,167,183	23,448,229	67,615,412
Agriculture, hunting, fishing and forestry	15,612,376	4,222,455	19,834,831
Other	49,130,455	35,655,338,	84,785,792
Banks	**159,436,547**	**2,663,648**	**162,100,195**
Local government	**6,529,719**	**2,209,440**	**8,739,159**
Retail loans	**218,595,187**	**29,045,343**	**247,640,530**
Mortgage loans	115,305,462		115,305,462
Other	103,289,724	29,045,343	132,335,068
TOTAL	**644,691,556**	**191,745,791**	**836,437,347**

**Exposure relating to the Republic of Serbia bonds was excluded*

Ageing analysis of unimpaired loans and receivables from customers

The ageing analysis of loans and receivables from customers past due, but not impaired, as well as loans and receivables not yet due and impaired receivables, as of 31 December 2022 and 2021 is presented as follows:

				In RSD thousand
		Loans to customers and banks		Total 2022
	Stage 1	***Stage 2***	***Stage 3***	
Receivables undue:	576,148,314	101,165,494	2,778,694	680,092,502
Receivables overdue:	11,243,134	8,766,718	12,671,185	32,681,037
01-30 days	11,243,134	7,301,979	831,029	19,376,143
31-60 days	-	934,925	254,321	1,189,246
61-90 days	-	527,766	554,729	1,082,496
>90 days	-	2,047	11,031,105	11,033,152
Total	**587,391,448**	**109,932,212**	**15,449,879**	**712,773,539**

*We apply the new definition of default applied in 2019, (Detailed explanation in item 28.1)

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

b) Portfolio quality (continued)

				In RSD thousand
	Loans to customers and banks			Total 2021
	Stage 1	*Stage 2*	*Stage 3*	
Receivables undue:	574,441,939	38,708,334	2,736,162	615,886,435
Receivables overdue:	11,163,558	6,798,955	10,842,608	28,805,121
01-30 days	11,163,558	4,978,990	1,049,727	17,192,275
31-60 days	-	1,432,063	523,091	1,955,154
61-90 days	-	387,902	162,090	549,992
>90 days	-	-	9,107,700	9,107,700
Total	**585,605,497**	**45,507,289**	**13,578,770**	**644,691,556**

Collateral analysis

Analysis of portfolio (balance sheet and off-balance sheet items), by the collateral type, as of 31 December 2022 and 2021 is presented below:

			In RSD thousand
	Balance sheet assets to be exposed to credit risk*	Off-balance sheet items to be exposed to credit risk**	Total 2022.
Corporate loans:	**299,004,625**	**162,611,014**	**461,615,639**
Secured by government	6,063,521	-	6,063,521
Secured by guaranteed	19,360,373	-	19,360,373
Secured by mortgage	13,716,383	887,173	14,603,556
Secured by deposit	5,974,298	918,957	6,893,255
Unsecured	253,890,050	160,804,884	414,694,934
Loans to government	**159,737,655**	**1,934,231**	**161,671,886**
Secured	510,341	1,132,172	1,642,513
Unsecured	159,227,314	802,059	160,029,373
Loans to banks:	**10,402,744**	**832,085**	**11,234,829**
Secured	-	-	-
Unsecured	10,402,744	832,085	11,234,829
Retail loans:	**243,628,516**	**32,232,191**	**275,860,707**
Secured by residential mortgage	111,367,414	-	111,367,414
Secured by non-residential mortgage	1,038,509	-	1,038,509
Secured by deposit	1,203,125	390,351	1,593,476
Unsecured	130,019,468	31,841,840	161,861,308
Total	**712,773,540**	**197,609,521**	**910,383,061**

*Exposure relating to the Republic of Serbia bonds was excluded

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

b) Portfolio quality (continued)

Collateral analysis (continued)

			In RSD thousand
	Balance sheet assets to be exposed to credit risk*	**`Off-balance sheet items to be exposed to credit risk****	**Total 2021**
Corporate loans:	**260,130,103**	**157,827,360**	**417,957,463**
Secured by government	10,224,513	-	10,224,513
Secured by guaranteed	6,091,768	6,764,119	12,855,887
Secured by mortgage	14,128,818	2,381,154	16,509,972
Secured by deposit	1,914,520	913,607	2,828,127
Unsecured	227,770,484	147,768,480	375,538,964
Loans to government	**-**	**-**	**-**
Secured	-	-	-
Unsecured	-	-	-
Loans to banks:	**159,436,547**	**2,663,648**	**162,100,195**
Secured			
Unsecured	159,436,547	2,663,648	162,100,195
Loans to local government:	**6,529,719**	**2,209,440**	**8,739,159**
Secured		-	
Unsecured	6,529,719	2,209,440	8,739,159
Retail loans:	**218,595,187**	**29,045,343**	**247,640,530**
Secured by residential mortgage	99,694,776	-	99,694,776
Secured by non-residential mortgage	482,876	-	482,876
Secured by deposit	500,709	403,666	904,375
Unsecured	117,916,826	28,641,677	146,558,503
Total	**644,691,556**	**191,745,791**	**836,437,347**

All collaterals are presented up to the amount of receivables. Mortgage must meet the requirements of the National Bank of Serbia in order to be used as a collateral and those requirements are: to be registered, there must be an appraisal for the mortgaged property by the authorized appraiser not older than 3 years (except in the case of mortgaged residential real estate property where the amount of the outstanding bank exposure does not exceed 40% of its value), owner of the property cannot be under bankruptcy, appraised value of property reduced by all higher ranked receivables must be greater than the amount of receivables, receivables secured by the mortgage cannot be overdue for more than 720 days.

Loan to value ratio (LTV ratio) for mortgage loans as of 31 December 2022 and 2021 is as follows:

		In RSD thousand
Mortgage LTV	**2022**	**2021**
< 50%	40,638,991	32,669,894
51%-70%	44,370,489	40,961,373
71%-90%	39,620,538	38,420,694
91%-100%	1,552,051	1,401,848
> 100%	2,422,445	1,851,653
Total	**128,604,514**	**115,305,462**

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

b) Portfolio quality (continued)

Non-performing loan analysis

Balance sheet assets and allowances for impairment (NPL – categories: past due, unlikely to pay, doubtful and restructured) as of 31 December 2022 and 2021 are presented as follows:

	Total loans		Allowances for impairment and provisions		Total 2022
In RSD thousand	***Balance exposure***	***Off-balance exposure***	***Balance exposure***	***Off-balance exposure***	***Net Balance book value***
Individual Assessment	2,749,359	444,297	1,385,022	151,225	1,657,409
Collective Assessment	11,894,999	361,225	8,235,711	149,413	3,871,100
Total	**14,644,358**	**805,522**	**9,620,733**	**300,638**	**5,528,509**

	Total loans		Allowances for impairment and provisions		Total 2021
In RSD thousand	***Balance exposure***	***Off-balance exposure***	***Balance exposure***	***Off-balance exposure***	***Net Balance book value***
Individual Assessment	3,224,478	113,838	1,715,907	18,156	1,604,253
Collective Assessment	10,354,292	331,109	7,134,177	89,004	3,282,220
Total	**13,578,770**	**444,947**	**9,030,084**	**107,160**	**4,886,473**

Changes of Balance exposure for Non-Performing loans (NPL – categories: Past Due, Unlikely to Pay and Doubtful) in 2022 are presented as follows:

Opening Balance – 01.01.2022	**13,578,770**
New Non-Performing loans	6,863,102
Change in balance of Non-Performing loans	(1,214,495)
Transfer to Off-balance	(1,944,735)
Recovery of Non-Performing loans	(1,832,763)
Closing Balance – 31.12.2022	**15,449,879**

28. RISK MANAGEMENT (continued)

28.1.Credit risk (continued)

b) Portfolio Quality (continued)

Renegotiated loans analysis

Balance sheet assets and allowances for impairment for renegotiated loans as of 31 December 2022 and 2021 are presented as follows:

					In RSD thousand
	Balance sheet assets to be classified		Off-balance sheet items to be classified		Total 2022
	Loans to customers	*Loans to banks*	*Loans to customers*	*Loans to banks*	*Loans to customers and banks*
Renegotiated loans:					
Loans	7,351,044	-	5,552	-	7,356,592
Stage 1	-	-	-	-	-
Stage 2	5,094,342	-	5,552	-	5,099,890
Stage 3	2,256,702	-	-	-	2,256,702
Allowances for impairment	(2,096,983)	-	(10)	-	(2,096,993)
Stage 1	-	-	-	-	-
Stage 2	(815,228)	-	(10)	-	(815,239)
Stage 3	(1,281,754)	-	-	-	(1,281,754)
Net balance	**5,254,060**	**-**	**5,562**	**-**	**5,259,599**

					In RSD thousand
	Balance sheet assets to be classified		Off-balance sheet items to be classified		Total 2021
	Loans to customers	*Loans to banks*	*Loans to customers*	*Loans to banks*	*Loans to customers and banks*
Renegotiated loans:					
Stage 1	-	-	-	-	-
Stage 2	6,095,780	-	5,660	-	6,101,440
Stage 3	2,171,323	-	-	-	2,171,323
Allowances for impairment	(2,419,151)	-	(48)	-	(2,419,199)
Stage 1	-	-	-	-	
Stage 2	(1,091,965)	-	(48)	-	(1,092,013)
Stage 3	(1,327,186)	-	-	-	(1,327,186)
Total	**5,847,953**	**-**	**5,612**	**-**	**5,853,565**

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

b) Portfolio Quality (continued)

Opening Balance – 01.01.2022	**8.272.763**
New renegotiated loans	1.837.419
Change in balance of renegotiated loans	(753.943)
Termination of the status of renegotiated loans	(1.999.647)
Closing Balance – 31.12.2022	**7.356.592**

Renegotiated loans are all loans for which previous conditions, as term, dynamics of settlement, interest rate and etc., have been changed in order to provide benefits for the client.

Credit conversion factor analysis

Credit conversion factors (CCF) for off-balance sheet items in the portfolio as of 31 December 2022 and 31 December 2021 are presented as follows:

	Off-balance sheet items to be classified			**In RSD thousand**
				Total 2022
	Corporate Loans	***Loans to Banks***	***Retail Loans***	***Loans to customers and banks***
CCF				
20%	113.916.486	1.357.164	16.140.778	131.414.428
23%	-	-	1.306.912	1.306.912
26%	1.388.032	-	-	1.388.032
32%	7.545.153	-	1.348.338	8.893.491
33%	230.939	-	-	230.939
34%	-	-	1.005.893	1.005.893
47%	1.454.063	-	272.869	1.726.932
50%	32.778.344	577.067	1.457.307	34.812.718
53%	-	-	3.043.532	3.043.532
58%	-	-	1.053.577	1.053.577
66%	-	-	4.653.839	4.653.839
68%	-	-	640.543	640.543
84%	-	-	135.081	135.081
92%	-	-	61.611	61.611
100%	6.130.083	-	1.111.911	7.241.994
Total	**163.443.100**	**1.934.231**	**32.232.191**	**197.609.522**

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

b) Portfolio quality (continued)

Credit conversion factor analysis (continued)

	Off-balance sheet items to be classified			In RSD thousand
				Total 2021
	Corporate Loans	***Loans to Banks***	***Retail Loans***	***Loans to customers and banks***
CCF				
20%	106,746,525	2,177,221	-	108,923,745
26%	1,664,439	-	-	1,664,439
32%	7,961,169	-	-	7,961,169
33%	467,557	-	-	467,557
47%	1,507,096	-	20,575,629	22,082,724
50%	38,626,010	486,428	1,706,203	40,818,640
59%	-	-	6,763,512	6,763,512
100%	3,064,004	-	-	3,064,004
Total	**160,036,800**	**2,663,648**	**29,045,343**	**191,745,791**

28. RISK MANAGEMENT (continued)

28.2. Liquidity risk and financial assets management

The Risk Management Department is responsible for measuring and monitoring liquidity and for the regular preparation of reports, which present the effects of the migration of various categories of assets and liabilities of the Bank to its liquid assets position. Liquidity risk management system is in compliance with measures and criteria determined by the Parent Bank, as well as regulations prescribed by the National Bank of Serbia.

