PROCREDIT BANK AD BELGRADE

Financial Statements as of and for the Year Ended 31 December 2022

and

Independent Auditor's Report

CONTENT

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

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER AND THE BOARD OF DIRECTORS OF PROCREDIT BANK AD BELGRADE

Opinion

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

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

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the Annual Business Report for the year ended 31 December 2022, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER AND THE BOARD OF DIRECTORS
OF PROCREDIT BANK AD BELGRADE (Continued)

Other Information (Continued)

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER AND THE BOARD OF DIRECTORS
OF PROCREDIT BANK AD BELGRADE (Continued)

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

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

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

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

Belgrade, 10 March 2023

Ksenija Ristic Kostic
Certified Auditor

Društvo za reviziju BDO d.o.o. Beograd

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2022

In RSD thousand

	Note	2022	2021
Interest income	5.1, 7	4,880,925	4,167,303
Interest expenses	5.1, 7	(956,226)	(958,028)
Net interest income	7	**3,924,699**	**3,209,275**
Fee and commission income	5.2, 8	2,247,186	1,834,203
Fee and commission expenses	5.2, 8	(560,822)	(452,091)
Net fee and commission income	8	**1,686,364**	**1,382,112**
Net gains from changes in fair value of financial instruments	5.3, 9	155,715	64,623
Net foreign exchange losses and effects of contracted foreign currency clause	4, 10	(96,668)	(66,590)
Net losses from impairment of financial assets not measured at fair value through profit or loss	5.3, 11	(808,225)	(743,403)
Other operating income	12	111,116	81,376
TOTAL NET OPERATING INCOME		**4,973,001**	**3,927,393**
Salaries, compensations and other personal expenses	13	(1,096,846)	(994,826)
Amortization and depreciation expense	14	(197,019)	(232,259)
Other income	15	216,625	74,826
Other expenses	16	(2,488,309)	(2,211,349)
PROFIT BEFORE TAX		**1,407,452**	**563,785**
Income taxes	5.17, 17	(175,962)	(94,033)
PROFIT FOR THE YEAR		**1,231,490**	**469,752**

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

In Belgrade, 9 March 2023

Ivan Smiljkovic
Executive Board Member

Igor Anic
Executive Board Chairman

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

In RSD thousand

	Note	2022	2021
PROFIT FOR THE YEAR		**1,231,490**	**469,752**
Other comprehensive income			
Items that will not be subsequently reclassified to profit or loss:			
Increase in revaluation reserves from intangible assets and property, plant and equipment	38	147,765	-
Net valuation gains in fair value through other comprehensive income equity instruments	38	284	82
Items that will or may be subsequently reclassified to profit or loss:			
Net valuation losses in fair value through other comprehensive income on debt instruments	38	(383,466)	(16,390)
Deferred taxes related to items of other comprehensive income	17	(22,208)	(12)
Total other comprehensive loss		**(257,625)**	**(16,320)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**973,865**	**453,432**

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In Belgrade, 9 March 2023

Ivan Smiljkovic
Executive Board Member

Igor Anic
Executive Board Chairman

BALANCE SHEET
AS OF 31 DECEMBER 2022

In RSD thousand

	Note	31 December 2022	31 December 2021
ASSETS			
Cash and balances with Central Bank	5.7, 19	19,814,215	18,757,005
Derivatives	5.3, 23	5,642	699
Securities	5.3, 20	6,741,979	7,156,940
Loans and placements to banks and other financial institutions	5.3, 21	11,611,839	9,745,021
Loans and placements to customers	5.3, 22	106,913,139	116,200,545
Investments in subsidiaries	5.8, 24	127,752	127,752
Intangible assets	5.11, 25	329,363	278,156
Property, plant and equipment	5.9, 26	2,022,577	1,724,443
Investment property	5.10, 27	140,515	370,785
Current tax assets	5.17	-	33,974
Non-current assets held for sale	5.20, 28	47,370	47,370
Other assets	29	978,869	897,007
TOTAL ASSETS		**148,733,260**	**155,339,697**
LIABILITIES AND EQUITY			
Liabilities			
Derivatives	5.3, 30	581	-
Deposits and other liabilities due to banks, other financial institutions and Central Bank	5.4, 31	34,137,851	37,988,582
Deposits and other liabilities due to other customers	5.4, 32	94,219,102	96,331,145
Subordinated liabilities	33	-	1,895,568
Provisions	5.14, 34	378,583	365,659
Current tax liabilities	5.17, 35	65,913	-
Deferred tax liabilities	5.17, 36	67,284	42,543
Other liabilities	37	1,165,648	990,767
Total liabilities		**130,033,962**	**137,614,264**
Equity			
Share capital	5.18, 38	6,439,757	6,439,757
Retained earnings	5.18, 38	10,182,266	8,950,776
Reserves	5.18 38	2,077,275	2,334,900
Total equity		**18,699,298**	**17,725,433**
TOTAL LIABILITIES AND EQUITY		**148,733,260**	**155,339,697**

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

In Belgrade, 9 March 2023

Ivan Smiljkovic
Executive Board Member

Igor Anic
Executive Board Chairman

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021

In RSD thousand

	Share capital	Share premium	Reserves from profit	Revaluation reserves	Retained earnings	Total equity
Balance as of 1 January 2021	**3,663,012**	**2,776,745**	**1,643,864**	**707,356**	**8,481,024**	**17,272,001**
Positive effects of changes in value of equity instruments measured at fair value through other comprehensive income	-	-	-	82	-	82
Negative effects of changes in value of debt instruments measured at fair value through other comprehensive income	-	-	-	(16,390)	-	(16,390)
Deferred tax expense related to items of other comprehensive income	-	-	-	(12)	-	(12)
Profit for the year	-	-	-	-	469,752	469,752
Balance as of 31 December 2021	**3,663,012**	**2,776,745**	**1,643,864**	**691,036**	**8,950,776**	**17,725,433**
Balance as of 1 January 2022	**3,663,012**	**2,776,745**	**1,643,864**	**691,036**	**8,950,776**	**17,725,433**
Gain on property valuation	-	-	-	147,765	-	147,765
Positive effects of changes in value of equity instruments measured at fair value through other comprehensive income	-	-	-	284	-	284
Negatives effects of changes in value of debt instruments measured at fair value through other comprehensive income	-	-	-	(383,466)	-	(383,466)
Deferred tax expense related to items of other comprehensive income r	-	-	-	(22,208)	-	(22,208)
Profit for the year	-	-	-	-	1,231,490	1,231,490
Balance as of 31 December 2022	**3,663,012**	**2,776,745**	**1,643,864**	**433,411**	**10,182,266**	**18,699,298**

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

In Belgrade, 9 March 2023

Ivan Smiljkovic
Executive Board Member

Igor Anic
Executive Board Chairman

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022

In RSD thousand

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash flows from operating activities	**7,665,077**	**6,478,304**
Interest receipts	4,945,529	4,384,389
Fee and commission receipts	2,284,710	1,849,541
Receipts from other operating activities	434,838	244,374
Cash used in operating activities	**(5,243,888)**	**(4,827,035)**
Interest paid	(901,996)	(993,630)
Fee and commission paid	(556,968)	(448,260)
Salaries, compensations and other personal expenses	(1,093,711)	(996,436)
Taxes, contributions and other duties paid	(334,249)	(325,072)
Payments for other operating expenses	(2,356,964)	(2,063,637)
Net cash flows from operating activities before an increase/decrease in financial assets and liabilities	**2,421,189**	**1,651,269**
Decrease in financial assets and increase in financial liabilities	***6,661,023***	***3,775,391***
Decrease in loans and placements to banks, other financial institutions, central banks and customers	5,961,260	-
Decrease in receivables for securities and other financial assets not intended for investment	45,432	3,946
Increase in deposits and other financial liabilities to banks and other financial institutions, central bank and customers	654,331	3,771,445
Increase in financial assets and decrease in financial liabilities	***-***	***(4,523,925)***
Increase in loans and advances to banks, other financial institutions, central bank and customers	-	(4,521,905)
Decrease in other financial liabilities	-	(2,020)
Net cash generated from operating activities before income tax	**9,082,212**	**902,735**
Income taxes paid	(75,004)	(137,508)
Net cash flows from operating activities	***9,007,208***	***765,227***
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash flows from investing activities	**21,325**	**6,829**
Proceeds from sale of intangible assets, property, plant and equipment	21,325	6,829
Cash used in investing activities	**(221,712)**	**(1,831,725)**
Purchases of investment securities	-	(1,823,240)
Purchases of intangible assets, property, plant and equipment	(221,712)	(8,485)
Net cash used in investing activities	***(200,387)***	***(1,824,896)***
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash flows from financing activities	**6,538,695**	**11,423,884**
Proceeds from granted loans	6,538,695	11,423,884
Cash used in financing activities	**(15,037,064)**	**(9,065,685)**
Repayment of subordinated liabilities	(1,891,870)	-
Repayment of borrowings	(13,105,641)	(9,025,233)
Other outflows from financing activities	(39,553)	(40,452)
Net cash (used in)/ from financing activities	***(8,498,369)***	***2,358,199***
TOTAL CASH INFLOWS	**20,886,120**	**21,684,408**
TOTAL CASH OUTFLOWS	**(20,577,668)**	**(20,385,878)**
NET INCREASE IN CASH	**308,452**	**1,298,530**
Cash and cash equivalents at beginning of year	12,318,139	10,957,124
Foreign exchange (losses)/gains on cash and cash equivalents	(9,988)	62,485
CASH AND CASH EQUIVALENTS AT THE YEAR END (Note 44)	**12,616,603**	**12,318,139**

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

In Belgrade, 9 March 2023

Ivan Smiljkovic
Executive Board Member

Igor Anic
Executive Board Chairman

PROCREDIT BANK A.D. BELGRADE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

Contents

1. CORPORATE INFORMATION

ProCredit Bank a.d. Belgrade (hereinafter "the Bank") was established based on the Contract on Incorporation of Micro Finance Bank a.d. Belgrade concluded on 31 March 2001 among five founders - foreign financial institutions.

The Bank obtained an operational licence according to the Decision no. G. 538 passed by the National Bank of Yugoslavia on 5 April 2001. The Bank acquired the status of a legal entity after being registered with the court register of the Commercial Court in Belgrade under the number V Fi-3571- 01, dated 9 April 2001 (registration folder 3-135-00).

Pursuant to the Law on Banks, the Contract on Incorporation and Articles of Association, the Bank is registered for performing the following activities:

- Accepting all types of cash deposits;
- Granting and taking all types of loans;
- Foreign exchange operations, foreign currency operations and exchange transactions;
- Issuing securities and payment cards;
- Custody and management of assets and securities;
- Purchase and sale of securities;
- Issuing sureties, guarantees and other types of warranties;
- Payments transactions;
- Securities brokerage; and
- Purchase and collection of receivables, and provision of other financial services.