Basic activities of the liquidity risk management include:
- planning of cash inflows and outflows;
- implementation and monitoring of liquidity indicators;
- measurement and monitoring of the Bank's liquidity;
- monitoring of liquidity crisis indicators; and
- preparation of the reports for the management.

Liquidity Risk management is done through monitoring following limits/indicators:
- Regulatory liquidity indicators: Liquidity coverage ratio – LCR (including LCR by significant currencies), Liquidity ratio and Narrow liquidity ratio.

Regulatory liquidity indicators

Liquidity Coverage Ratio – LCR

By applying the guidelines of the European Banking Authority (EBA) and Basel III regulations, as well as by respecting the specificities of the Serbian market and the macroeconomic environment, the National Bank of Serbia with Decision on Liquidity Risk Management by Banks requires regulatory reporting of Liquidity Coverage Ratio (LCR) indicator. The LCR indicator should provide adequate level of highly liquid assets (cash or assets which can be converted into cash with small or without any loss in value) in order to fulfil the Bank's needs for liquidity in the 30-day period of stress scenario.

The Decision on Liquidity Risk Management by Banks prescribed by National Bank of Serbia is almost fully harmonized with Basel III, i.e. the Commission Delegated Act Regulation (EU) 2015/91. However, there are some differences in the local LCR calculation that should be remarked:
- Excess liquidity on obligatory reserve account is calculated as of reporting date instead as average;
- There are no haircuts required for securities issued by the Serbian Government in local and foreign currencies;
- Higher outflow rates are applied only to retail deposits denominated in currencies other than dinar, euro and the currency of an EU member state. Namely, Euro and other EU member state currencies are treated as domestic currency in accordance with the regulation prescribed by the National Bank of Serbia;
- Shortage of required reserves is not treated as outflow; and
- Contractual inflows from exposures that are not past due for more than five days are included into the liquidity inflows (no five days threshold is applied by the EU regulations).

The LCR indicator required by the regulator was well above the required limit in 2022 with an average value that was more than two times higher than prescribed limit of 1.0 (100%).

LCR	31 December	Average	Maximum	Minimum
2022	2.22	2.29	3.37	1.69
2021	2.71	3.47	4.64	2.37

The Bank also calculates the LCR indicator by significant currencies in accordance with the Decision on Liquidity Risk Management by Banks prescribed by the National Bank of Serbia. LCR indicator is monthly reported to the ALCO board by the most significant currencies (RSD and EUR), as of 31 December 2022 LCR is 4.63 (2021: 3.25) for liquidity position in domestic currency and 0.37 (2021: 0.40) for liquidity position in foreign currency (EUR).

28. RISK MANAGEMENT (continued)

28.2. Liquidity risk and financial assets management (continued)

Liquidity ratio and Narrow liquidity ratio

In 2022 the regulatory liquidity ratio and narrow regulatory liquidity ratio were significantly above the legally prescribed limit. Average regulatory liquidity ratio and narrow liquidity ratio were above the required level (at least 1.0 if calculated as the average of liquidity indicators for all working days within a month, or at least 0.7 if calculated as the average of narrow liquidity indicators for all working days within a month).

Liquidity ratio	31 December	Average	Maximum	Minimum
2022	**1.88**	**1.87**	**2.15**	**1.51**
2021	**2.02**	**2.23**	**2.53**	**1.86**

Narrow liquidity ratio	31 December	Average	Maximum	Minimum
2022	**1.47**	**1.47**	**1.68**	**1.17**
2021	**1.70**	**1.82**	**2.30**	**1.38**

Structure of the total liquidity reserves as of 31 December 2022 is presented in the following table:

			In RSD thousand
Liquidity reserves	**Carrying amount/ Fair value**	**Haircut**	**Available amount**
Required Central bank reserves in the amount above the amount required for the period	17,991,917	0%	17,991,917
- of which required reserves in local currency	17,117,247	0%	17,117,247
- of which required reserves in foreign currency	874,670	0%	874,670
Reverse repo transaction with Central Bank	20,000,000	0%	20,000,000
Excess liquidity placement with Central Bank	30,000,000		30,000,000
Cash and cash equivalents	28,469,324	0%	28,469,324
Available no-load government securities issued by the Republic of Serbia	55,360,051		34,362,897
- of which in local currency	44,552,476	35%	28,959,109
- of which in Euro	10,807,575	50%	5,403,787
Total liquidity reserves	**151,821,291**		**130,824,138**

28. RISK MANAGEMENT (continued)

28.2. Liquidity risk and financial assets management (continued)

Structure of the total liquidity reserves as of 31 December 2021 is presented in the following table:

In RSD thousand

Liquidity reserves	Carrying amount/ Fair value	Haircut	Available amount
Required Central bank reserves in the amount above the amount required for the period	38,774,764	0%	38,774,764
- of which required reserves in local currency	38,181,796	0%	38,181,796
- of which required reserves in foreign currency	592,968	0%	592,968
Reverse repo transaction with Central Bank	7,000,000	0%	7,000,000
Cash and cash equivalents	22,984,604	0%	22,984,604
Available no-load government securities issued by the Republic of Serbia	75,912,900		48,039,857
- of which in local currency	67,222,716	35%	43,694,765
- of which in Euro	8,690,184	50%	4,345,092
Total liquidity reserves	**144,672,268**		**116,799,225**

The liquidity reserves structure is as follows: reserves required by the central bank above the amount required for the period in domestic and foreign currency on which 0% haircut is applied, reverse repo transactions with the central bank, cash and cash equivalents (including gold) on which 0% haircut is applied, government bonds in domestic and foreign currency issued by the Republic of Serbia on which defined haircut of 10%, 35% or 50% is applied.

As of 31 December 2022, available unencumbered financial assets issued by the Republic of Serbia amounted to RSD 55,360,051 thousand (2021: RSD 75,912,900 thousand), out of which RSD 44,552,476thousand is in local currency (2021: RSD 67,222,716 thousand), RSD 10,807,575 thousand is in Euro (2021: RSD 8,690,184 thousand).

According to the Liquidity Risk Management Policy, foreign currency account balances are not a part of liquidity reserves, although they represent liquid assets that the Bank owns without restrictions.

As of 31 December 2022, on nostro accounts was RSD 31,114,884 thousand (2021: RSD 36,778,786 thousand).

The currency structure of cash on nostro accounts at the reporting date was as follows: EUR – RSD 24,881,839 thousand (2021: RSD 19,925,429 thousand), USD – RSD 5,561,334 thousand (2021: RSD 14,247,133 thousand), GBP – RSD 66,674 thousand (2021: RSD 136,833 thousand), CAD – RSD 50,894 thousand (2021: RSD 974,884 thousand), AUD – RSD 58,629 thousand (2021: RSD 741,643 thousand), DKK – RSD 17,457 thousand (2021: RSD 94,405 thousand), CHF – RSD 140,163 thousand (2021: RSD 154,667 thousand), SEK – RSD 314,247 thousand (2021: RSD 372,319 thousand), RUB – RSD 8,589 thousand (2021: RSD 3,179 thousand) and other currencies – RSD 15,018 thousand (2021: RSD 128,294 thousand).

28.2. Liquidity risk and financial assets management (continued)

Maturity mismatch report as of 31 December 2022 based on undiscounted cash flow

In RSD thousand

	Carrying amount	Gross nominal value	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity
ASSETS								
Cash and balances with Central Bank	153,092,550	153,092,550	153,092,550					
Receivables from derivatives	468,597	468,597	0					468,597
Securities	61,269,872	63,074,235	9,903,915	7,693,209	20,218,355	25,258,191		564
Loans and receivables from banks and other financial organizations	70,294,972	70,511,869	65,779,107	773,902	2,483,842	1,287,331	112,151	75,535
Loans and receivables from customers	513,000,029	640,554,210	30,563,967	39,088,430	131,389,461	260,206,229	179,983,787	-677,665
Investments in subsidiaries	1,199,472	1,199,472						1,199,472
TOTAL ASSETS	**799,325,492**	**928.900.933**	**259,339,540**	**47,555,541**	**154,091,658**	**286,751,752**	**180,095,938**	**1,066,503**

In RSD thousand

	Carrying amount	Gross nominal value	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity
LIABILITIES								
Liabilities based on derivatives	8,305	8,305						8,305
Deposits and other financial liabilities due to banks, other financial organizations and Central Bank	92,094,541	95,458,775	12,769,234	20,473,094	30,947,256	23,707,418	7,287,356	274,416
Deposits and other financial liabilities due to customers	612,850,509	616,721,158	512,193,091	15,818,303	63,530,792	21,803,002	2,462,331	913,639
TOTAL LIABILITIES	**704.953.355**	**712,188,238**	**524,962,325**	**36,291,397**	**94,478,048**	**45,510,421**	**9,749,687**	**1,196,360**
TOTAL EQUITY		**97,768,861**						**97,768,861**
TOTAL LIABILITIES AND EQUITY		**809,957,099**	**524,962,325**	**36,291,397**	**94,478,048**	**45,510,421**	**9,749,687**	**98,965,221**
MATURITY MISMATCH			**(265,622,785)**	**11,264,144**	**59,613,610**	**241,241,331**	**170,346,251**	**(97,898,718)**
CUMULATIVE MATURITY MISMATCH			**(265,622,785)**	**(254,358,641)**	**(194,745,031)**	**46,496,300**	**216,842,551**	

The table on the analysis of the residual maturity of assets and liabilities of the Bank as at 31 December 2022 shows the future cash flows using extremely conservative assumptions, such as the maturity of all sight deposits in the next month. The cumulative gap for illustrative purposes is shown by applying conservative assumptions since a vista deposits have been very stable source of funds by analysing time series of a vista deposits during previous years.

28. RISK MANAGEMENT (continued)

28.2. Liquidity risk and financial assets management (continued)

Maturity mismatch report as of 31 December 2021 based on undiscounted cash flow (continued):

In RSD thousand

	Carrying amount	Gross nominal value	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity
ASSETS								
Cash and balances with Central Bank	135,704,230	135,704,230	135,704,230					
Receivables from derivatives	433,793	433,793						433,793
Securities	81,906,310	86,215,159	18,575,819	14,251,895	5,324,154	48,062,717		574
Loans and receivables from banks and other financial organizations	56,557,456	56,603,891	54,239,538	361,978	1,394,189	594,678	6,189	7,319
Loans and receivables from customers	449,318,112	513,403,277	19,702,994	32,985,072	116,631,435	220,275,280	123,672,589	135,907
Investments in subsidiaries	1,199,472	1,199,472						1,199,472
TOTAL ASSETS	**725,119,373**	**793,559,822**	**228,222,581**	**47,598,945**	**123,349,778**	**268,932,675**	**123,678,778**	**1,777,065**

In RSD thousand

	Carrying amount	Gross nominal value	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity
LIABILITIES								
Deposits and other financial liabilities due to banks, other financial organizations and Central Bank	41,492,287	42,598,639	6,737,261	933,870	8,138,891	18,017,527	8,875,865	(104,775)
Deposits and other financial liabilities due to customers	572,877,553	574,595,780	516,826,329	9,967,869	34,403,326	11,069,192	1,777,778	551,286
TOTAL LIABILITIES	**614,369,840**	**617,194,419**	**523,563,590**	**10,901,739**	**42,542,217**	**29,086,719**	**10,653,643**	**446,511**
TOTAL EQUITY		**119,042,009**						**119,042,009**
TOTAL LIABILITIES AND EQUITY		**736.236.428**	**523,563,590**	**10,901,739**	**42,542,217**	**29,086,719**	**10,653,643**	**119,488,520**
MATURITY MISMATCH			**(295,341,009)**	**36,697,206**	**80,807,561**	**239,845,956**	**113,025,135**	**(117,711,455)**
CUMULATIVE MATURITY MISMATCH			**(295,341,009)**	**(258,643,803)**	**(177,836,242)**	**62,009,714**	**175,034,849**	

The table on the analysis of the residual maturity of assets and liabilities of the Bank as at 31 December 2021 shows the future cash flows using extremely conservative assumptions, such as the maturity of all sight deposits in the next month. The cumulative gap for illustrative purposes is shown by applying conservative assumptions since a vista deposits have been very stable source of funds by analysing time series of a vista deposits during previous years.

28.3. Market risk

In 2022, the Bank acquired Trading Book (positions) and, therefore, was exposed to interest rate risk and price risk which could be caused by the Trading Book. Trading Book refers to portfolio of securities consisted of bonds and derivatives (FX Forward portfolio). In accordance with the Parent bank project "Structural FX position" in order to meet the requirements of CRR2 and new EBA provisions to develop an adopted methodology for monthly calculation of capital requirements for foreign exchange risk at the consolidated level, during 2021, the entire foreign exchange swap portfolio was transferred from the Trading Book to the Banking Book as it is not intended for trading and serves to maintain adequate liquidity of the Bank. During 2022 there was no registered breach of the limit defining the maximum allowed nominal value of bonds in the Trading Book. On the other hand, the Banking book was exposed to foreign currency risk, with registered limit breaches approved by two members of the Executive Board in 2022.

Foreign currency risk is the risk of occurrence of negative effects on the financial result and equity of the Bank due to changes in foreign currency exchange rates. Banking operations in different foreign currencies result in exposure to fluctuations in exchange rates of foreign currencies.

The Bank applies foreign currency risk monitoring system based on the first and the second class limits.

The first class limit is considered to be FX VaR limit, which is calculated and reported on a daily basis. Calculation methodology is regulated by the ISP Group, which applies EWMA historical method, with 99% confidence interval and one day time period. FX VaR is calculated on positions for each currency, due to the Parent Bank's requirements, as well as for the increase of volatility of some currencies, which the Bank has in its portfolio. However, the FX VaR is mostly determined by the volatility of EUR, since the portion of EUR of the total open FX position was 88% in average during 2022.

The second class limit is considered to be the limit of net open FX position, which represents difference between the currency sensitive assets and the currency sensitive liabilities. The second class limits exposure is calculated and reported on a daily basis. During 2022, the first class limit (FX VaR limit) and the second class limit (limit of net open FX position), remained unchanged. During 2022 breaches of the both first and second class limits were registered. Namely, due to Russian-Ukraine crisis FX VaR limit utilization registered significant increase due to growth of open FX position in rubles (purchased from exchange offices) and its high volatility caused by the Russian-Ukrainian conflict. Due to that, in the middle of the year, the FX VaR limit was breached but within a reasonable period of time (after selling the ruble position), it was returned within the prescribed limit. When it comes to breaching the limit of an open foreign exchange position (in Q2, Q3 and Q4), it should be mentioned that this was the result of previously announced and agreed business actions which require that the open foreign currency position is not closed directly, but within few days.

During 2022, the Bank's foreign currency risk indicator was in compliance with the legally prescribed one, which represents 20% of the regulatory equity. As of 31st December 2022 regulatory indicator of foreign currency risk was 0.81%. Considering that the regulatory indicator for foreign exchange risk is below 2%, the Bank has not calculated capital requirement as of 31 December 2022.

28. RISK MANAGEMENT (continued)

28.3. Market risk (continued)

The following table presents the open foreign currency position as of 31 December 2022:

				In RSD thousand
		Open foreign currency position		
	Carrying amount	Total	Trading book	Banking book
Assets complied with market risks	**808,147,888**	**483,328,598**		**483,328,598**
Cash and balances with Central Bank	153,092,550	58,500,789		58,500,789
Securities	61,269,872	10,854,264		10,854,264
Loans and receivables from banks and other financial organizations	70,294,972	44,688,065		44,688,065
Loans and receivables from customers	513,000,029	368,437,984		368,437,984
Other assets	10,490,465	847,496		847,496
Liabilities complied with market risks	**723,930,740**	**455,843,733**		**455,843,733**
Deposits and other financial liabilities due to banks, other financial organizations and Central Bank	92,094,541	80,515,035		80,515,035
Deposits and other financial liabilities due to customers	612,850,509	365,342,116		365,342,116
Other liabilities	18,985,690	9,986,581		9,986,581
Off-balance sheet financial derivatives which impact FX position	(19,873,114)	(19,873,114)	(961,627)	(18,911,487)
Allowances for impairment	20,290,127	(8,014,024)		(8,014,024)
Open net foreign currency position		**(402,272)**	**(961,627)**	**559,355**

The following table presents the open foreign currency position as of 31 December 2021:

				In RSD thousand
		Open foreign currency position		
	Carrying amount	Total	Trading book	Banking book
Assets complied with market risks	**728,503,634**	**427,356,398**	**1,199,303**	**426,157,095**
Cash and balances with Central Bank	135,704,230	54,034,754		54,034,754
Securities	81,906,310	8,833,591	1,199,303	7,634,288
Loans and receivables from banks and other financial organizations	56,557,456	46,096,033		46,096,033
Loans and receivables from customers	449,318,112	317,849,771		317,849,771
Other assets	5,017,526	542,250		542,250
Liabilities complied with market risks	**623,491,429**	**387,659,686**		**387,659,686**
Deposits and other financial liabilities due to banks, other financial organizations and Central Bank	41,492,287	36,944,674		36,944,674
Deposits and other financial liabilities due to customers	572,877,553	346,638,588		346,638,588
Other liabilities	9,121,589	4,076,424		4,076,424
Off-balance sheet financial derivatives which impact FX position	(31,104,353)	(31,104,353)	21,452,230	9,652,123
Allowances for impairment	17,192,776	(7,403,587)		(7,403,587
Open net foreign currency position		**1,188,773**	**(29,905,050)**	**(31,093,823)**

28. RISK MANAGEMENT (continued)

28.3. Market risk (continued)

Following table represents the currency structure of open net foreign currency position as of 31 December 2022 and 31 December 2021:

		In RSD thousand
Net open foreign currency position	**2022**	**2021**
EUR	(567,626)	1,184,896
USD	(1,882)	18,019
CHF	5,140	69,628
Other currencies	74,689	102,870
Gold and other precious metals	87,408	82,821
Total	**(402.272)**	**1,458,234**

				In EUR
Foreign currency VaR	**31 December**	**Average**	**Maximum**	**Minimum**
2022	3.651	41.669	144.653	1.347
2021	3,791	4,298	8,001	728

Following table represents effect of the change in the exchange rates on the Bank's profit and regulatory capital:

		In RSD thousand
	Effect 2022	**Effect 2021**
10% depreciation of RSD	(40.227)	145,823
20% depreciation of RSD	(80.454)	291,647

28.4. Interest rate risk

Interest rate risk is the risk of decrease in profit or net assets value of the Bank due to changes in market interest rates. The Bank's exposure to interest rate risk depends on the ratio of the interest-sensitive assets and interest- sensitive liabilities.

Interest rate risk is calculated separately for the Banking Book (HTCS -portfolio of securities hold to collect and sell) and for the Trading Book (HFT -portfolio of securities held for trading, consisted of bonds and FX forwards), respectively Banking Book (includes everything that is not classified as Trading Book).

ISP Group Methodology on the calculation of interest rate risk was adopted by the Bank, through internal documents and ERMAS net 5 technical solution. Methodology includes: treatment of the margin as fixed future cash flow; calculation of future cash flows by using FTP prices, instead of the contractual prices; modelling a vista deposits as well as treatment of prepayment and cash flow adjustment (Cash Flow Adjustment) for expected credit loss. Applying the guidelines of the European Bank Authority (EBA) and Basel III regulations, the Parent Bank continuously improves the methodology and Guidelines relating to interest rate risk. In accordance with the EBA guidelines and the Parent Bank guidelines, in 2022 some modifications were applied in the calculation of interest rate risk. Modifications concern the revision of behavioural model effects within the report so that their impact on Shift, Principal and GAP is done in accordance with the revised logic and methodology in which the effects are calculated and presented in the reports. Also, the Bank has developed a new instrument - Interest Rate Swap in order to reduce the volatility of the fair value in the balance sheet or to offer its clients protection against interest rate risks. The introduction of the above-mentioned type of product required a revision of the ERMAS system settings, in order to ensure the correct treatment in the analysis of interest rate risk and liquidity risk. The Bank's documents defining interest rate risk management, the Policy on management of interest rate risk in the Banking Book and the Rulebook - Measurement and control of interest rate risk in the Banking Book, were harmonized with the Parent Bank' documents.

28. RISK MANAGEMENT (continued)

28.4. Interest rate risk (continued)

Measures used for assessment of interest rate risk on the Banking Book and on the basis of which there are established limits that are monitored on a monthly level are sensitivity of economic value of assets on 100 basis points interest rate change and sensitivity of income revenues and costs on change of on 50 basis points interest rate change. In the course of 2022, both of the aforementioned limits of exposure to the interest rate risk of the banking book were increased on the Bank's request. The Bank was in compliance with the prescribed limits by the Parent Bank in 2022.

Sensitivity of net asset value to change in market interest rates of +/- 100 basis points as well as the new scenarios for non-parallel shifts of yield curves (steepener, flattener, short rate up and short rate down) i.e. sensitivity of interest income and expenses to change of +/- 50, +/- 100 and, + / -200 basis is calculated, monitored and submitted to the ALCO Board as well as to the Parent Bank on a monthly basis. At the quarterly level, the Bank calculates these indicators in accordance with the six defined scenarios required by Basel III regulations and for parallel shifts by +/- 200 basis points,, which are monitored and submitted to the ALCO Board and the Parent Bank.