According to the Avals Decision of the National Bank of Yugoslavia No. 85/2001 of 10 April 2001, the Bank was granted a license for performing payment transactions and foreign credit transactions (the "significant authorisation").

In 2003, Micro Finance Bank a.d. Belgrade changed its name to ProCredit Bank a.d. Belgrade, which was registered with the Commercial Court's registry in Belgrade on 12 September 2003 under the number XVI-Fi-8824/03.

The Bank is a member of the ProCredit Group. ProCredit Holding AG & CO KGaA, Frankfurt, Germany owns 100% of the Bank's capital and it is the ultimate parent company of the Group.

The Bank performs its operations at its Head Office in Belgrade, situated at 17 Milutina Milankovica, and in six branches located in Belgrade, Novi Sad, Kragujevac, Nis, Subotica and Pancevo.

The Bank founded ProCredit Leasing d.o.o. Belgrade, which was registered with the Serbian Business Registers Agency in Belgrade under registration no. 1973/2005 on 17 February 2005. The Bank has 100% of equity interest in ProCredit Leasing d.o.o. Belgrade (hereinafter "Leasing").

Pursuant to the Law on Bankruptcy and Liquidation of Banks and Insurance Companies, the General Meeting of ProCredit Leasing d.o.o. passed a Decision on 1 January 2018 on Terminating Operations and Initiating a Liquidation Procedure, which was submitted to the National Bank of Serbia, as the official regulator, within the legal deadline, which consented to the initiation of the liquidation procedure. The liquidation process of ProCredit Leasing d.o.o. Belgrade commenced on 30 April 2018 and has not been finalised yet.

Since the Bank meets the requirements disclosed in Article 8 of the National Bank of Serbia's Decision on the Supervision of the Banking Group on a Consolidated Basis, the Bank does not compile consolidated financial statements as of and for the year ended 31 December 2022.

As of 31 December 20221 the Bank had 404 employees (31 December 2021: 388 employees).

The Bank's tax identification number is 100000215.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

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

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

These financial statements were prepared under the historical cost principle, except for the measurement of the following significant items of the balance sheet:

- property stated at revalued value;
- financial assets measured at fair value through other comprehensive income; and
- derivative financial instruments stated at fair value.

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

The accompanying financial statements are presented in the format prescribed under the National Bank of Serbia's Decision on the Forms and Contents of the Items in the Forms of the Financial Statements of Banks ("RS Official Gazette", No. 93/2020).

The Bank's financial statements are stated in thousands of Dinars, unless otherwise stated. The Dinar (RSD) is the functional and official reporting currency in the Republic of Serbia. All transactions in currencies that are not functional currency are considered transactions in foreign currency.

In the preparation of the accompanying financial statements, the Bank used accounting policies disclosed in Note 5.

The accounting policies and estimates adopted in the preparation of these financial statements are consistent with those followed in the preparation of the Bank's annual financial statements for the year ended 31 December 2022, except for the adopted amended IASs, IFRSs and standard interpretations presented in Note 2(a).

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

(a) New Standards, Interpretations and Amendments to Existing Standards Mandatory for the First Time for the Financial Year Beginning on 1 January 2022

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

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

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

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

(b) New Standards, Interpretations and Amendments to Existing Standards that are Not Yet Effective and Have Not Been Early Adopted by the Bank

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

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

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

3. ESTIMATES AND JUDGEMENTS

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements for the next financial year. Estimates and judgments are subject to a regular review and are based on the historical cost principle and other factors, including expectations of future events, which are deemed reasonable under the given circumstances. Actual amounts may differ from these estimates.

Estimates and assumptions that have a risk of causing material adjustments to the carrying values of assets and liabilities in the next financial year are addressed below.

Measurement of Expected Credit Losses (ECLs)

The Bank reviews its loan portfolios in order to assess impairment at least once a month. The methodology includes recognition of expected credit losses (ECL) at any time so that the amount of ECLs recognised at each reporting date reflects changes in the amount of credit risk of financial instruments.

Impairment allowances are based on ECLs related to the probability of default in the following 12-month period unless a significant increase in credit risk ensues. The necessity to make an allowance for impairment over the useful life occurs when a significant increase in credit risk is detected from the date of recognition of the exposure. The objective of the impairment request is to recognise ECLs on all financial instruments, taking into account all reasonable and available data, including those related to future periods. This model is future-oriented and changes the model of incurred losses for the recognition of credit losses, in the sense that it is no longer necessary for an unforeseen event (trigger) to take place in order for credit losses to be recognised.

Measurement of ECL is based on all reasonable and reliable data available without unnecessary costs, whereby historical and current data as well as data envisaged for the future period are also included. The average applied PD rates per level are disclosed in Note 6.1.1 - Classification of Loan Receivables and Credit Risk Provisions. Impairment losses on individually significant loans are based on an assessment of discounted future cash flows of individual loans, taking into account repayments and the realisation of assets that serve as collaterals for said loans.

Provisions

Provisions are, to a large extent, a matter of judgment, especially when it comes to litigations. The Bank estimates the probability of occurrence of an unfavourable event resulting from a past event, and if it is estimated that the event will occur with a probability greater than 50%, the Bank makes a provision in the total amount of the liability.

Fair Value of Financial Assets and Liabilities

The fair value of investments quoted on active markets is based on the current prices of supply (financial assets) or demand (financial liabilities). If a market for a financial asset is not active, the Bank determines the fair value using valuation techniques, which include recent transactions between independent parties, an analysis of discounted cash flows and other techniques used by market participants.

Valuation models reflect current market conditions on the measurement date and they do not necessarily reflect market conditions before or after the measurement date. At each reporting date, the Bank's management reviews the models to ensure that they properly reflect current market conditions, including relative market liquidity and interest margins.

3. ESTIMATES AND JUDGEMENTS (Continued)

Useful Lives of Intangible Assets and Property, Plant and Equipment

Determination of useful lives of intangible assets and property, plant and equipment (fixed assets) is based on experience with similar assets, technological development and changes affected by a large number of economic or industry factors.

The adequacy of a certain useful life is reviewed annually, or when there is an indication that there has been a significant change in the underlying factors representing the basis for the use of the useful life.

Assessment changes may result in significant changes in the present value of non-current assets and amounts that are recorded in the income statements of certain periods.

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 disclosed 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 amount, the existing value of the asset is reduced to its recoverable amount.

An impairment review requires that the management make subjective judgments cash flows, growth rates and discount rates of the cash generating units under review.

Classification of Financial Assets

The Bank assesses the business model within which assets are held. Additionally, the Bank assesses if contractual cash flows of financial assets are solely payments of principal and interest (Note 5.3).

Leases

The incremental borrowing rate used as the discount rate in the measurement of the present value of lease payments is determined by analysing internal sources of information on borrowings and it is adjusted to reflect contractual lease terms and the type of a leased asset.

The incremental borrowing rate is determined based on the financing costs of a liability of a similar duration and a similar collateral as the one envisaged by the lease contract.

Retirement Benefits

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

Were the discount rate used to differ by 1% percentage point (higher/lower) from management's estimates, the provision for retirement benefits would be by an estimated RSD 899 thousand lower or RSD 1,093 thousand higher than the provision stated in the Bank's financial statements for the year ended 31 December 2022.

4. FUNCTIONAL AND PRESENTATION CURRENCY

The items included in the Bank's financial statements are valued by using currency of the Bank's primary economic environment (functional currency). The financial statements are presented in dinars (RSD), which is the functional and presentation currency.

Transactions denominated in foreign currency are translated into Dinars at the official middle exchange rate of the National Bank of Serbia prevailing at the reporting date.

Monetary assets and liabilities denominated in foreign currency at the balance sheet date, as well as those incorporating a currency clause, are translated into Dinars at the official median exchange rates published by the National Bank of Serbia, prevailing at the reporting date.

Foreign exchange gains or losses arising upon the translation of balance sheet items denominated in foreign currencies and transactions in foreign currencies are credited or charged as appropriate, to the income statement, as foreign exchange gains or losses and effects of the contracted currency clause (Note 10).

Exchange rates of major currencies used in the translation of balance sheet items denominated in foreign currencies, established by the National Bank of Serbia, were as follows:

In RSD	31/12/2022	31/12/2021
USD	110.1515	103.9262
EUR	117.3224	117.5821
CHF	119.2543	113.6388
CNY	15.8441	16.3037
GBP	132.7026	140.2626

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1. Interest Income and Expense

Interest income and expenses for all interest-bearing financial instruments, except those classified at FVTPL, are recognised as interest income and interest expense in the income statement by applying the effective interest rate method.

The effective interest method is used for calculating the costs of the repayment of financial assets or financial liabilities, and the costs of allocation of interest income or interest expense over a certain period. The effective interest rate is a rate that accurately discounts the estimated future payments or receipts through the expected life of the financial instrument or, when appropriate, over the shorter period, to the net carrying amount of the financial asset or financial liability.

When the effective interest rate is calculated, the Bank assesses cash flows taking into account all contracted terms of the financial instrument (e.g. advance payment option), but it does not take into consideration future credit losses. The calculation includes all fees and commissions paid or received between two contracting parties, which are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees under granted loans are accrued and amortised as interest income on a straight-line basis over the term of the loan. The straight-line accrual of fees is not materially different from the application of the effective interest rate method.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.2. Fee and Commission Income and Expense

Fee and commission income and expenses are recognised on an accrual basis at the moment of service provision.

Other fees and commissions are mainly generated based on payment transactions, issuance of guarantees and letters of credit, and other services.

5.3. Financial Assets and Liabilities

Classification

The Bank classifies financial assets into one of the following categories: financial assets that are measured at amortised cost, financial assets at fair value through other comprehensive income financial assets at fair value through profit or loss. The Bank classifies a financial asset depending on a business model used to manage financial assets and characteristics of the contracted cash flows. The Bank's management classifies financial investments upon initial recognition.

The Bank classifies its financial liabilities as liabilities measured at amortised cost or liabilities at FVTPL.

Initial Recognition

All financial instruments are initially recognised at fair value including any directly attributable incremental costs of acquisition or issue for all financial assets or liabilities that are not carried at FVTPL. Financial assets and financial liabilities are recognised in the Bank's balance sheet on the date upon which the Bank becomes counterparty to the contractual provisions of a specific financial instrument.

Purchase or sale of financial assets is recognised by applying calculation on the date of settlement, i.e. the date when the asset is delivered to the other party.

Subsequent Measurement

Financial assets and financial liabilities at amortised cost are measured at amortised cost upon initial recognition by applying the effective interest rate method.