During 2022 the interest rate risk VaR limit exposure on the Banking Book, was increased on the Bank's request while the interest rate VaR limit on the Trading Book has been slightly decreased upon the Parent Bank's request.

Interest rate risk is daily monitored and submitted for the financial assets hold to collect and sell (HTCS)as well as for portfolio of securities held for trading (HFT). For (HTCS), as well as for HFT portfolio the following ratios of interest rate risk are calculated and reported on a daily basis: IRR VaR, duration and stress test (change scenario by 100 bps and 200 bps).

Acceptable interest rate risk is limited to the highest possible value at interest rate risk (IRR VaR) for the portfolio of financial assets hold to collect and sell, as well as for the portfolio of securities held for trading.

Value at interest rate risk (IRR VaR) is considered to be the highest possible one day loss in the AFS securities portfolio and securities held for trading that the Bank could undertake under usual market movements in interest rates. IRR VaR calculation methodology is determined by the ISP Group regulations, which applies EWMA historical method with 99% confidence interval and one day time period. During 2022 there was no registered breach of the VaR limits referring to neither HFT nor Total portfolio while for HTCS portfolio breach was registered in February. Namely, as a result of the Russian-Ukrainian crisis, the Bank was exposed to the significant influence of the increase in the Country spread, which is used in the VaR calculation through the yield curve, which caused a breach of the HTCS VaR limit and consequently led to a temporary suspension of bond purchases. HTCS VaR was brought back within limits in a short period of time.

In addition to regular VaR limits, the Bank daily monitors and reports about stress VaR indicators as additional risk measures. Stress VaR indicators are calculated in the same way as regular ones, with the difference that a pre-defined stress period is taken for stress calculation and each observation in period has the same weight, ie. it is given the same importance. During 2022, there was no registered breach of stress VaR indicators.

28.4. Interest rate risk (continued)

The following table represents Reprising Gap report, i.e. the Bank's exposure to interest rate risk as of 31 December 2022:

In RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
ASSETS							
Cash and balances with Central Bank	153,092,550						153,092,550
Receivables from derivatives	-					468,597	468,597
Securities	9,254,986	13,395,640	19,603,947	19,014,734		565	61,269,872
Loans and receivables from banks and other financial organizations	68,973,786	256,497	676,752	310,964	1,437	75,536	70,294,972
Loans and receivables from customers	184,646,097	135,581,437	61,221,453	113,897,931	18,330,776	-677,665	513,000,029
Investments in subsidiaries	-	-	-	-	-	1.199.472	1.199.472
TOTAL ASSETS	**415,967,419**	**149,233,574**	**81,502,152**	**133,223,629**	**18,332,213**	**1,066,505**	**799,325,492**

In RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
LIABILITIES							
Liabilities based on derivatives						8,305	8,305
Deposits and other financial liabilities due to banks, other financial organizations and Central Bank	12,546,471	34,815,278	35,738,468	5,455,780	3,264,128	274,416	92,094,541
Deposits and other financial liabilities due to customers	512,021,720	15,709,928	62,059,825	20,101,260	2,044,137	913,639	612,850,509
TOTAL LIABILITIES	**524,568,192**	**50,525,206**	**97,798,292**	**25,557,040**	**5,308,265**	**1,196,360**	**704,953,355**
TOTAL EQUITY						**97,768,861**	**97,768,861**
TOTAL LIABILITIES AND EQUITY	**524,568,192**	**50,525,206**	**97,798,292**	**25,557,040**	**5,308,265**	**98,965,221**	**802,722,216**
MATURITY MISMATCH	**(108,600,773)**	**98,708,368**	**(16,296,140)**	**107,666,589**	**13,023,948**		
CUMULATIVE MATURITY MISMATCH	**(108,600,773)**	**(9,892,405)**	**(26,188,545)**	**81,478,044**	**94,501,992**		

28. RISK MANAGEMENT (continued)

28.4. Interest rate risk (continued)

The following table represents Reprising Gap report, i.e. the Bank's exposure to interest rate risk as of 31 December 2021:

In RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
ASSETS							
Cash and balances with Central Bank	135,704,230						135,704,230
Receivables from derivatives	-					433,793	433,793
Securities	17,690,915	18,780,196	4,601,070	40,833,554		575	81,906,310
Loans and receivables from banks and other financial organizations	55,215,040	230,420	872,981	231,312	383	7,320	56,557,456
Loans and receivables from customers	137,828,674	128,233,278	77,931,431	95,840,636	9,348,185	135,908	449,318,112
Investments in subsidiaries	-	-	-	-	-	1.199.472	1.199.472
TOTAL ASSETS	**346,438,859**	**147,243,894**	**83,405,482**	**136,905,502**	**9,348,568**	**1,777,068**	**725,119,373**

In RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
LIABILITIES							
Deposits and other financial liabilities due to banks, other financial organizations and Central Bank	6,747,213	19,650,140	4,415,002	6,249,042	4,535,665	(104,775)	41,492,287
Deposits and other financial liabilities due to customers	517,274,363	9,850,932	33,753,794	10,259,802	1,187,375	551,287	572,877,553
TOTAL LIABILITIES	**524,021,576**	**29,501,072**	**38,168,796**	**16,508,844**	**5,723,040**	**446,512**	**614,369,840**
TOTAL EQUITY						**119,042,009**	**119,042,009**
TOTAL LIABILITIES AND EQUITY	**524,021,576**	**29,501,072**	**38,168,796**	**16,508,844**	**5,723,040**	**119,488,521**	**733,411,849**
MATURITY MISMATCH	**(177,582,717)**	**117,742,822**	**45,236,686**	**120,396,658**	**3,625,528**		
CUMULATIVE MATURITY MISMATCH	**(177,582,717)**	**(59,839,895)**	**(14,603,209)**	**105,793,449**	**109,418,977**		

28.4. Interest rate risk (continued)

The table below presents the effects of change in interest rates on the Bank's net income and net assets, valued by applying the standard scenario and not taking into account assumptions on asymmetrical changes of the yield curve. The standard scenario implies parallel movement of the yield curve by 100 bps and 200 bps on the Bank's net asset sensitivity and 50 bps on net income sensitivity.

In RSD thousand

				In RSD thousand
Sensitivity of the Bank's net assets on the change in interest rates	**Increase by 100bps**	**Decrease by 100bps**	**Increase by 200bps**	**Decrease by 200bp**
2022				
As of 31 December	185,343	(131,119)	(55,631)	(762,637)
Period average	(118,178)	186,120	(766,961)	174,751
Period maximum	319,501	800,177	187,224	2,777,652
Period minimum	(659,203)	(301,259)	(2,267,086)	(1,702,777)
2021				
As of 31 December	(584,384)	903,683	(1,684,610)	2,349,235
Period average	(694,362)	1,187,574	(1,960,461)	2,659,006
Period maximum	(403,192)	1,521,643	(1,684,610)	3,108,881
Period minimum	(1,042,671)	903,683	(2,386,829)	2,349,235

		In RSD thousand
Sensitivity of the Bank's net income on the change in interest rates	**Increase by 50bps**	**Decrease by 50bp**
2022		
As of 31 December	1,559,259	(1,553,982)
Period average	1,366,228	(1,452,016)
Period maximum	1,646,448	(1,367,327)
Period minimum	1,188,165	(1,641,741)
2021		
As of 31 December	1,315,514	(1,412,552)
Period average	1,216,309	(1,290,474)
Period maximum	1,329,667	(977,897)
Period minimum	909,804	(1,429,605)

The following table represents value at risk for portfolio of *financial assets hold to collect and sell (HTCS), calculated for regular and stressed period*:

				In EUR
IRR HTCS VaR	**31 December**	**Average**	**Maximum**	**Minimum**
2022	**717,897**	**859,563**	**1,233,202**	**89,057**
2021	**93,426**	**228,037**	**364,880**	**51,129**

				In EUR
IRR HTCS Stressed	**31. December**	**Average**	**Maximum**	**Minimum**
2022	**376,114**	**438,482**	**561,908**	**118,415**
2021	**126,706**	**306,787**	**425,836**	**126,706**

28. RISK MANAGEMENT (continued)

28.4. Interest rate risk (continued)

The following table represents value at risk for financial assets held for trading portfolio, calculated for regular and stressed period:

				In EUR
IRR HFT VaR	**31 December**	**Average**	**Maximum**	**Minimum**
2022	**4,627**	**42,385**	**212,143**	**172**
2021	**97,819**	**37,991**	**127,710**	**5,156**

				In EUR
IRR Stressed HFT VaR	**31 December**	**Average**	**Maximum**	**Minimum**
2022	**456**	**26,093**	**121,639**	**19**
2021	**124,465**	**101,714**	**200,833**	**27,209**

The following table represents value at risk for total portfolio, meaning *financial assets held for trading portfolio, financial assets hold to collect and sell (HTCS) portfolio as well as FX VaR calculated for open FX positon, calculated for regular and stressed period*:

				In EUR
IRR Total VaR (HTCS, HFT & FX VaR)	**31 December**	**Average**	**Maximum**	**Minimum**
2022	**724,473**	**892,778**	**1,280,744**	**122,980**
2021	**132,211**	**209,227**	**340,775**	**78,286**

				In EUR
IRR Total Stressed VaR (HTCS, HFT & FX VaR)	**31 December**	**Average**	**Maximum**	**Minimum**
2022	**375,850**	**449,811**	**574,077**	**156,761**
2021	**200,514**	**341,978**	**481,460**	**195,151**

28.5. Operational risk

Operational risk is the risk of possible adverse effects on financial result and capital of the Bank caused by omissions (unintentional and intentional) in the employees' work, inadequate internal procedures and processes, inadequate management of information and other systems, as well as by unforeseeable external events. Operational risk shall also include legal risk.

The Bank's goal is to manage operational risk, in order to achieve balance between preventing financial loss and damage to the Bank's reputation, on one side, and economic profitability and innovation, on the other. The Bank's policy requires respecting all currently valid regulations.

The Bank has developed and implemented specific standards of operational risk management in the following areas:
- Operational risk identification, which comprises:
  - Collecting data on operational risks and losses – identification, registration and classification of data on the Bank's losses,
  - Integrated process of assessment of the Bank's exposure to operational risk;
  - Assessment of operational risk when implementing new product, process or system;
- Operational risk measuring;
- Monitoring and reporting on operational risk; and
- Mitigating operational risk.

At least once a year, Bank's Internal Audit performs independent assessment of adequacy of the operational risk management system. The results of this assessment are disclosed within the Audit Report, which includes all the findings and improvement suggestions.

For the purposes of capital requirements for operational risk calculation, the Bank applies the standardized approach. The capital requirement for operational risk, calculated by applying the standardized approach, amounts to RSD 4.744.155 thousand as of 31 December 2022 (31 December 2021: RSD 4,366,455 thousand).

28.6. Exposure risk

The Risk Management Department monitors, measures and reports to the competent boards of the Bank on the Bank's exposure to a single client or to a group of related clients, risk of investment in other legal entities and in fixed assets, country risk to which the Bank is exposed, as well as operational risk. In 2019, the Bank maintained compliance of the exposure risk and investment risk indicators and performed appropriate activities defined by relevant procedures and decisions on credit approval and investments in financial and non-financial assets, ensuring compliance of the Bank's placements and investments with indicators prescribed by the National Bank of Serbia as well as the investment limits prescribed by the Bank.

Exposure risks include the risk of the Bank's exposure to a single client or a group of related clients, as well as exposure risk toward related parties of the Bank.

In accordance with the Risk Management Policy, the Bank's management sets exposure limits, i.e. the concentration of placements to a single client or a group of related clients, and related parties of the Bank.

The Bank's management and relevant bodies and employees seek to ensure the compliance of the Bank's exposures with prescribed limits, i.e. exposure to a single client or a group of related clients does not exceed 25% of the Bank's equity, total amount of all large exposures does not exceed 400% of the Bank's equity.

28. RISK MANAGEMENT (continued)

28.7. Investment risks

Investment risks include the risk of investment in other legal entities and investment in fixed assets. In accordance with the National Bank of Serbia's regulations, the Risk Management Department monitors the Bank's investments and reports to the Executive Board. The Department also ensures that the Bank's investment in a single non-financial entity does not exceed 10% of the Bank's equity, and that the total investments of the Bank in non-financial entities and in fixed assets do not exceed 60% of the Bank's equity.

28.8. Country risk

Country risk relates to the country of origin of the Bank's client and includes negative effects which may influence financial result and equity of the Bank, as the Bank might not be able to collect receivables from such a client, as a result of political, economic or social conditions in the client's country of origin. The Bank's exposure to country risk is low, due to insignificant share of non-residents in the total loan portfolio of the Bank.

28.9. Capital management

The objective of the Bank's capital management is to maintain the Bank's ability to continue operating into the foreseeable future, in order to maintain the optimal structure of capital with a view to decreasing the costs of capital and securing dividends for shareholders.

The Bank permanently manages its capital in order to:
- Ensure compliance with capital requirements set by the National Bank of Serbia;
- Ensure adequate level of capital in order to ensure operations as a going concern;
- Maintain capital at the level that will ensure future development of the business; and
- Maintain capital at the level that is adequate to cover internally assessed capital requirements for all significant risks identified in the Internal Capital Adequacy Assessment Process (ICAAP)

Capital adequacy, as well as use of the Bank's capital, is monitored on a monthly basis by the Bank's management. The Bank is obliged to calculate the following ratios and at any moment keeps them at levels that are not lower than prescribed:
- ratio of the adequacy of the basic share capital of the bank, which represents the percentage ratio of the basic share capital and risky assets of the bank - 4.5%;
- an indicator of the basic capital adequacy of the bank, which represents a percentage ratio of the basic capital and risky assets of the bank - 6%;
- Indicator of the adequacy of (total) capital of the bank, which represents the percentage ratio of capital and risky assets of the bank - 8%.

28.9. Capital management (continued)

The Bank's regulatory capital according to the Decision on Capital Adequacy of Banks as of 2022:

	In RSD thousand
ITEM	**31 December 2022**
CAPITAL	**80.893.113**
Core capital	**80.893.113**
Common Equity Tier 1 capital	**80.893.113**
Common Equity Tier 1 capital instruments and the relevant issue premium	**41.748.469**
Paid amount of Common Equity Tier 1 capital instruments	21.315.900
Relevant issue premium with Common Equity Tier 1 capital instruments	20.432.569
Note: Retained earnings from preceding years which do not qualify for inclusion in Common Equity Tier 1 capital	*47.670*
Note: Profit of the current period which does not qualify for inclusion in Common Equity Tier 1 capital	*12.679.339*
Revaluation reserves and other unrealized gains/losses	**600.719**
Revaluation reserves and other unrealized gains/losses	1.106.222
(-) Unrealized losses	(505.503)
Reserves from profit, other reserves and reserves for general banking risks	**43.488.903**
Other reserves	43.488.903
(+/-) Regulatory adjustment of the value of Common Equity Tier 1 capital elements	(55.820)
(-) Additional value adjustments	(55.820)
(-) Other intangible investment reduced by associated deferred tax liabilities	**(4.602.701)**
(-) Other intangible investment before the reduction by associated deferred tax liabilities	(4.602.701)
(-) Deferred tax assets which depend on the future profitability, except for those arising from temporary differences, reduced by associated deferred tax liabilities	**(56.113)**
(-) Gross amount of receivables from the borrower – natural person (other than a farmer or an entrepreneur) arising from extended consumer, cash or other loans where the level of the borrower's debt-to-income ratio before loan approval was higher than the percentage defined in accordance with the decision governing the classification of bank balance sheet assets and off-balance sheet items or where this percentage will be higher due to loan approval.	**(230.344)**
(-) Gross amount of receivables from the borrower – natural person (other than a farmer or an entrepreneur) arising from extended consumer, cash or other loans, other than the loans disclosed under this position which under the criterion agreed maturity qualify for the deduction from Common Equity Tier 1 prescribed by the decision governing bank capital adequacy*	**(230.344)**

28. RISK MANAGEMENT (continued)

28.9. Capital management (continued)

The Bank's regulatory capital according to the Decision on Capital Adequacy of Banks as of 2021:

	In RSD thousand
ITEM	**31 December 2021**
CAPITAL	**81.427.422**
Core capital	**81.427.422**
Common Equity Tier 1 capital	**81.427.422**
Common Equity Tier 1 capital instruments and the relevant issue premium	**41.748.469**
Paid amount of Common Equity Tier 1 capital instruments	21,315,900
Relevant issue premium with Common Equity Tier 1 capital instruments	20,432,569
Note: Retained earnings from preceding years which do not qualify for inclusion in Common Equity Tier 1 capital	*21.853.215*
Note: Profit of the current period which does not qualify for inclusion in Common Equity Tier 1 capital	*10.371.358*
Revaluation reserves and other unrealized gains/losses	**1.859.821**
Revaluation reserves and other unrealized gains/losses	1.882.194
(-) Unrealized losses	(22.373)
Reserves from profit, other reserves and reserves for general banking risks	**43.488.903**
Other reserves	43,488,903
(+/-) Regulatory adjustment of the value of Common Equity Tier 1 capital elements	(76.347)
(-) Additional value adjustments	(76.347)
(-) Other intangible investment reduced by associated deferred tax liabilities	**(4.859.166)**
(-) Other intangible investment before the reduction by associated deferred tax liabilities	(4.859.166)
(-) Deferred tax assets which depend on the future profitability, except for those arising from temporary differences, reduced by associated deferred tax liabilities	**(24.810)**
(-) Any tax charge relating to Common Equity Tier 1 elements foreseeable at the moment of its calculation, except where the bank suitably adjusts the amount of Common Equity Tier 1 elements	**(279.758)**
(-) Gross amount of receivables from the borrower – natural person (other than a farmer or an entrepreneur) arising from extended consumer, cash or other loans where the level of the borrower's debt-to-income ratio before loan approval was higher than the percentage defined in accordance with the decision governing the classification of bank balance sheet assets and off-balance sheet items or where this percentage will be higher due to loan approval.	**(96.491)**
(-) Gross amount of receivables from the borrower – natural person (other than a farmer or an entrepreneur) arising from extended consumer, cash or other loans, other than the loans disclosed under this position which under the criterion agreed maturity qualify for the deduction from Common Equity Tier 1 prescribed by the decision governing bank capital adequacy*	**(333.191)**

28.10. Fair value of financial assets and liabilities

The Bank's policy is to disclose information on the fair value of assets and liabilities, for which official market information is available and when their fair value significantly differs from their carrying amounts.

Determining fair value of the financial instruments, which are not carried at amortized cost must follow the principles, criteria and hierarchy prescribed by the Fair value policy, which is in accordance with ISP Group's requirements for determining fair value. Determining fair value of the financial instruments not carried at amortized cost respects the following hierarchy, which reflects credibility of the inputs used in determination of fair value:

- Level 1: inputs are the quoted market prices (without corrections) on active markets;
- Level 2: inputs other than quoted prices from level 1, but directly or indirectly (derived from prices) quoted on market. This category includes: market interest rates, CDS (credit default swap) market quotations, market prices of primary bonds issue or market exchange rates when determining value of the instrument.
- Level 3: inputs that are not information available on the market. This category includes each instrument, for which information on value is not directly or indirectly available on the market.

Implementation of the hierarchy is not optional, and the Bank cannot choose the information for determining fair value of financial instruments that are not carried at amortized cost, but it must respect the abovementioned hierarchy.

Financial instruments not carried at amortized cost and on which Fair Value Policy is applied are:

- Securities (government FX bonds, government bonds issued by foreign governments, shares quoted on foreign exchange markets etc.) for which active and liquid market exists, which provides direct information about quoted market prices (Level 1);
- The Republic of Serbia treasury bonds, which are valued by discounting future cash flows by applying market non-risk yield curves, adjusted liquidity risk (at RSD bonds, without direct quotation of maturity) (Level 2);
- Over-the-counter financial derivatives (FX swap and FX forward) which are valued by discounting future cash flows with market non-risk yield curves adjusted for liquidity risk (at RSD curve without direct quotation of maturity) (Level 2);
- Shares and investments in legal entities, which are not sold on active markets and for which there is no reliable value, are carried at cost or last available information about value, reduced by impairment (Level 3)

During 2022 there were no transition between levels during the year.

28. RISK MANAGEMENT (continued)

28.10. Fair value of financial assets and liabilities (continued)

The following tables present value of financial instruments based on different information and in accordance with hierarchy within the Fair Value Policy:

Fair value as of 31 December 2022:

				In RSD thousand
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Securities	46,689	55,360,051	11,727	55,418,467
Receivables from derivatives	0	468,597	0	468,597
Total	**46.689**	**55.828.648**	**11.727**	**55.887.064**
Liabilities				
Liabilities based on derivatives	-	8.305	-	8.305
Total	**0**	**8.305**	**0**	**8.305**

Fair value measurement for securities position is divided into three levels. Level 1 instruments refer equities quoted on international market. Level 2 instruments refer to bonds issued by Republic of Serbia and financial derivatives which are valued by using discounting techniques on future contracted cash flows, applying market risk-free yields. Level 3 instruments refer to shares or equity held in legal entities that are not listed on the active market.

Fair value as of 31 December 2021:

				In RSD thousand
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Securities	143,408	75,912,900	13,351	76,069,659
Receivables from derivatives	-	433,793	-	433,793
Total	**143,408**	**76,346,693**	**13,351**	**76,503,452**
Liabilities				
Liabilities based on derivatives	-	-	-	-
Total	**0**	**0**	**0**	**0**

The Bank's management considers that the carrying amounts stated in the accompanying financial statements are the most valid and useful reporting values under the present market conditions.