Financial assets at FVOCI, financial assets at FVTPL and financial liabilities at FVTPL are carried at fair value upon initial recognition.

The fair value of financial assets that are listed on the stock exchange is determined based on effective selling prices. If a market of a financial asset (and a market of securities not quoted on the stock exchange) is not active, the Bank determines the fair value by applying valuation techniques.

These include the use of recent transactions between independent parties, reference to other instruments that are substantially the same, a discounted cash flow analysis, and the pricing model option by maximally using market information.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.3. Financial Assets and Liabilities (Continued)

Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows of the given financial asset have expired or when the Bank transfers the financial asset via a transaction in which basically all the risks and rewards of ownership over the asset are transferred to the buyer or in which it neither transfers nor retains risks and rewards arising from ownership, but it does not retain control over the financial asset.

Upon the derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of received commissions and any potential cumulative income or expenses that were previously recognised within other comprehensive income is recognised in the income statement.

The Bank derecognises a financial liability when the contractual obligation has been is fulfilled, cancelled or expired.

Impairment of Financial Assets

The objective of the impairment request is to recognise ECLs on all financial instruments, taking into account all reasonable and available data, including those related to future periods.

Thus, the necessity of providing for expected losses over the useful life occurs when significant credit risk is detected from the date of the exposure detection.

Stages in the IFRS 9 expected loss model for impairment of financial assets correspond to the following Bank categories:

- Stage 1
- Stage 2
- Stage 3

A regular assessment of objective evidence of impairment is applicable to all balance and off- balance credit exposures regardless of their size.

The Bank recognises provisions for ECLs (Expected Credit Losses) which reflect changes in the credit quality from the initial recognition of financial assets measured at amortised cost (AC) and at FVOCI, including loans, debt securities, financial guarantee agreements and commitments for approved credit facilities.

Expected credit losses are defined as the probability-weighted estimate of credit losses that takes into account the time value of money. Subsequent to the initial recognition of financial assets included in the impairment policy, the Bank records a loss provision (provision for a financial asset) that equals 12-month ECLs arising from events that might cause the default status in the next 12 months.

Subsequently, for financial assets for which a significant increase in credit risk from initial recognition has been determined, a provision for loss (provision for a financial asset) is recognised as equal to ECLs over the useful life of the financial asset, which arise from events that might cause the default status during the expected life of the financial asset.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.3. Financial Assets and Liabilities (Continued)

Measurement of Expected Credit Losses

The measurement of ECLs is the objective (impartial) probability-weighted average estimate of credit losses that reflects the time value of money, which is determined by evaluating a number of possible outcomes. Credit loss is the difference between the cash flows that the Bank claims under the agreement and the cash flows that the Bank expects to receive (i.e., a cash shortfall) discounted by the initial effective interest rate of a particular financial instrument.

When measuring ECLs, the information on past events, current conditions and reasonable and substantiated estimates of the future situations are considered. The credit conversion factors (CCF) are applied for undrawn funds and financial guarantees in the calculation of ECLs.

ECLs are calculated for the maximum agreed period of credit risk exposure based on a specific financial instrument.

When a loan is uncollectible, it is impaired through the loan impairment account. Such loans are impaired after all necessary procedures have been completed and the amount of loss determined.

If, in the coming period, the amount of the impairment loss decreases, and the decrease can be objectively related to an event occurring after the impairment has been recognised (such as improvement of the borrower’s credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account and recognized in income statement.

Business Model

The Bank’s business model for loans and receivables from customers is based on the “hold to collect” model (hold financial assets to collect their contractual cash flows):

- The Bank's approach to banking is both simple and traditional;
- There is a clearly defined target group (SMEs);
- The Bank offers simple credit services, including loans, overdrafts, credit facilities; credit cards and documentary business facilities, and
- There is no compensation system based on performance at any level.

The business model includes key activities of simple and traditional banking, whereby the Bank specialises in satisfying the needs of SMEs, including their owners and business partners. At the same time, the Bank offers banking services to private individuals in the form of simple and easily accessible deposit facilities, thus promoting the development of a savings culture and contributing to the greater economic stability of private households.

The Bank does not offer complex financial products or asset management services, but it is rather focused on transparent and simple products sought after by small- and medium-sized enterprises and private households. Its primary source of income is interest accrued on the loan portfolio. Interest rates are transparently determined and competitive in terms of the market.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.3. Financial Assets and Liabilities (Continued)

Business Model (Continued)

The sale of portfolios does not necessarily change the business model i.e., if sales are not frequent (even if they are materially significant in terms of value) or their value is immaterial either at individual or total level (even if they are frequent). These types of sales may be:

- Regular sale for the following reasons:
  - Increased credit risk (non-performing/defaulted exposures), and
  - Other reasons - when annual sales are less than 5% of the total average annual loan portfolio, the portfolio is considered materially insignificant and does not conflict with the business model - “hold to collect” model.
- Irregular sales - as a result of a change in the business strategy:
  - Sale of a financial asset as it no longer fulfils the credit conditions provided in the Bank’s Business Strategy.

The business model is assessed on an *ad hoc* basis if there are significant changes in the business activity and/or strategy.

SPPI Test

The SPPI (*Solely Payment of Principal and Interest)* criterion is fulfilled if the contracted terms of the financial asset initiate cash flows on the indicated dates, which are solely payments of the principal and interest on the outstanding principal amount.

The principal is defined as the fair value of a financial asset during initial recording. It has been accepted that the principal can change over time if there are repayments of the principal.

Interest rate should contain only the following elements:

- Time value of money;
- Credit risk related to the outstanding principal amount;
- Other basic lending risks and costs – liquidity risk, administrative costs; and
- Profit margin.

Measuring financial assets at amortised cost is adequate only for simple cash flows with low variability, such as simple credit products, receivables and debt securities. Contracted cash flows that fulfil the SPPI criterion are in line with basic lending arrangements, i.e. Bank’s products.

The Bank performs a SPPI test at least in the following circumstances:

- Initial test;
- When introducing new loan facilities, the Bank should include an SPPI test as part of the New Risk Approval (NRA);
- When introducing a new agreement model;
- When introducing a new individual agreement;
- When introducing new provisions which are not confirmed or documented to fulfil the SPPI criterion; and
- When the Bank decides to exercise a contractual right, which may include an interest rate increase due to the deterioration of the macroeconomic market situation. The Bank should provide evidence and document that the changes which arise from exercising the said right meet the SPPI criterion.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.3. Financial Assets and Liabilities (Continued)

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.

5.3.1. Financial Assets at Amortised Cost

Financial assets at amortised cost are non-derivative financial assets with fixed or determinable payments, which are not traded on an active market.

Financial assets at amortised cost are recognised when assets are transferred to the borrower. After the initial recognition, and based on the business model solely aimed at collecting contracted cash flows and the characteristics of contracted cash flows for the purpose of solely collecting interest and principal, subsequent measurements are performed at amortised cost using the effective interest rate, less the allowance for impairment.

Amortised cost is calculated by taking into account all costs of the loan approval as well as all discounts and premiums with regard to the settlement of liabilities.

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

Financial assets are measured at FVOCI when the following conditions are met:

- The business model defines that a financial asset is to be held to collect agreed cash flows and sales, and
- Contractual cash flows are exclusively related to the collection of the principal and interest.

After the initial recognition, financial assets at FVOCI are carried at fair value.

Unrealised gains and losses on financial assets at FVOCI are recorded under revaluation reserves, until the financial asset is sold, collected or realised in some other manner, or until it is impaired.

When financial assets classified as financial assets at FVOCI are disposed or impaired, accumulated fair value adjustments recognised within equity are recorded in the income statement.

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

Financial assets that have not fulfilled the criterion to be measured at amortised cost or at FVOCI are classified as financial assets at FVTPL.

Derivative financial instruments are also classified as instruments measured at FVTPL unless they have been designated as hedging instruments. Gains and losses that arise from fair value changes of derivatives are included in net gains from changes in the fair value of financial instruments.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.4. Financial Liabilities

Deposits, borrowings and subordinated liabilities are the main sources of the Bank's financing, and are initially measured at fair value, including any directly attributable transaction costs.

Deposits, borrowings and subordinated liabilities are subsequently carried at amortised cost.

All differences between cash inflows, less transaction costs and the redemption value, are recognised in the income statement and deferred over the useful life of the financial instrument using the effective interest rate method.

5.5. Off-setting of Financial Instruments

Financial assets and liabilities are offset, and the difference between their sums is recognised in the balance sheet when there is a legal right to offset the recognised amounts and the intention to perform settlement on a net basis, or to simultaneously realise both the asset and the liability.

5.6. Sale and Repurchase Agreements

Securities purchased under a repurchase agreement (‘reverse repos’) are recognised as Loans and receivables from banks and other financial institutions.

Repo transactions are included in the position Loans and receivables from banks and other financial institutions if their maturity is less than three months from the date of purchase. The difference between the sale price and the repurchase price is treated as interest and accrued over the contract term.

5.7. Cash and Balances with Central Bank

Cash and balances with central bank are carried at amortised cost in the balance sheet and comprise balances with maturities of less than three months from the date of acquisition, including cash in the gyro account, cash in the vault and cash on hand, both in RSD and foreign currencies, the required reserve held with the National Bank of Serbia, and deposited surpluses of liquid assets with the National Bank of Serbia.

5.8. Investments in Subsidiaries

Investments in subsidiaries initially recognised at cost. Investments in subsidiaries are subsequently measured at cost, less any accumulated impairment loss.

5.9. Property Plant and Equipment

Property, plant and equipment comprise property, equipment, other fixed assets and construction in progress.

All fixed assets, except for property, are stated under historical cost convention less accumulated depreciation and total impairment losses. Historical cost includes expenses that are directly attributable to the acquisition of these items.

Property is initially recognised at cost. Subsequent to the initial recognition, property is measured at cost using the revaluation model (fair value).

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.9. Property Plant and Equipment (Continued)

Subsequent to the initial recognition of property, the recording at revalued cost, which represents its fair value on the date of revaluation, is reduced by the total subsequent accumulated depreciation. Revaluation is conducted every 5 years in order to ensure that the carrying amount does not significantly differ from the value that would be achieved if the fair value as of the balance sheet date were used. The valuation of property may be conducted by authorised appraisers only.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will also flow to the Bank, and when the value of that item can be reliably measured.

All other repairs and maintenance are charged to the income statement during the financial period in which they arise.

Depreciation is calculated on the revalued amount of the property, i.e. the cost of other fixed assets on a straight-line basis, using depreciation rates which are set to make their full depreciation over the estimated useful life. Calculation of depreciation commences in the following month after these assets have been put in use.

Applied annual depreciation rates are as follows:

Description	% for 2022	% for 2021
Commercial buildings	2.50%	2.50%
Computer equipment	20%	20%
Furniture	10%	10%
Safes	15.50%	15.50%
ATMs	14.30%	14.30%
Leasehold improvement	Based on the lease term of business premises	Based on the lease term of business premises
Right to use assets	Based on the duration of a specific right to use an asset	Based on the duration of a specific right to use an asset

Depreciation method, useful life and residual value are estimated at the end of each reporting period and adjusted as necessary.

Gains and losses arising from the disposal of assets are determined by comparing a cash inflow with the carrying amount, and are recognised in the income statement within other operating income/other expenses.

5.10. Investment Property

Investment property is property held by the owner or a lessee in order to generate rental income or increase the value of equity or both, and it is not held a) to be used for manufacturing or the procurement of goods or services or for administrative purposes; or b) to be sold in the ordinary course of business.

Investment property is recognised as assets when it is probable that the Bank will have future economic benefits from these assets and when their cost can be reliably measured.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.10. Investment Property (Continued)

Investment property is initially measured at cost. The measurement of investment property after initial recognition is done according to the cost model. After the initial recognition, investment property is stated at historical cost, less accumulated depreciation and total impairment losses.

Subsequent costs are included in the presented amount of investment property only when it is probable that the future economic benefits will flow to the Bank and when its value can be reliably measured. All other repairs and maintenance are charged to the income statement during the financial period in which they arise.

Depreciation is calculated on the cost of investment property on a straight-line basis, using depreciation rates, which are set to make their full depreciation over the estimated useful life. Calculation of depreciation commences in the following month after these assets have been put in use.

Investment property is depreciated using the straight-line method and the annual rate that the Bank applies during the depreciation of commercial buildings.

5.11. Intangible Assets

Intangible assets acquired through purchase are carried at cost, less allowance for impairment and any potential accumulated impairment losses. Intangible assets include software, licenses and other intangible assets under construction.

Acquired computer software licences are capitalised in the amount of the costs incurred to acquire and put the software into use. These costs are amortised over their estimated useful lives and the period for which the licences have been granted.

Costs associated with developing or maintaining computer software programmes are recognised as an expense when incurred. Costs that are directly associated with the identifiable and unique software products controlled by the Bank, which will probably generate economic benefits exceeding the costs longer than one year, are recognised as intangible assets.

Amortisation is calculated on the cost of an intangible asset on a straight-line basis, using amortisation rates, which are set to make their full amortisation over the estimated useful life. Calculation of amortisation of intangible assets commences in the following month after these assets have been put in use.

The estimated useful life of intangible assets is five years, the amortisation rate is 20% except for assets whose useful life is determined based on a contract, when the amortisation is done within the contracted terms.

Intangible assets also include non-amortisable software under construction since it is not in use yet.

5.12. Impairment of Non-financial Assets

Assets that are subject to depreciation/amortisation are reviewed for impairment when some events or changed circumstances indicate that the carrying value might not be recoverable.

An impairment loss is recognised in the amount by which the carrying amount of an asset exceeds its recoverable amount.

If the recoverable amount of an asset is estimated to be lower 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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.12. Impairment of Non-financial Assets (Continued)

For the purposes of assessing impairment, assets are grouped at the lowest levels at which separate identifiable cash flows (cash generating units) can be determined.

Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

5.13. Leases

When concluding a lease agreement, the Bank assesses whether it includes lease components.

An agreement is a lease agreement that includes lease elements if it cedes the right of control of using certain property during a given period in exchange for compensation, which:

1. May be identified;
2. The lessee acquires all economic benefits from the use of the identified asset; and
3. The lessee has the right to control the use of the identified asset.

The Bank appears as a lessee in lease agreements. If the value of a new identified asset in the agreement is not above EUR 5,000 or a short-term lease is in question (the lease term does not exceed 12 months), the Bank uses the possibility of the exemption for short-term leases and low-value leases, and does not recognise such agreements as leases in line with IFRS 16. Additionally, IT equipment rental agreements are not classified as leases as the value of individual new assets listed in the agreement are below EUR 5,000. The Bank assesses the term of the lease in line with its business plans in future periods for agreements that do not include an explicit lease term.

The Bank recognises lease agreements in the balance sheet as assets (right-to-use assets) and liabilities (lease liability). The initial value of the right-to-use identified lease assets is equal to the present value of future lease liabilities plus direct lease costs.

The Bank states the cost of depreciation and interest expense in the income statement, which comprise the total cost of lease. Depreciation is recognised in the income statement according to the straight-line method from the time of recognition until the end of the lease period.

For low-value lease assets and short-term leases the Bank recognises the cost of using these assets in the period when the service was provided.

Costs included in the initial recognition of lease liabilities are fixed or indexed payments (instalments), the cost of early termination if the Bank assesses that it will terminate a lease agreement prior to its expiry, the cost of exercising the agreement renewal option if the Bank estimates it will implement this option. Tax expenses, insurance and other administrative costs are not lease components and are directly charged to income statement of the period in which they are incurred.

The modification of lease agreements is a change in the contracted lease terms and conditions (e.g. an increase/a decrease in the lease scope, a change in the lease term or price, etc.). Modification may be in the form of a separate lease agreement or an amendment to an existing lease agreement. Amendments to an existing lease agreement shall be treated as a new lease in case of a significant change in the lease scope or price. If the modification is not in the form of a separate lease, the Bank will again estimate the value of the agreement with its amended terms and make a correction to the existing agreement by recognising gains or losses in the income statement.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.13. Leases (Continued)

Incremental Borrowing Rate

Based on available data, in order to determine the incremental borrowing rate, the Bank used the interest rates that apply to government bonds closest to the period of lease agreement conclusion, i.e. the period of the first adoption increased by the Bank's credit risk, with a maturity equal or closest to the lease term.

In line with the aforementioned, the Bank assesses its incremental borrowing rate as a yield rate achieved from the first issuance of treasury bonds of the Republic of Serbia, increased by the Bank's credit risk which is 1%.

Accounting Treatment

The Bank records the right to use identified lease assets under Property, plant and equipment. The initial value of the right to use assets is equal to the present value of future lease liabilities discounted by the incremental borrowing rate.

Lease liabilities are recognised under Other liabilities.

The Bank records interest expense and amortisation/depreciation charges, which constitute the total lease cost, in the income statement.

For low-value assets and short-term leases, the Bank recognises the cost of using these assets in the period when the service was provided.

5.14. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions for legal claims in court disputes are recognised 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 (Note 34).

When there is a larger number of similar liabilities, the probability that a cash outflow will be required to settle a liability is determined by considering the type of liabilities as a whole. Provisions for legal risks are recognised in the full amount if the probability of cash outflows is higher than the probability that a cash outflow will not occur.

Provisions are measured at the present value of expected expenses required to settle the liability, using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks incidental to the liability. An increase in the provision due to lapse of time is recognised as the provision cost.

As regards the provision for litigations, the Bank uses the average interest rate for the Bank loans in EUR and RSD (depending on the currency of calculation) as a discount rate, from its current price list in accordance with the average provision amount per dispute and the average estimated duration of a lawsuit. The discount is not performed for those disputes that are expected to be completed in the next accounting period.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.14. Provisions, Contingent Liabilities and Contingent Assets (Continued)

Contingent Liabilities and Contingent Assets

Contingent liabilities are not recognised in the financial statements. They are disclosed in the notes to the financial statements (Note 39), unless the possibility of an outflow of resources embodying economic benefits is remote.

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

5.15. Financial Guarantees

Financial guarantees are agreements that require that the issuer make payments in order to reimburse the holder for a loss incurred because a borrower has failed to make payments on time, and in accordance with the debt instrument terms. Financial guarantees are issued to banks, financial institutions and other bodies on behalf of customers for the purpose of collateralising loans, overdrafts and other banking services.

Financial guarantees are initially recognised within the off-balance sheet items at fair value on the date of the guarantee issuance. The guarantee liability is subsequently carried at a value higher than the initial measurement, adjusted for depreciation that is calculated for the purpose of recognising fee and commission income in the income statement generated on a straight-line basis over the guarantee term and the calculation of an allowance for impairment in line with IFRS 9.

5.16. Employee Benefits

(a) Payroll Taxes and Contributions for Social Security

Employee benefits include liabilities arising from salaries defined under the employee contract and payroll contributions. The Bank and employees pay mandatory contributions to state pension funds. These liabilities include contributions on behalf of employees and the employer in the amounts calculated using the statutory rates. Once the contributions are paid, the Bank is no longer obliged to pay them.

Contributions are recognised as employee benefit expenses when they become due. Overpaid contributions are recognised as an asset in the amount that can be refunded or in the amount by which the future payment of liabilities is reduced.

(b) Other Employee Benefits

Pursuant to the Labour Law of the Republic of Serbia, the Bank is obligated to pay retirement benefits to its employees when they retire. The entitlement to these benefits is usually conditioned by the employee’s obligation to stay at the company until the retirement age limit and the fulfilment of the minimum prescribed service. The expected costs of these benefits are accumulated over the period of employment.

The defined pension liability is estimated annually by independent, certified, actuaries using the projected credit unit method.

The present value of the liability based on the defined benefits is determined by discounting the expected future cash outflows using the interest rates of high-quality bonds that are denominated in the currency in which the retirement benefits will be paid and whose maturities approximate the maturities of the related retirement benefits.

Actuarial gains and losses, if they are material, are credited or charged to equity, whereas costs of the current work and past work and interest are charged or credited to the income statement.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.17. Corporate Income Taxes

Current Income Tax

Income tax is an amount calculated at the rate of 15% (2021: 15%) on the profit before tax, after deducting the effects of permanent differences that reduce the prescribed tax rate to the effective tax rate.

The total amount of income tax liabilities is determined by applying the statutory tax rate on the tax base stated in the tax balance sheet. Estimated monthly instalments are calculated by the Bank and paid in advance on a monthly basis.

The Corporate Income Tax Law of the Republic of Serbia does provide for the possibility that any tax losses of the current period are used to recover taxes paid within previous periods. However, losses recognised in the tax return in the current accounting period may be used to reduce the tax base of future accounting periods, but not longer than five ensuing years.

Deferred Income Tax

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is measured against the income tax rate (15%) and the law that are effective until the balance sheet date, which are expected to be applied in the period in which the deferred tax assets will be realised or the deferred tax liabilities settled.

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

The principal temporary differences arise from depreciation of property, revaluation of certain financial assets and liabilities, including derivative agreements, provisions for retirement benefits and other post-retirement employee benefits, and carry forwards of tax credits.

Deferred income tax related to re-measurement of the fair value of investments in securities at FVOCI, which are directly charged or credited to equity, is also directly charged or credited to equity and subsequently recognised with deferred profit or loss in the income statement.