28.10. Fair value of financial assets and liabilities (continued)

The following table represents fair value of instruments not carried at fair value and classified by the appropriate levels of hierarchy:

					In RSD thousand
31 December 2022	**Level 1**	**Level 2**	**Level 3**	**Fair value**	**Carrying amount**
Assets					
Cash and balances with Central Bank	-	153,092,550		153,092,550	153,092,550
Securities	-		6,278,731	6,278,731	5,851,405
Loans and receivables from banks and other financial organizations	-	70,697,364	0	70,697,364	70,294,972
Loans and receivables from customers	-	225,198,458	312,329,872	537,528,330	513,000,029
Total	**-**	**448,988,372**	**318,608,603**	**767,596,976**	**742,238,956**
Liabilities					
Deposits and other financial liabilities due to banks, other financial organizations and Central Bank	-	63,741,443	28,403,326	92,144,769	92,094,541
Deposits and other financial liabilities due to customers	-	512,886,312	99,309,666	612,195,978	612,850,509
Total	**-**	**576,627,755**	**127,712,992**	**704,340,747**	**704,945,050**

Fair valued Cash and balances with Central Bank are belonging to the Level 2 and are presented at their carrying amount.

Loans and receivables from banks and other financial organizations, deposits and other financial liabilities due to banks, other financial organizations and Central Bank are presented at their fair value calculated as discounting cash flows for deposits, or as discounting cash flows reduced by expected loss for loans. Given the short-term deposits with financial institutions (money market), i.e. transactions with highly rated financial institutions which are contracted at interest rates corresponding to the market, these positions belong to the Level 2.

Fair value for positions Loans and receivables from customers and Deposits and other financial liabilities due to customers are calculated as discounting techniques of future cash flows for deposits, or as discounting cash flows reduced by expected loss for loans. Doubtful loans are valued in the same manner as performing loans, while maturity estimated by the NPL Department is assigned to the total net exposure instead of initially contracted maturity. These positions belong to the Level 2 (up to one-year maturity) respectively Level 3 (if the maturity is over one year).

For the purposes of determining fair values, risk-free yield curves that correspond to the currency and maturity structure of the contracted cash flow are used. For maturities for which there are no market quotes of the BELIBOR yield curve, the yield equals the quoted value of the six-month BELIBOR, increased by the corresponding spread. Spread for a certain maturity is defined as the difference between the executed bond rate with same maturity in the primary market and the value of the six-month BELIBOR on the day of issue of the relevant bond. The European yield curve represents the EUR-STANDARD yield curve that is defined by the money market (for a maturity of up to one year) and the interest rate swap curve which is increased for the country's risk spread (for a maturity more than one year), where the country's risk spread is defined as the difference between issued Serbian and Germany risk-free bonds.

28. RISK MANAGEMENT (continued)

28.10. Fair value of financial assets and liabilities (continued)

					In RSD thousand
31 December 2021	**Level 1**	**Level 2**	**Level 3**	**Fair value**	**Carrying amount**
Assets					
Cash and balances with Central Bank	-	135,704,230		135,704,230	135,704,230
Securities	-		6,489,957	6,489,957	5,836,652
Loans and receivables from banks and other financial organizations	-	56,566,542		56,566,542	56,557,456
Loans and receivables from customers	-	187,629,917	290,931,559	478,561,476	449,318,112
Total	**-**	**379,900,689**	**297,421,516**	**677,322,205**	**647,416,450**
Liabilities					
Deposits and other financial liabilities due to banks, other financial organizations and Central Bank	-	15,745,137	27,496,645	43,241,783	41,492,287
Deposits and other financial liabilities due to customers	-	489,861,147	88,697,327	578,558,474	572,877,553
Total	**-**	**505,606,285**	**116,193,972**	**621,800,257**	**614,369,840**

The Bank's management assesses the risk, and in instances in which it estimates that the carrying amount of assets may not be realized, it recognizes a provision.

28.11. Climate related risks

Being aware of its role in fostering greater environmental and social sustainability at an economic system level and in line with the rapidly evolving European regulatory framework on sustainability, the Bank, as a member of the ISP Group, bases its strategy on the transversal and holistic approach to ESG issues.

The Bank recognised the following key climate and environmental risks:
- physical risk, that implies economic impact resulting from tangible events related to climate changes. Physical risk is classified as "acute" if caused by extreme events such as floods, storms and fires, and "chronic" if caused by progressive changes such as rising temperatures leading to droughts, rising sea levels, water stress, loss of biodiversity, land-use change, habitat destruction and resource scarcity. This risk can lead directly to, for example, material damage or a drop in productivity, or have indirect impact such as disruption of production chains;
- transition risk, that implies financial loss that an institution may incur, directly or indirectly, as a result of failing to adjust to a low-carbon and more environmentally sustainable economy. This could be caused, for example, by the relatively sudden adoption of climate and environmental policies, technological progress or changing market confidence and preferences.

Following the example of the Parent bank, the Bank has engaged significant resources for the development and implementation of the framework for ESG risks. Documents were adopted that, among other, describe the reference principles of sustainability, the roles and responsibilities of corporate bodies, as well as the macro-process of ESG risk management. Also, the documents describe the potential impact of ESG risks on traditional risk families (credit, market, liquidity risk, reputational, non-financial, etc.). In addition, high-risk sectors, clients and countries for which the Bank has a special decision-making process are defined. Exposure to the riskiest sectors is in the process of gradual reduction until final closure.

In the following period, the Bank will additionally work on the operationalization of methodologies and the quantification of ESG risks, as well as on more detailed assessment of climate risk.

29.POTENTIAL LIABILITIES

a) Litigations

As of 31 December 2022, the Bank is a defendant in a certain number of legal proceedings. Total estimated value of damage claims amounts to RSD 11,851,425 thousand (31 December 2021: RSD 9.867.006 thousand), including penalty interests and fees.

As disclosed in Note 23, as of 31 December 2022 the Bank recognized the provision for potential losses that could arise from the aforementioned litigations in the total amount of RSD 1.549.992 thousand (31 December 2021: RSD 1.562.375 thousand). The Bank's management considers that no significant losses will arise from the ongoing litigations, other than those provided for.

The amount of the highest single litigation claims of RSD 5.491.509 thousand, for which the Bank did not recorded provision, is claimed by a physical person, who is the owner of the Bank's corporate debtor and guarantor for the loan granted to that corporate debtor. The Bank did not recognize provision for this litigation and according to the Bank's management opinion, claimant presented in ungrounded and arbitrarily manner, the facts based on which he claims not precise requirements for compensation damage, and it is expected that the Court will completely reject the claim. Nevertheless, the Bank will monitor change in circumstances at the end of each reporting period.

The Bank is involved in a number of lawsuits as plaintiff related to collection of receivables. All disputed receivables from corporate and retail customers have been impaired and charged to the results of the current and previous years.

The following areas of mass disputes have impacted the entire Serbian banking system shown below.

1) Processing fees
   Legal disputes regarding processing fees applied by banks at the time of disbursing loans. The claimants, individuals and legal persons, are requesting the repayment of those charges, as they are deemed as not owed. The first claims arose in 2017, and a significant increase in lawsuits was recorded in the following years, though for modest amounts on average. As at 31 December 2022, The Bank had been summoned in around 20,000 lawsuits (of which 9,000 arising during 2022), while the related total amounts requested to be repaid by the Bank totalled around RSD 152 million. Most of the courts upheld the customers' requests, based on an interpretation of regulations that the banks oppose. In September 2021, the Supreme Court of Serbia recognised the legitimacy of the costs and fees applied to loans at the time of their disbursement, provided they are indicated in the contract proposal. The flow of new lawsuits decreased in 2022 for 53% in comparison to 2021, and customers dropped some of those already pending.

2) NKOSK
   Legal disputes relating to real estate loans insured through the National Housing Loan Insurance Corporation (NKOSK), whose premium is paid by the borrowers. The borrowers deem that, as the bank is the beneficiary of the insurance, the premium should be paid by the bank. As at 31 December 2022, The Bank had been summoned in 1,085 lawsuits (of which 589 arising during 2022). The related total amounts requested to be repaid by the Bank totalled around RSD 129 million. Most of the courts upheld the customers' requests, based on an interpretation of regulations that the banks oppose. In September 2021, the Supreme Court of Serbia recognised the legitimacy of requiring the insurance premium to be paid by the borrowers, provided that the obligation is clearly described to the borrowers during precontractual procedures. The flow of new lawsuits decreased in 2022 for 34% in comparison to 2021, and customers dropped some of those already pending. The disputes mentioned above are covered by suitable provisions.

b) Tax Risks

The tax system of the Republic of Serbia is in the process of continuous review and amendments. The tax period in the Republic of Serbia is considered to be open for five years. Under various circumstances, the tax authorities could have a different approach to certain issued and could assess additional tax liabilities together with related penalty interest and fees. The Bank's management believes that tax liabilities recognized in the accompanying financial statements are presented fairly.

30. RECONCILIATION OF OUTSTANDING BALANCES WITH COUNTERPARTIES

In accordance with Article 22 of the Law on Accounting, the Bank performed the process of reconciliation of outstanding liabilities and receivables with its debtors and creditors as of 30 November 2022, and it maintains credible documentation on the circularization process.

Of 5,014 open items (IOS forms), which include the value of receivables of RSD 517,094,131 thousand denied 27.

The balance of unreconciled outstanding receivables in amount of RSD 1,474 thousand presented 0.00028% of total receivables of open items (IOS).

The largest amount of unmatched receivables, 52.26% relate to receivables from loans.

31. ECONOMIC ENVIRONMENT AND THE UKRAINIAN CRISIS IMPACT

Owing to the stable macroeconomic environment and successful post-pandemic recovery, Serbia managed to achieve economic growth even in the very challenging 2022. The outbreak of the war in Ukraine, which caused an energy crisis and global instability, together with an exceptionally high level of inflation, marked the previous year.

Although Serbia achieved record high growth in 2021, reaching the pre-pandemic level already in the first quarter, economic activity in 2022 slowed down significantly. After stable growth of 4% in the first half of the year, growth slowed to 1% in the third quarter, with further deceleration expected given accelerated inflation, economic slowdown of major economic partners and poor agricultural season. According to the first estimates, Serbia achieved a real GDP growth of 2.3% in 2022, as a result of the industry and service sectors growth.

After a long period of low inflation, under the combined impact of still present consequences of the pandemic, the energy crisis and the drought that hit a large part of Europe, inflation continued to rise during 2022 and reached a maximum of 15.1% at the end of the year. Like other central banks in the region and the world, the National Bank of Serbia also started a restrictive monetary policy in 2022, raising the reference interest rate from the historical minimum of 1% to the level of 5% at the end of the year, after nine consecutive hikes. In 2022, the labour market continued to record positive trends, with further employment growth, unemployment reduction and sustainable real wage growth.

Although the basic fiscal trends were favourable, unplanned high expenditures for the energy sector impacted the increase of the fiscal deficit to 3.9% of GDP from the originally planned 3% of GDP. Although it continued to grow, the public debt remained within the Maastricht criteria, below 60% of GDP. The new stand-by arrangement with the IMF, which was approved in December 2022, in addition to financial support, will enable the continuation of structural reforms, primarily in the energy sector which increased fiscal risk in 2022. The country's credit rating remained good, one notch below investment grade, which confirmed favourable medium-term growth prospects and preserved the country's economic stability.

The banking sector managed to preserve high capital adequacy, as well as relevant liquidity indicators during 2022. The banking sector credit portfolio quality has further improved, since the share of non-performing loans has been reduced to the lowest value since this indicator has been monitored (3.2%). It is expected that in the upcoming challenging period, Banca Intesa Beograd will continue to operate stably, remain highly liquid and well-capitalized.