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

Current and deferred taxes are recognised as income or expense and are included in net profit for the period other than those amounts that are recorded directly in equity in the current or other accounting period (Note 17).

Indirect Taxes and Contributions

Taxes and contributions that do not rely upon the operating result include property taxes, value added tax, payroll contributions on behalf of the employer, and other taxes and contributions payable in accordance with national and local tax regulations. These taxes and contributions are disclosed within Other expenses (Note 16).

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.18. Equity

The Bank's equity includes share capital, share premium, revaluation reserves, reserves of fair value and accumulated profit (Note 38).

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

5.19. Repossessed Property (Acquired following the Foreclosure on Loans)

Repossessed assets following the foreclosure on impaired loans are included in Other Assets unless otherwise stated. Such assets are held temporarily for the purpose of liquidation and carried at the cost lower than the cost or market value less the costs to sell.

Gains or losses on disposal of these assets are included under Other operating income/Other expenses.

5.20. Non-current Assets Held for Sale

In accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", the Bank classifies non-current assets as held for sale if the carrying amounts thereof can be recovered principally through a sale transaction rather than through continuing use. For this to be the case the assets must be available for immediate sale in their present condition and the sale must be highly probable.

For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset and an active program to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, there is an expectation that a sales transaction will be realised within a period of one year from the date of classification of the asset as held for sale.

Events or circumstances out of the Bank's control may cause extension of the sale completion period to a period of over one year, which does not prevent assets from being still classified as assets held for sale.

Non-current asset held for sale is initially measured at the lower of:

- the carrying value; or
- fair value less costs to sell.

The Bank does not depreciate non-current assets classified as assets held for sale.

5.21. Related Party Disclosures

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

Relations between the Bank and its related parties are regulated at contractual basis. Outstanding balances of receivables and liabilities at the reporting date, as well as transactions occurred during the reporting periods with related parties are disclosed separately in notes to the financial statements (Note 43).

6. RISK MANAGEMENT

The Bank is exposed to various types of risks in its operations. The objective of risk management is to establish an adequate system for identifying, measuring, assessing and monitoring the risks to which the Bank is exposed in its operations, as well as an appropriate response in order to pre-empt possible adverse effects on the Bank's capital or financial result.

The Executive Board of the Bank defines risk management policies and procedures, which are consistent with the common strategy and risk management policy adopted at the level of ProCredit Group, as well as with the laws and by-laws applicable in the territory of the Republic of Serbia.

The Board of Directors of the Bank approves the risk management strategy and policies, as well as the capital management strategy. The Board of Directors of the Bank reviews and evaluates said strategies and policies, as well as the adequacy and efficiency of the risk management process in the Bank.

The Executive Board implements the risk management strategy and policy in accordance with decisions passed by the Board of Directors. In addition, the Executive Board approves risk management procedures.

The risk management process is organised through a system of risk management committees, which regularly meet according to a pre-determined schedule stipulated by the operating procedures for these committees, and mandatorily attended by the members of the Bank's Executive Board. The committees are:

- Credit Risk Committee;
- Asset-Liability Committee (ALCO); and
- Operational Risk Committee.

Identifying, measuring, analysing, and reporting on the risk exposure is entrusted to a separate organisational unit of the Bank - Risk Management Department.

Types of Risk

The Bank is especially exposed to the following risks, which are inherent to its activities:

6.1. Credit risk;

6.2. Market risks:

- 6.2.1. Interest rate risk,
- 6.2.2. Foreign exchange risk, and
- 6.2.3. Fair value of financial assets and liabilities;

6.3. Liquidity risk;

6.4. Bank's risk exposure to one related party or a group of related parties;

6.5. Risk of investment in other legal entities and fixed assets;

6.6. Country risk;

6.7. Operational risk, including inadequate IT risk management and inadequate management of other technologies important for the Bank's operations; and

6.8. Capital management.

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk

In its ordinary course of business, the Bank is exposed to credit risk, which can be defined as the likelihood that a borrower will not settle their obligations to the Bank in the contracted amount and on the due date. The credit risk exposure primarily results from lending to customers.

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

- Evaluates the creditworthiness of each borrower based on their total indebtedness under loans, guarantees, and other credit products;
- Analyses risks arising from the very investment that is the subject of lending;
- Determines borrowing limits of customers based on a risk assessment;
- Increases its credit exposure only to creditworthy clients and obtains appropriate collaterals; and
- Has clearly defined loan approval policies, processes and procedures, an adequate organisational structure for credit risk management with a clear division of duties regarding the customer relations and evaluation of customers' creditworthiness.

In order to control credit risks, the Bank has adopted a prudential credit policy. Those customers to whom the loans are extended are carefully and thoroughly assessed. Decisions on granting loans to clients are made based on the borrower's repayment capacity and the corresponding collateral.

The decision on credit exposure is based on the following four criteria:

a) **Reliability, reputation and stability of client's operations**: results of a client profile analysis and how well the client mitigates operational risk, management risk, organisational risk, market risk and political and legal risk. It also includes the client's credit history with the Bank and other financial institutions, and a breakdown of used services offered by the Bank; decisions made by the client in the past and client's legal history. For exposures which require the results of the classification of risk, such results are also taken into account.
b) **Customer's ability to pay/liquidity**: the results of an evaluation conducted by Bank's competent employees on customer's ability to repay the loan.
c) **Pledge/collaterak**: structure and value that meets the Bank's requirements.
d) **Business potential**: the client's needs as a supplement to the request that is being processed and potential future collaboration with the Bank.

6.1.1 Classification of Loans and Placements and Credit Risk Provisions

The Bank has developed procedures for classification of loans and other receivables in line with the assessed level of collectability.

Internal Provisioning Policy

The Bank calculates an allowance for impairment of loans (provisions) on a monthly basis for customers for which provisions are formed at the portfolio level (group provisions) and for individual provisions – allowances for impairment that are established for an individual client.

The central element of the IFRS 9 impairment approach for the Bank is the expected credit loss (ECL) model for impairment recognition and measurement. This model requires the timely identification of ECLs in order to ensure that the amount of identified ECLs reflects changes in the credit risk of financial instruments on each reporting date.

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.1 Classification of Loans and Placements and Credit Risk Provisions (Continued)

As such, this model is based on the forward-looking approach and replaces the incurred loss model used to identify credit losses by identifying credit losses that have not been exclusively triggered yet by loss driven events.

The objective of the impairment model is to identify ECLs during the lifetime of a financial instrument considering all realistic and supporting information, including the forward-looking.

Therefore, the necessity to make a provision for ECLs over the loan useful life occurs when a significant credit risk increase has been identified since the exposure occurrence date.

The methodology for determining a significant increase in credit risk is based on comprehensive forward-looking information and historical information.

This model has three stages, which are based on changes in the credit risk exposure occurred since the date of initial recognition.

Stage 1 (12-month ECLs)	**Stage 2** (Lifetime ECLs)	**Stage 3** (Lifetime ECLs)
Usually newly disbursed exposures Exposures without any signs of a significant credit risk increase	Significant credit risk increase PAR30-90 Multiple restructurings Watch restructurings Standard restructurings	PAR90 Impaired restructured exposures Court proceedings Bankruptcy Credit fraud Risk classification 8 Other indicators

Loan portfolio management process

Performing portfolio without a significant credit risk increase since the initial recognition.	Loan portfolio with an increased credit risk since the initial recognition. It may be subject to intense monitoring depending on the risk level.	Loan portfolio where NPL management is applied, i.e. debt collection procedures.

A significant credit risk increase is typically identified during an analysis/monitoring of the client's financial position or by detecting any ad-hoc cases that indicate a risk increase. Bothe events trigger an update of customer's risk classification. On the other hand, historical data are taken into account considering that exposures are transferred to Stage 2 and Stage 3 depending on the days in default as a criterion.

This method involves a comprehensive analysis of various sources of information, including an analysis of the borrower's financial position, historical data, restructuring information and an analysis of expected macroeconomic movements (through a risk classification).

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.1 Classification of Loans and Placements and Credit Risk Provisions (Continued)

Stage 1

Stage 1 includes financial assets that have not experienced a significant increase in credit risk since the initial recognition as well as those assets that show low credit risk at the reporting date or those assets for which there are no triggers indicating a need for allocation to Stage 2 or Stage 3. Assets are allocated to Stage 1 after the initial recognition, except for POCI assets treated and reported separately within Stage 3. For assets in Stage 1 an expected credit loss arising from a possible default within a 12-month period from the reporting date (12-month ECL) is recognised as expense. For exposures with a residual maturity of less than 12 months, the applied PD reflects the residual maturity.

Credit exposures are not considered to have a low credit risk solely due to the collateral value, nor do loan agreements have low credit risk solely because they have a lower default risk than other credit services.

All exposures in this stage comprise a portfolio that does not show any signs of increased credit risk.

Stage 2

Stage 2 includes financial assets that have experienced a significant increase in credit risk since the initial recognition, but for which there is no objective evidence of impairment. This assessment is based on adequate and verifiable information. An allowance for impairment is determined in the amount equal to lifetime expected credit losses (not impaired).

Significantly increased credit risk is determined based on quantitative and qualitative information:

– Based on a comparison of the remaining lifetime PDs at the reporting date with their remaining lifetime PDs at the date of occurrence. Loss parameters are based on an internal risk classification system for exposures that can be rated. Significantly increased credit risk occurs if the difference in PDs is above the defined threshold, when the assets will be transferred from Stage 1 to Stage 2. Otherwise, the transfer from Stage 2 to Stage 1 is possible if credit risk is significantly reduced.

– When one of the following events occurs:
  - A customer is overdue more than 30 days, but less than 90 days; and
  - Standard or watch restructuring.

The lifetime ECL has to be determined once it has been transferred to Stage 2.

Stage 3

Stage 3 includes all exposures that are impaired at the reporting date. The calculation of the allowance for impairment is based on lifetime ECLs taking into account 100% of PD (lifetime ECL credit impaired).

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.1 Classification of Loans and Placements and Credit Risk Provisions (Continued)

Stage 3 (Continued)

The Stage 3 default credit exposures (default status) include all exposures where at least one of the following events has occurred:

- A client is overdue more than 90 days;
- Qualitative and quantitative criteria based on which the Bank has determined that there is a small probability that a client will repay its obligations in full without activating the collateral;
- A client is classified under the risk classification 8;
- Case(s) of impaired restructuring;
- Bankruptcy proceedings have been initiated;
- The Bank has initiated a lawsuit against a client;
- Credit fraud; and
- Other signs of impairment.

The lifetime ECL has to be determined once it has been transferred to Stage 3.

Contamination Principle

There is no direct contamination between credit services of the same client/group of related parties for the purpose of classification per stages and the formation of a provision. The contamination is applied to the client status (restructured or non-restructured) and functions at the client level through risk classification. In this regard, the contamination principle is applied to all balance sheet credit exposures and all off- balance sheet exposures to clients.

Non-financial guarantees, such as a performance bond, are treated separately because of their nature, therefore losses incurred or expected losses from this type of service do not contaminate parallel services. If a client uses multiple parallel credit services (loan instalments, an overdraft, a revolving credit, credit cards, etc.), the highest default category and the worst restructuring category will determine the client's risk classification. In addition, signs of impairment of client's balance sheet credit exposure are a trigger for re-reviewing all client's balance and off-balance sheet exposures.

The contamination principle does not apply to the Bank's receivables generated by non- lending transactions, such as account maintenance fees, other fees and commissions, etc.

Allowance for Impairment and Provision for Credit Exposures

Balance sheet credit exposure – the gross carrying amount of the sum of all disbursed loans, the withdrawn portion of an overdraft, credit facilities and credit cards of customers or a group of related parties that are in repayment on the reporting date. These are typically calculated as matured and undue principal + accrued interest + accrued default interest – non-amortised fee for the loan disbursement.

Exposures obtained in this manner, including the effect of full and partial prepayments, is the basis for the calculation of allowances for impairment (EAD).

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.1 Classification of Loans and Placements and Credit Risk Provisions (Continued)

Allowance for Impairment and Provision for Credit Exposures (Continued)

Off-balance sheet exposure – a sum of all Bank's receivables to clients or groups of related parties on the reporting date in the following categories:

a) Bank guarantees
   - Sureties and guarantees

b) Letters of credit

c) Borrowings, including contingent liabilities such as: the unused portion of the overdraft, credit facilities, credit card limits, approved but undisbursed loan tranches or other credit products. Borrowings may be:

   - Revocable and they include liabilities which meet at least the following criteria:
     - may be cancelled at any time and for any reason by the Bank without a prior notification and unconditionally (the Bank has full authority over making decisions and is not obliged to take into consideration any terms/conditions, for example, a cancellation period or penalties prior to the loan cancellation);
     - borrowing/loan agreement envisages an immediate enforceable cancellation due to the deteriorated financial position of the borrower, in which case the Bank has to actively monitor the borrower's financial position; moreover, the Bank's internal control system should promptly identify the deterioration of the borrower's creditworthiness;
   - Irrevocable and they include all borrowings that do not meet the aforesaid criteria.

The Credit Conversion Factors (CCF) that are based on the characteristics of financial services and, if applicable, on empirical data, are used to determine provisions for off-balance sheet exposures. The CCFs based on empirical data were implemented for certain financial services, while regulatory factors were applied to the rest of financial services.

Type of credit product	Credit conversion factor
Credit facility - revolving	33.32%
Undisbursed credit tranches (undrawn amounts of approved loans)	0.00%
Overdraft	76.96%
Credit cards	18.12%
Payment guarantees	100.00%
Performance guarantees	20.00%

Expected Credit Loss (ECL) - an objective and probability-weighted amount, calculated as a difference between cash flows in line with contracted terms and cash flows that the Bank expects to receive. ECL is based on reasonable and substantiated information available without unnecessary expenses or effort on the date of reporting on past events, current conditions and a forecast of future economic conditions.

ECL is calculated based on the following parameters: exposure at default (EAD), probability of default (PD) and loss given default (LGD) and it is discounted on the present value.

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.1 Classification of Loans and Placements and Credit Risk Provisions (Continued)

Allowance for Impairment and Provision for Credit Exposures (Continued)

Macroeconomic time series are used to calculate PiT forecasts of several parameters, and data are obtained from the IMF database - World Economic Outlook Database, Economist Intelligence Unit (EIU) Database and European Central Bank Database. Time series are obtained for our country based on the statistical significance of the following quantities:

- GDP growth;
- Inflation rate;
- Unemployment rate;
- Percentage changes in the interest rate;
- Percentage changes in the price of gas; and
- Percentage changes in oil prices.

These values are a direct reflection of the development of the business cycle and, as such, provide a valid potential input for PiT models. Final PiT parameters are weighted average forecast values based on various scenarios of macroeconomic factors in the future (forward-looking). In that regard, basic, optimistic and pessimistic scenarios are generated for each macroeconomic factor.

- The basic scenario is based on IMF's current forecasts.

- Pessimistic and optimistic scenarios:
  - Based on a historical distribution of changes in macroeconomic variables.
  - Scenarios are formed based on the distribution from the 25^{th} and 75^{th}.
  - Depending on the variable value, a higher (or lower) quintile can be interpreted as a pessimistic or an optimistic scenario. For example, for an inflation rate, the 75th percentile defines a pessimistic scenario, whereby the same percentile defines an optimistic scenario for GDP.

Pessimistic, basic and optimistic scenarios have the following weights: 0.4, 0.5 and 0.1, respectively.

The scenarios are generated for the observed period (usually for the current or following year) and for the coming period.

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.1 Classification of Loans and Placements and Credit Risk Provisions (Continued)

Allowance for Impairment and Provision for Credit Exposures (Continued)

The Bank assesses impairment at individual and group levels.

Individual impairment assessment (known as individual assessment) – is an individual assessment of impairment losses for individually significant exposures, which is based on pre-defined quantitative and qualitative signs of impairment. Individually significant exposures are credit exposures whose sum of the balance sheet and off-balance sheet exposures exceed EUR 150,000 at the reporting date.

The assessment is based on an estimate of expected future cash flows of credit exposures, discounted at the original effective interest rate of credit exposures in order to calculate the net present value (NPV) of expected future cash flows derived from credit exposures. The level of placement impairment is determined by comparing the present value of expected future cash flows with gross carrying amounts.

An estimate of future cash flows is based on the following assumptions:

a) Regular cash repayments by a client include the assumption that the client, either a related party and/or guarantor, will be able to repay the loan from regular operating income.

b) Cash flows from the collection through collaterals include the assumption that the client, either a related party and/or guarantor, will not be able to repay the loan in full without initiating repayment through collaterals. A collateral collection does not necessarily entail the initiation of a civil proceeding after the Bank assumes the collaterals. This assumption includes the sale of collaterals regardless of which party exercise the right to the collateral.

Various probability-weighted scenarios have been introduced to calculate expected losses. An individual assessment is conducted at least quarterly.

In case of a **group impairment assessment**, financial assets are firstly classified according to portfolio quality indicators into impairment stages. The impairment stage differs according to the degree of increase in credit risk from the moment of initial recognition. In accordance with IFRS 9, an appropriate loan loss provision (LLP) rate depends on the segment of the portfolio in which client exposure is classified (Stage 3, Stage 2 and Stage 1).

In 2022 and 2021 there were no credit-impaired financial assets, whose contractual terms and conditions were considerably modified to result in the derecognition of the original asset and the recognition of a new financial asset (POCI). In order to calculate an allowance for impairment, these assets would remain in Stage 3 for their entire lifetime, i.e. calculation of lifetime ECLs is required.

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.1 Classification of Loans and Placements and Credit Risk Provisions (Continued)

Impairment Indicators

A regular assessment of objective evidence of impairment is applied to all balance and off-balance sheet exposures regardless of their amount. Therefore, the following indicators are treated as the impairment indicators:

- Impaired restructuring,
- The Bank has initiated a legal proceeding,
- Bankruptcy proceedings have been initiated;
- Maturity overdue for 90 days;
- Credit fraud;
- All clients with small or medium credit exposures with the risk classification 8;
- Impaired credit exposure (POCI) occurred on the initial recognition; and
- Other signs of impairment.

A regular assessment of objective evidence on off-balance sheet exposures is applied regardless of their amount. The following indictors are the signs of impairment:

- In bank guarantees – if a bank guarantee is presented for payment by the bank and if the client cannot directly settle the payment; and
- In letters of credit – letters of credit are presented to the bank for payment purposes or they are protested if a client cannot directly settle the payment.

In case of individually insignificant credit exposures showing the signs of impairment, an individual impairment test is not usually conducted as operational costs do not justify a comprehensive impairment test for each of these clients. Provisions are calculated using an LGD weight determined in case of forming a group provision. The Bank can only conduct an impairment test in exceptional cases for individually insignificant credit exposures by performing an individual impairment assessment.

Write-off Policy

In principle, the Bank only writes off credit exposures for which it does not expect any further recovery. During write-off, the gross carrying value of the asset is reduced at the same time as the corresponding allowance for impairment. For all credit exposures at the time of their write-off, the provision is 100%.

Modification of Financial Assets

Modifications are defined as any change in the loan agreement terms, whereby the change affects the gross carrying amount. This impact is measured by assessing the difference between the present value of future expected cash flows after the modification and the initial cash flow prior to the modification.

The type of modification is determined by testing the net present value, i.e. by comparing the present value of discounted expected cash flows after the modification in relation to the present value of the discounted initial cash flows of loans prior to the modification. The results may lead to significant or insignificant modifications based on a significance threshold of 10%.

A classification, either significant or insignificant, will determine an accounting treatment which will then be applied to modified agreements.

Modifications below 1% are not even recognised as insignificant.

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.2 Loan Portfolio Quality

The table below presents an overview of the exposure to credit risk as of 31 December 2022 and 2021, indicating the Bank's maximum exposure to credit risk before collaterals.

In addition to credit exposures based on loans to banks and loans to clients, the table also includes: placements to the National Bank of Serbia (NBS) based on repo transactions, the NBS treasury bills, financial assets at FVOCI and off-balance sheet items that may generate credit risk for the Bank (broken down according to the items constituting the position).

Balance sheet items exposed to credit risk	Net exposure 31 December 2022	Net exposure 31 December 2021
Loans and placements for business purposes	69,177,093	75,218,471
Loans and placements for improving housing conditions and housing loans	6,146,747	5,737,082
Agricultural loans and placements	30,352,087	34,414,169
Consumer loans and placements	1,237,212	830,685
Other receivables from clients*	-	138
Loans and placements to customers	**106,913,139**	**116,200,545**
Loans and placements to banks and other financial institutions	**11,611,839**	**9,745,021**
Cash and balances with Central Bank	**19,814,215**	**18,757,005**
Securities	**6,741,979**	**7,156,940**
Other assets* **	**624,101**	**486,672**
Total balance sheet items exposed to credit risk	**145,705,273**	**152,346,183**
Off-balance sheet items exposed to credit risk**	**20,213,290**	**14,236,193**
Balance as of (balance sheet and off-balance sheet items)	**165,918,563**	**166,582,376**

* *Subsidised interest reveivable from the Development Fund of the Republic of Serbia and the Ministry of Agriculture.*

** *The structure of gross exposures of all off-balance sheet items is disclosed in Note 39.2; whereas the table above presents the amount of net exposures (a difference between gross and net exposures equals the provision for contingent liabilities in off-balance sheet items). The amount of off-balance sheet items does not include performance bonds only for 2021.*

*** *The structure of total other assets is disclosed in Note 29.*

The table above presents a total credit risk exposure scenario as of 31 December 2022 and 2021, respectively.