32.EXCHANGE RATES

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

		In RSD
	2022	**2021**
EUR	117.3224	117.5821
USD	110.1515	103.9262
CHF	119.2543	113.6388
GBP	132.7026	140.2626
CAD	81.3045	81.6316
AUD	74.6183	75.4408
DKK	15.7717	15.8057
SEK	10.5087	11.4803
RUB	1.5292	1.3925

Beograd, 28. februar 2023. godine

Nevena Novaković,

Head of Accounting Departmen

Dragica Mihajlović,

CFO

Darko Popović,

CEO

33.EVENTS AFTER THE REPORTING PERIOD

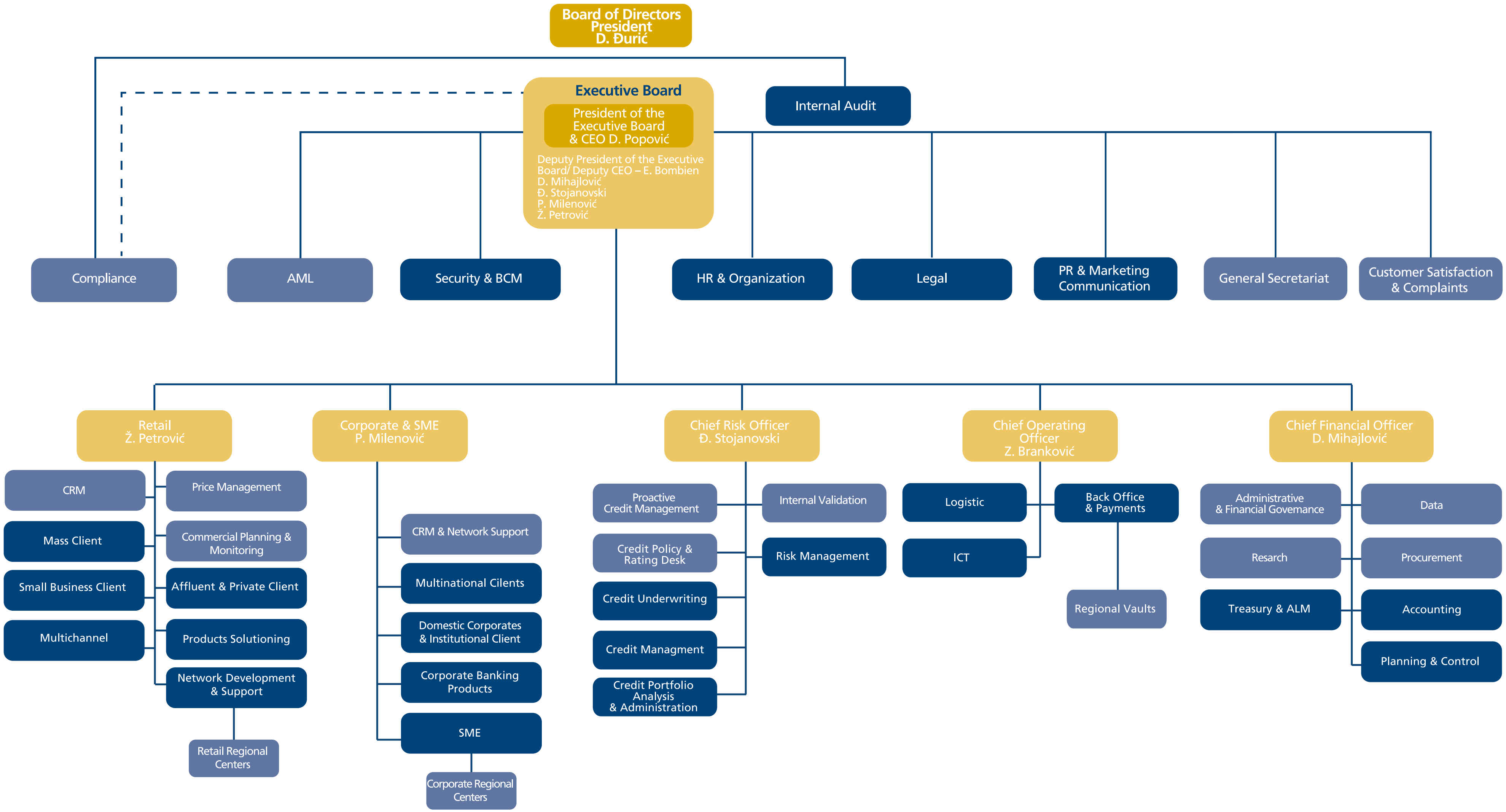
There have been no significant events after the reporting period, which would require disclosures in the Notes to the accompanying financial statements of the Bank as of and for the year ended 31 December 2022.

Beograd, 28. februar 2023. godine

Nevena Novaković,	Dragica Mihajlović,	Darko Popović,
Head of Accounting Departmen	CFO	CEO

Organisational Chart

Organisational Chart



*Responsible for area under the authority of Chief Financial Officer, Chief Risk Officer, Chief Operating Officer, and for Security and Business Continuity Management Department, as well as for Project Management in terms of strategic projects

Branch Network

Location	Name of the branch	Regional centre	Address
Ada	Ada, Vuka Karadžića 18	Novi Sad	Vuka Karadžića 18
Aleksinac	Aleksinac, Knjaza Miloša 115	Niš	Knjaza Miloša 115
Apatin	Apatin, Petefi Šandora 2	Novi Sad	Petefi Šandora 2
Arandjelovac	Aranđelovac, Knjaza Miloša 192	Kragujevac	Knjaza Miloša 192
Arilje	Arilje, Stevana Čolovića 2	Kragujevac	Stevana Čolovića 2
Bačka Palanka	Bačka Palanka, Žarka Zrenjanina 80	Novi Sad	Žarka Zrenjanina 80
Bačka Topola	Bačka Topola, Glavna 29	Novi Sad	Glavna 29
Bački Petrovac	Bački Petrovac, Maršala Tita 4	Novi Sad	Maršala Tita 4
Bajina Bašta	Bajina Bašta, Svetosavska 19a	Kragujevac	Svetosavska 19a
Batajnica	Zemun, Batajnica, Majke Jugovića 1	Beograd	Majke Jugovića 1
Bečej	Bečej, Novosadska 3	Novi Sad	Novosadska 3
Beočin	Beočin, Trg Cara Lazara 8	Novi Sad	Trg Cara Lazara 8
Beograd	Čukarica, Požeška 128	Beograd	Požeška 128
Beograd	Čukarica, Požeška 45	Beograd	Požeška 45
Beograd	Čukarica, Trgovačka 15	Beograd	Trgovačka 15
Beograd	Novi Beograd, Bulevar Arsenija Čarnojevića 54	Beograd	Bulevar Arsenija Čarnojevića 54
Beograd	Novi Beograd, Bulevar maršala Tolbuhina 34	Beograd	Bulevar maršala Tolbuhina 34
Beograd	Novi Beograd, Jurija Gagarina 14	Beograd	Jurija Gagarina 14
Beograd	Novi Beograd, Jurija Gagarina 36b	Beograd	Jurija Gagarina 36b
Beograd	Novi Beograd, Milentija Popovića 7b	Beograd	Milentija Popovića 7b
Beograd	Novi Beograd, Milentija Popovića 7v	Beograd	Milentija Popovića 7v
Beograd	Novi Beograd, Milutina Milankovića 134g	Beograd	Milutina Milankovića 134g
Beograd	Novi Beograd, Nedeljka Gvozdenovića 24a	Beograd	Nedeljka Gvozdenovića 24a
Beograd	Novi Beograd, Omladinskih brigada 90	Beograd	Omladinskih brigada 90
Beograd	Novi Beograd, Otona Župančića 1	Beograd	Otona Župančića 1
Beograd	Novi Beograd, Partizanske avijacije 14	Beograd	Partizanske avijacije 14
Beograd	Palilula, Ilije Garašanina 4	Beograd	Ilije Garašanina 4
Beograd	Palilula, Borča, Ivana Milutinovića 73	Beograd	Ivana Milutinovića 73
Beograd	Palilula, Marjane Gregoran 60	Beograd	Marjane Gregoran 60
Beograd	Rakovica, Miška Kranjca 18b	Beograd	Miška Kranjca 18b
Beograd	Rakovica, Vidikovački venac 80b	Beograd	Vidikovački venac 80b
Beograd	Rakovica, Vukasovićeva 50a	Beograd	Vukasovićeva 50a
Beograd	Savski Venac, Nemanjina 4	Beograd	Nemanjina 4
Beograd	Savski Venac, Vase Pelagića 48b	Beograd	Vase Pelagića 48b
Beograd	Stari Grad, Cara Dušana 50	Beograd	Cara Dušana 50
Beograd	Stari Grad, Džordža Vašingtona 8	Beograd	Džordža Vašingtona 8
Beograd	Stari Grad, Knez Mihailova 30	Beograd	Knez Mihailova 30
Beograd	Stari Grad, Kolarčeva 5	Beograd	Kolarčeva 5
Beograd	Stari Grad, Studentski trg 7	Beograd	Studentski trg 7
Beograd	Surčin, Vojvođanska 85	Beograd	Vojvođanska 85
Beograd	Voždovac, Banjica, Crnotravska 7-9	Beograd	Crnotravska 7-9
Beograd	Voždovac, Braće Jerković 137b	Beograd	Braće Jerković 137b
Beograd	Voždovac, Kumodraška 174	Beograd	Kumodraška 174
Beograd	Voždovac, Ustanička 69	Beograd	Ustanička 69
Beograd	Voždovac, Vojvode Stepe 77	Beograd	Vojvode Stepe 77
Beograd	Vračar, Bore Stankovića 9	Beograd	Sarajevska 31
Beograd	Vračar, Bulevar oslobođenja 3	Beograd	Bulevar oslobođenja 3