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.2 Loan Portfolio Quality (Continued)

The Bank further analyses a credit exposure by loans and receivables from customers since the remaining stated financial assets do not carry a significant credit risk, as it can be seen from the structure of items.

The Bank's management deems that such an exposure structure adequately illustrates the existence of credit risk exposure control:

- 64.44% of the total exposure is related to loans and receivables from customers (31 December 2021: 69.76%), which reflects the Bank's core activity.
- Unlike the table breakdown that shows total balance sheet and off-balance sheet receivables for which impairment has been calculated, observed through the share of only balance sheet receivables (which implies the balance sheet item Loans and placements to customers), 91.93% of total balance sheet placements is classified under the most favourable risk category according to the Bank's internal classification, which reflects a high degree of receivable collectability (31 December 2021: 97.08%).
- 53.24% of the gross exposure of all loans and placements to customers is collateralised with clients' deposits or mortgages on immovable property (31 December 2021: 49.70%).

The following tables present the quality of **loans and placements to customers** classified according to impairment stages as of 31 December 2022 and 2021:

31 December 2022	**Gross exposure**	**Allowance for impairment**	**Net exposure**
Stage 1	98,897,645	(611,903)	98,285,742
Stage 2	7,191,283	(178,433)	7,012,850
Stage 3	2,857,306	(1,242,759)	1,614,547
Total	**108,946,234**	**(2,033,095)**	**106,913,139**

31 December 2021	**Gross exposure**	**Allowance for impairment**	**Net exposure**
Stage 1	113,262,925	(453,452)	112,809,473
Stage 2	2,131,872	(76,543)	2,055,329
Stage 3	2,476,975	(1,141,232)	1,335,743
Total	**117,871,772**	**(1,671,227)**	**116,200,545**

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.2 Loan Portfolio Quality (Continued)

The following tables present **loans and placements to banks and other financial institutions** classified according to impairment stages as of 31 December 2022 and 2021:

31 December 2022	Gross exposure	Allowance for impairment	Net exposure
Stage 1	11,611,943	(104)	11,611,839
Stage 2	-	-	-
Stage 3	-	-	-
Total	**11,611,943**	**(104)**	**11,611,839**

31 December 2021	Gross exposure	Allowance for impairment	Net exposure
Stage 1	9,745,174	(153)	9,745,021
Stage 2	-	-	-
Stage 3	-	-	-
Total	**9,745,174**	**(153)**	**9,745,021**

The following tables present **off-balance sheet items** classified according to impairment stages as of 31 December 2022 and 2021:

31 December 2022	Gross exposure	Provision	Net exposure
Stage 1	18,668,679	(30,444)	18,638,235
Stage 2	1,551,446	(11,071)	1,540,375
Stage 3	86,379	(51,699)	34,680
Total	**20,306,504**	**(93,214)**	**20,213,290**

31 December 2021	Gross exposure	Provision	Net exposure
Stage 1	14,174,514	(19,612)	14,154,902
Stage 2	75,802	(2,444)	73,358
Stage 3	10,889	(2,956)	7,933
Total	**14,261,205**	**(25,012)**	**14,236,193**

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.2 Loan Portfolio Quality (Continued)

The following table provides movements in the allowance for impairment of **loans and placements to customers** in 2022 and 2021 according to the impairment stages:

Movements in IFRS provisions in 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance – 1 January 2022	**453,452**	**76,543**	**1,141,232**	**1,671,227**
Transfer to Stage 1	26,777	(26,665)	(112)	**-**
Transfer to Stage 2	(55,951)	67,558	(11,607)	**-**
Transfer to Stage 3	(20,454)	(112,870)	133,324	**-**
Changes in provisions due to credit risk changes	89,902	196,498	559,019	**845,419**
Allowance for impairment attributable to new loans *	135,235	-	-	**135,235**
Decrease due to collection	(14,746)	(22,631)	(120,459)	**(157,836)**
Write-offs - transfer to off-balance sheet items	-	-	(458,638)	**(458,638)**
FX differences and unwinding	(2,312)	-	-	**(2,312)**
Balance as of 31 December 2022	**611,903**	**178,433**	**1,242,759**	**2,033,095**

* *Newly approved placements are classified per stage as of 31 December 2022, not at the time of the initial approval and/or purchase.*

Movements in IFRS provisions in 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance – 1 January 2021	**428,407**	**76,910**	**605,869**	**1,111,186**
Transfer to Stage 1	44,059	(43,991)	(68)	**-**
Transfer to Stage 2	(28,711)	28,732	(21)	**-**
Transfer to Stage 3	(3,550)	(12,444)	15,994	**-**
Changes in provisions due to credit risk changes	(127,481)	35,236	729,810	**637,565**
Allowance for impairment attributable to new loans*	160,565	2,688	104,854	**268,107**
Decrease due to collection	(19,790)	(10,588)	(79,249)	**(109,627)**
Write-offs - transfer to off-balance sheet items	-	-	(235,957)	**(235,957)**
FX differences and unwinding	(47)	-	-	**(47)**
Balance as of 31 December 2021	**453,452**	**76,543**	**1,141,232**	**1,671,227**

* *Newly approved placements are classified per stage as of 31 December 2021, not at the time of the initial approval and/or purchase.*

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.2 Loan Portfolio Quality (Continued)

The following table provides movements in the allowance for impairment of **loans and placements to banks and other financial institutions** in 2022 and 2021 according to the impairment stages:

Movements in IFRS provisions in 2022	Stage 1	Stage 2	Stage 3	Total
Opening balance – 1 January 2022	**153**	**-**	**-**	**153**
Transfer to Stage 1	-	-	-	**-**
Transfer to Stage 2	-	-	-	**-**
Transfer to Stage 3	-	-	-	**-**
Changes in provisions due to measurement changes	-	-	-	**-**
Allowance for impairment attributable to new loans	331	-	-	**331**
Decrease due to collection	(277)	-	-	**(277)**
Decrease	(103)	-	-	**(103)**
FX differences	-	-	-	**-**
Balance as of 31 December 2022	**104**	**-**	**-**	**104**

* *Newly approved placements are classified per stage as of 31 December 2022, not at the time of the initial approval and/or purchase.*

Movements in IFRS provisions in 2021	Stage 1	Stage 2	Stage 3	Total
Opening balance – 1 January 2021	**109**	**-**	**-**	**109**
Transfer to Stage 1	-	-	-	**-**
Transfer to Stage 2	-	-	-	**-**
Transfer to Stage 3	-	-	-	**-**
Changes in provisions due to measurement changes	-	-	-	**-**
Allowance for impairment attributable to new loans	45	-	-	**45**
Decrease	(1)	-	-	**(1)**
FX differences	-	-	-	**-**
Balance as of 31 December 2021	**153**	**-**	**-**	**153**

* *Newly approved placements are classified per stage as of 31 December 2021, not at the time of the initial approval and/or purchase.*

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6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.2 Loan Portfolio Quality (Continued)

The following table provides movements in the **gross exposures of loans and placements to customers** through stages in 2022 and 2021:

Movements in gross exposures of loans and placements to customers in 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance – 1 January 2022	**113,262,925**	**2,131,872**	**2,476,975**	**117,871,772**
Transfer to Stage 1	1,252,588	(1,241,082)	(11,506)	**-**
Transfer to Stage 2	(10,056,122)	10,215,221	(159,099)	**-**
Transfer to Stage 3	(173,675)	(1,857,334)	2,031,009	**-**
Changes in the exposure level of existing placements	(25,481,335)	(1,219,289)	(647,199)	**(27,347,823)**
New placements	28,738,114	-	-	**28,738,114**
Collection	(8,644,850)	(838,105)	-	**(9,857,191)**
Write-offs - transfer to off-balance sheet items	-	-	(458,638)	**(458,638)**
Balance as of 31 December 2022	**98,897,645**	**7,191,283**	**2,857,306**	**108,946,234**

Movements in gross exposures of loans and placements to customers in 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance – 1 January 2021	**108,052,260**	**1,903,696**	**1,367,869**	**111,323,825**
Transfer to Stage 1	1,610,262	(1,600,278)	(9,984)	**-**
Transfer to Stage 2	(3,753,399)	3,754,843	(1,444)	**-**
Transfer to Stage 3	(938,691)	(1,205,544)	2,144,235	**-**
Changes in the exposure level of existing placements	(20,103,063)	(326,665)	(965,694)	**(21,395,422)**
New placements	39,335,037	153,690	441,494	**39,930,221**
Collection	(10,939,481)	(547,870)	(263,544)	**(11,750,895)**
Write-offs - transfer to off-balance sheet items	-	-	(235,957)	**(235,957)**
Balance as of 31 December 2021	**113,262,925**	**2,131,872**	**2,476,975**	**117,871,772**

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.2 Loan Portfolio Quality (Continued)

The following table provides the average 12-month probability of default per **gross loan portfolio segment** as of 31 December 2022 and 2021:

	One-year PD	Stage 1	Stage 2	Stage 3	Total 31 December 2022
Risk class 1-5	0.05%-5.20%	85,793,370	4,934,456	-	90,727,826
Risk class 6-7	16.84%-54.61%	23,617	2,007,199	-	2,030,816
Risk class 8	100%	-	-	2,256,062	2,256,062
No rating*	2.75%-33.55%	13,080,658	249,628	-	13,330,286
No rating*	100%	-	-	601,244	601,244
Total		**98,897,645**	**7,191,283**	**2,857,306**	**108,946,234**

* *Risk class is assigned to businesses with small and medium credit exposures over EUR 50 thousand (principal+off-balance sheet). All other exposures have no rating.*

	One-year PD	Stage 1	Stage 2	Stage 3	Total 31 December 2021
Risk class 1-5	0.74%-3.09%	100,717,462	-	-	100,717,462
Risk class 6-7	7.34%-18.90%	78,358	2,090,740	-	2,169,098
Risk class 8	100%	-	-	1,913,096	1,913,096
No rating*	1.62%-14.12%	12,467,105	41,132	-	12,508,237
No rating*	100%	-	-	563,879	563,879
Total		**113,262,925**	**2,131,872**	**2,476,975**	**117,871,772**

* *Risk class is assigned to businesses with small and medium credit exposures over EUR 50 thousand (principal+off-balance sheet). All other exposures have no rating.*