Location	Name of the branch	Regional centre	Address
Beograd	Vračar, Južni Bulevar 84	Beograd	Južni Bulevar 84
Beograd	Vračar, Kneza Miloša 23	Beograd	Kneza Miloša 23
Beograd	Zvezdara, Bulevar Kralja Aleksandra 330	Beograd	Bulevar Kralja Aleksandra 330
Beograd	Zvezdara, Bulevar Kralja Aleksandra 79	Beograd	Bulevar Kralja Aleksandra 79
Beograd	Zvezdara, Mirijevski venac 23	Beograd	Mirijevski venac 23
Bogatić	Bogatić, Vojvode Stepe 35	Kragujevac	Vojvode Stepe 35
Bor	Bor, Đorđa Vajferta 3	Niš	Đorđa Vajferta 3
Čačak	Čačak, Kuželjeva 1	Kragujevac	Kuželjeva 1
Gornji Milanovac	Gornji Milanovac, Vojvode Milana 1	Kragujevac	Vojvode Milana 1
Inđija	Inđija, Novosadska 21	Novi Sad	Novosadska 21
Ivanjica	Ivanjica, Majora Ilića 1	Kragujevac	Majora Ilića 1
Jagodina	Jagodina, Kneza Lazara 5-6	Niš	Kneza Lazara 5-6
Kanjiža	Kanjiža, Glavna 3	Novi Sad	Glavna 3
Kikinda	Kikinda, Braće Tatića 16	Novi Sad	Braće Tatića 16
Kladovo	Kladovo, 22. septembra 9	Niš	22.septembra 9
Kostolac	Kostolac, Nikole Tesle 5-7	Niš	Nikole Tesle 5-7
Kovin	Kovin, Cara Lazara 73	Novi Sad	Cara Lazara 73
Kragujevac	Kragujevac, Dr. Zorana Đinđića 11a	Kragujevac	Dr. Zorana Đinđića 11a
Kragujevac	Kragujevac, Save Kovačevića 12 b	Kragujevac	Save Kovačevića 12 b
Kraljevo	Kraljevo, Trg Jovana Sarića 8	Kragujevac	Trg Jovana Sarića 8
Kruševac	Kruševac, Vidovdanska 46	Kragujevac	Vidovdanska 46
Kruševac	Kruševac, Vidovdanska 4	Kragujevac	Vidovdanska 4
Kučevo	Kučevo, Trg Veljka Dugoševića 2	Niš	Trg Veljka Dugoševića 2
Kula	Kula, Maršala Tita 242	Novi Sad	Maršala Tita 242
Lajkovac	Lajkovac, Vojvode Mišića 84	Kragujevac	Vojvode Mišića 84
Lazarevac	Lazarevac, Karađorđeva 41	Kragujevac	Karađorđeva 41
Leskovac	Leskovac, Trg Revolucije 7	Niš	Trg Revolucije 7
Loznica	Loznica, Trg Vuka Karadžića bb	Kragujevac	Trg Vuka Karadžića bb
Ljig	Ljig, Vojvode Mišića 12	Kragujevac	Vojvode Mišića 12
Ljubovija	Ljubovija, Vojvode Mišića 44	Kragujevac	Vojvode Mišića 44
Mionica	Mionica, Dr. Jove Aleksića bb	Kragujevac	Dr. Jove Aleksića bb
Mladenovac	Mladenovac, Kralja Petra I 217	Kragujevac	Kralja Petra I 217
Negotin	Negotin, Trg Đorđa Stanojevića 70/II	Niš	Trg Đorđa Stanojevića 70/II
Niš	Niš, Bulevar Nemanjića 28-32	Niš	Bulevar Nemanjića 28-32
Niš	Niš, Milojka Lešjanina 1	Niš	Milojka Lešjanina 1
Niš	Niš, Nade Tomić 8a	Niš	Nade Tomić 8a
Niš	Niš, Obrenovićeva 82 (Fontana)	Niš	Obrenovićeva 82 (Fontana)
Niš	Niš, Sinđelićev trg 18	Niš	Sinđelićev trg 18
Niš	Niš, Vizantijski bulevar 78	Niš	Vizantijski bulevar 78
Novi Bečej	Novi Bečej, Trg Oslobođenja 5	Novi Sad	Trg Oslobođenja 5
Novi Pazar	Novi Pazar, AVNOJ-a 6	Kragujevac	AVNOJ-a 6
Novi Sad	Novi Sad, Bulevar Cara Lazara 79a	Novi Sad	Bulevar cara Lazara 79a
Novi Sad	Novi Sad, Bate Brkića 10a	Novi Sad	Bate Brkića 10a
Novi Sad	Novi Sad, Bulevar Mihajla Pupina 4	Novi Sad	Bulevar Mihaila Pupina 4
Novi Sad	Novi Sad, Bulevar Oslobođenja 8	Novi Sad	Bulevar Oslobođenja 8
Novi Sad	Novi Sad, Bulevar Oslobođenja 76a	Novi Sad	Bulevar Oslobođenja 76a
Novi Sad	Novi Sad, Fruškogorska 10	Novi Sad	Fruškogorska 10
Novi Sad	Novi Sad, Rumenačka 33	Novi Sad	Rumenačka 33
Novi Sad	Novi Sad, Zmaj Jovina 15	Novi Sad	Zmaj Jovina 15

Location	Name of the branch	Regional centre	Address
Obrenovac	Obrenovac, Miloša Obrenovića 133-135	Kragujevac	Miloša Obrenovića 133-135
Pančevo	Pančevo, Karađorđeva 2-4	Novi Sad	Karađorđeva 2-4
Pančevo	Pančevo, Miloša Crnjanskog 1	Novi Sad	Miloša Crnjanskog 1
Paraćin	Paraćin, Kralja Petra I 4	Niš	Kralja Petra I 4
Petrovac na Mlavi	Petrovac na Mlavi, Bate Bulića 37	Niš	Bate Bulića 37
Pirot	Pirot, Branka Radičevića 18	Niš	Branka Radičevića 18
Požarevac	Požarevac, Trg Radomira Vujovića 8	Niš	Trg Radomira Vujovića 8
Požega	Požega, Knjaza Miloša 6	Kragujevac	Knjaza Miloša 6
Priboj	Priboj, Nemanjina 48-50	Kragujevac	Nemanjina 48-50
Prijepolje	Prijepolje, Sandžačkih brigada 39	Kragujevac	Sandžačkih brigada 39
Prokuplje	Prokuplje, 9. oktobra 6	Niš	9. oktobra 6
Raška	Raška, Miluna Ivanovića 8	Kragujevac	Miluna Ivanovića 8
Ruma	Ruma, Glavna 170	Novi Sad	Glavna 170
Ruma	Ruma, 15. maja 143	Novi Sad	15. maja 143
Senta	Senta, Zlatne grede 6	Novi Sad	Zladne grede 6
Smederevo	Smederevo, Cvijićeva 3	Niš	Cvijićeva 3
Smederevska Palanka	Smederevska Palanka, Svetog Save 19	Kragujevac	Svetog Save 19
Sombor	Sombor, Venac Stepe Stepanovića 32	Novi Sad	Venac Stepe Stepanovića 32
Srbobran	Srbobran, Zmaj Jovina 18	Novi Sad	Zmaj Jovina 18
Sremska Mitrovica	Sremska Mitrovica, Kralja Petra I 6	Novi Sad	Kralja Petra I 6
Sremska Mitrovica	Sremska Mitrovica, Svetog Dimitrija 2	Novi Sad	Svetog Dimitrija 2
Stara Pazova	Stara Pazova, Ćirila i Metodija 2	Novi Sad	Ćirila i Metodija 2
Subotica	Subotica, Dimitrija Tucovića 2	Novi Sad	Dimitrija Tucovića 2
Subotica	Subotica, Štrosmajerova 6	Novi Sad	Štrosmajerova 6
Surdulica	Surdulica, Ulica Kralja Petra I bb	Niš	Kralja Petra I bb
Šabac	Šabac, Gospodar Jevremova 44	Kragujevac	Gospodar Jevremova 44
Šid	Šid, Karađorđeva 11-13	Novi Sad	Karađorđeva 11-13
Temerin	Temerin, Novosadska 403	Novi Sad	Novosadska 403
Titel	Titel, Mihajla Krestića 8a	Novi Sad	Mihaila Krestića 8a
Topola	Topola, Tomislava Karađorđevića 3	Kragujevac	Tomislava Karađorđevića 3
Trstenik	Trstenik, Cara Dušana bb	Kragujevac	Cara Dušana bb
Ub	Ub, Kralja Petra I 44	Kragujevac	Kralja Petra I 44
Užice	Užice, Dimitrija Tucovića 129	Kragujevac	Dimitrija Tucovića 129
Valjevo	Valjevo, Karađorđeva 71	Kragujevac	Karađorđeva 71
Valjevo	Valjevo, Železnička 7	Kragujevac	Železnička 7
Velika Plana	Velika Plana, Momira Gajića br 2	Kragujevac	Momira Gajića br 2
Veliko Gradište	Veliko Gradište, Kneza Lazara 35	Niš	Kneza Lazara 35
Veternik	Veternik, Kralja Petra I 7a	Novi Sad	Kralja Petra I 7a
Vladičin Han	Vladičin Han, Svetosavska 16a	Niš	Svetosavska 16a
Vlasotince	Vlasotince, Nemanjina 2	Niš	Nemanjina 2
Vranje	Vranje, Dr. Dimitrija Jovčića 2	Niš	Dr. Dimitrija Jovčića 2
Vrbas	Vrbas, Maršala Tita 66	Novi Sad	Maršala Tita 66
Vrnjačka Banja	Vrnjačka Banja, Kruševačka 1	Kragujevac	Kruševačka 1
Vršac	Vršac, Sterijina 19a	Novi Sad	Sterijina 19a
Zaječar	Zaječar, Nikole Pašića 70	Niš	Nikole Pašića 70
Zemun	Zemun, Glavna 30	Beograd	Glavna 30
Zemun	Zemun, Gornjogradska 38	Beograd	Gornjogradska 38
Zlatibor	Zlatibor, Kraljev trg bb	Kragujevac	Kraljev trg bb

Location	Name of the branch	Regional centre	Address
Zrenjanin	Zrenjanin, Kralja Aleksandra I Karađorđevića bb	Novi Sad	Kralja Aleksandra I Karađorđevića bb
Žabalj	Žabalj, Nikole Tesle 47	Novi Sad	Nikole Tesle 47

GALLERIE D'ITALIA.
FOUR MUSEUMS, ONE NATIONWIDE CULTURAL NETWORK.

Gallerie d'Italia enables Intesa Sanpaolo to share its artistic and architectural heritage with the general public: the art collections of the Bank, ranging from archaeological artefacts to contemporary works of art, are housed in historic buildings located in four cities, in a unique network of museums.

Gallerie d'Italia - Milano hosts, in a building of great architectural importance, a significant selection of two hundred 19th century Lombard masterpieces from art collections owned by Fondazione Cariplo and Intesa Sanpaolo, with a dedicated exhibit on 20th century Italian art.

Gallerie d'Italia - Vicenza showcases examples of 18th century art from the Veneto region, including a collection of paintings by Pietro Longhi and the extraordinary sculpture depicting *The Fall of the Rebel Angels*, with more than seventy figures carved from a single block of Carrara marble. It also holds one of the most important collections of Russian icons in the West.

Gallerie d'Italia - Napoli: the new location opened in spring 2022 through a project by Michele De Lucchi – AMDL Circle transforms the spaces of the historic monumental building of the former Banco di Napoli and expands the well-known collection of Neapolitan and southern Italian art to include masterpieces from the 17th to the 20th century, an exhibit of Attic and Magna Graecia pottery and a rich offering of modern and contemporary art.

Gallerie d'Italia - Torino: the recent architectural project designed by Michele De Lucchi - AMDL Circle transforms the spaces of Palazzo Turinetti into a place where photography and video art document and preserve images, events and reflections to promote issues related to the evolution of sustainability. Gallerie d'Italia – Torino is also home to an invaluable collection of Piedmontese works, withpaintings, sculptures, tapestries and furnishings from the 14th to the 18th centuries, including the nine large canvases produced in the second half of the 17th century for the old Oratory of the Saint Paul Company, which has since been destroyed; it also holds the Intesa Sanpaolo Publifoto Archive, which is a collection of more than seven million images from the news as well as political, cultural and social events from the 1930s to the 1980s.

Cover:

Gallerie d'Italia - Torino
Sala Turinetti
Piazza San Carlo 156, Turin
Inside the new museum complex
Project by AMDL CIRCLE and
Michele De Lucchi
Photo: DSL Studio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