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.2 Loan Portfolio Quality (Continued)

The following table provides the average 12-month probability of default on gross exposure of **off-balance sheet items** as of 31 December 2022 and 2021:

	One-year PD	Stage 1	Stage 2	Stage 3	Total 31 December 2022
Risk class 1-5	0,05%-5,20%	17,257,737	1,319,576	-	18,577,313
Risk class 6-7	16.84%-54.61%	10,324	112,713	-	123,037
Risk class 8	100%	-	-	84,176	84,176
No rating*	2.75%-33.55%	1,400,618	119,157	-	1,519,775
No rating*	100%	-	-	2,203	2,203
Total		**18,668,679**	**1,551,446**	**86,379**	**20,306,504**

* *Risk class is assigned to businesses with small and medium credit exposures over EUR 50 thousand (principal+off-balance sheet). All other exposures have no rating.*

	One-year PD	Stage 1	Stage 2	Stage 3	Total 31 December 2021
Risk class 1-5	0.74%-3.09%	8,739,886	2,000	-	8,741,886
Risk class 6-7	7.34%	1,000	4,261	-	5,261
Risk class 8	100%	-	-	3,774	3,774
No rating*	2.52%	5,433,628	69,541	-	5,503,169
No rating*	100%	-	-	7,115	7,115
Total		**14,174,514**	**75.802**	**10.889**	**14.261.205**

* *Risk class is assigned to businesses with small and medium credit exposures over EUR 50 thousand (principal+off-balance sheet). All other exposures have no rating.*

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.2 Loan Portfolio Quality (Continued)

Analyses of **loans and placements to customers** per days in default and impairment stage as of 31 December 2022 and 2021 are presented in the tables below:

	Loan portfolio			Gross exposure
	Stage 1	Stage 2	Stage 3	31 December 2022
Undue receivables	**97,129,127**	**6,151,119**	**503,445**	**103,783,691**
Overdue receivables	**1,768,518**	**1,040,164**	**2,353,861**	**5,162,543**
01-30 days	1,768,518	786,164	294,171	2,848,853
31-60 days	-	90,372	302,364	392,736
61-90 days	-	163,628	6,104	169,732
>90 days	-	-	1,751,222	1,751,222
Total	**98,897,645**	**7,191,283**	**2,857,306**	**108,946,234**

	Loan portfolio			Gross exposure
	Stage 1	Stage 2	Stage 3	31 December 2021
Undue receivables	**111,341,214**	**1,086,337**	**603,291**	**113,030,842**
Overdue receivables	**1,921,711**	**1,045,535**	**1,873,684**	**4,840,930**
01-30 days	1,921,711	229,330	38,246	2,189,287
31-60 days	-	805,991	16,021	822,012
61-90 days	-	10,214	31,446	41,660
>90 days	-	-	1,787,971	1,787,971
Total	**113,262,925**	**2,131,872**	**2,476,975**	**117,871,772**

Loans and placements to banks and other financial institutions in the amount of RSD 11,611,943 thousand as of 31 December 2022 (31 December 2021: RSD 9,745,174 thousand) are related to undue receivables classified in Stage 1.

Out of the afore-mentioned amount, the largest portion is related to the funds held with the National Bank of Serbia in the amount of RSD 8,007,508 thousand (31 December 2021: RSD 6,599,366 thousand). The credit rating agency Fitch assigned the BB+ credit rating and Moody's assigned Ba2 to the Republic of Serbia.

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.2 Portfolio Quality (Continued)

Analyses of **off-balance sheet items** per days in default and impairment stage as of 31 December 2022 and 2021 are presented in the tables below:

	Loan portfolio			Gross
	Stage 1	**Stage 2**	**Stage 3**	**31 December 2022**
Undue receivables	**18,538,892**	**1,545,032**	**54,963**	**20,138,887**
Overdue receivables	**129,787**	**6,414**	**31,416**	**167,617**
01-30 days	129,787	6,414	-	136,201
31-60 days	-	-	201	201
61-90 days	-	-	-	-
>90 days	-	-	31,215	31,215
Total	**18,668,679**	**1,551,446**	**86,379**	**20,306,504**

	Loan portfolio			Gross
	Stage 1	**Stage 2**	**Stage 3**	**31 December 2021**
Undue receivables	**14,169,986**	**10,861**	**10,848**	**14,191,695**
Overdue receivables	**4,528**	**64,941**	**41**	**69,510**
01-30 days	4,528	62,836	1	67,365
31-60 days	-	2,105	-	2,105
61-90 days	-	-	-	-
>90 days	-	-	40	40
Total	**14,174,514**	**75,802**	**10,889**	**14,261,205**

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.2 Portfolio Quality (Continued)

Analyses of **allowance for impairment on loans and placements to customers** per days in default and impairment stage as of 31 December 2022 and 2021 are presented in the tables below:

	Allowance for impairment			Total
	Stage 1	**Stage 2**	**Stage 3**	**2022**
Undue receivables	**597,981**	**128,153**	**166,270**	**892,404**
Overdue receivables	**13,922**	**50,280**	**1,076,489**	**1,140,691**
01-30 days	13,922	29,017	95,469	138,408
31-60 days	-	7,341	199,514	206,855
61-90 days	-	13,922	2,470	16,392
>90 days	-	-	779,036	779,036
Total	**611,903**	**178,433**	**1,242,759**	**2,033,095**

	Allowance for impairment			Total
	Stage 1	**Stage 2**	**Stage 3**	**2021**
Undue receivables	**441,200**	**45,407**	**167,112**	**653,719**
Overdue receivables	**12,252**	**31,136**	**974,120**	**1,017,508**
01-30 days	12,252	7,344	13,891	33,487
31-60 days	-	23,628	6,195	29,823
61-90 days	-	164	11,231	11,395
>90 days	-	-	942,803	942,803
Total	**453,452**	**76,543**	**1,141,232**	**1,671,227**

6.1.3 Analysis of Impaired Loans

The following tables present the Bank's *impaired loan portfolio* with the corresponding allowance for impairment as of 31 December 2022 and 2021:

31 December 2022	**Gross exposure**	**Allowance for impairment**	**Net exposure**
Individually impaired	1,894,083	(714,009)	1,180,074
Group-based impaired	963,223	(528,750)	434,473
Total	**2,857,306**	**(1,242,759)**	**1,614,547**
31 December 2021			
Individually impaired	1,406,352	(593,210)	813,142
Group-based impaired	1,070,623	(548,022)	522,601
Total	**2,476,975**	**(1,141,232)**	**1,335,743**

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.3 Analysis of Impaired Loans (Continued)

Restructured Receivables

Restructuring measures include concessions granted to a client who has or will have difficulty in meeting financial obligations. Concessions are granted to the debtor on the basis of an agreement between the Bank and the client. Concessions may result in losses for the Bank and relate to any of the following procedures:

- Amendments to previous contractual terms that the debtor is deemed unable to meet due to financial difficulties that result in insufficient debt service capacity and that would not have been approved if the client had not had financial difficulties; and
- Full or partial refinancing of the debt contract, which would not have been approved if the client had no financial difficulties.

The criteria based on which the classification of restructured credit exposures is performed are explained below:

Standard restructured credit exposures are defined as credit exposures which at the moment of their restructuring meet the following criteria:

- Are rated as Distressed Restructuring with DO <=1%;
- Based on the performed assessment (including additional indicators for Unlikeliness to Pay), it was concluded that the client will be able to fulfil the obligation in full without foreclosure; and
- Are not already in default status (Level 3)/not-performing category based on any default/not-performing indicator.

The terms of the Restructured Credit Exposure Standard reflect the current economic reality and, in general, the client's satisfactory ability to repay. They aim to reduce credit risk after credit exposure restructuring, and create a basis for later returning the client's credit exposure to the regular loan portfolio.

Watch (controlled) restructured credit exposures are credit exposures that:

- were reclassified from non-performing to performing credit exposures after successful recovery. Such exposures remain in this category for the duration of the trial period, until they are reclassified to the category of non-restructured exposures.

Impaired restructured credit exposures are defined as those credit exposures that at the time of restructuring indicate serious repayment issues which will probably have an impact on credit risk.

These are credit exposures that meet any of the following criteria at the time of restructuring:

- Exposure is already in default / non-performing status due to any default indicator (Level 3) / non-performing status;
- Based on the performed assessment (including additional indicators of Unlikeliness to Pay), it is unlikely that the liability will be paid in full without the realization of collateral, due to serious repayment problems faced by the client; and
- The restructuring measure applied results in Diminished financial Obligation (DO) >1%.

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.3 Analysis of Impaired Loans (Continued)

The following tables present the classification of **restructured credit exposures**:

31 December 2022	Gross exposure	Allowance for impairment	Net exposure
Standard restructuring	882,852	(440,285)	442,567
Watch restructuring	323	(32)	291
Impaired restructured	280,655	(22,493)	258,162
Total	**1,163,830**	**(462,810)**	**701,020**

31 December 2021	Gross exposure	Allowance for impairment	Net exposure
Standard restructuring	487,927	(47,667)	440,260
Impaired restructured	455,868	(153,060)	302,808
Total	**943,795**	**(200,727)**	**743,068**

6.1.4 Analysis of Collaterals

Collaterals used by the Bank include deposits, mortgage on commercial and residential buildings, pledge on movable property, sureties of legal entities and private individuals, guarantees issued by other banks, etc. Determining the fair value of a collateral is in accordance with the applicable Bank's policy for assessing the value of a pledge (collateral).

An overview of the Bank's *loans and placements to customers*, according to collateral and impairment stage, whereby collateral is disclosed up to the gross amount of receivable as of 31 December 2022 and 2021, is provided in the following tables:

	Stage 1	Stage 2	Stage 3	Gross exposure 31 December 2022
Secured by deposit	1,242,729	101,769	759	1,345,257
Secured by guarantee	13,783,643	1,860,079	198,912	15,842,634
Secured by mortgage	52,667,417	2,421,297	1,563,837	56,652,551
Unsecured	31,203,856	2,808,138	1,093,798	35,105,792
Total	**98,897,645**	**7,191,283**	**2,857,306**	**108,946,234**

	Stage 1	Stage 2	Stage 3	Gross exposure 31 December 2021
Secured by deposit	1,662,675	64,733	4,815	1,732,223
Secured by guarantee	15,749,428	367,233	271,502	16,388,163
Secured by mortgage	54,423,680	1,111,836	1,309,059	56,844,575
Unsecured	41,427,142	588,070	891,599	42,906,811
Total	**113,262,925**	**2,131,872**	**2,476,975**	**117,871,772**

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.4 Analysis of Collaterals (Continued)

An overview of the Bank's *loans and placement to customers* according to collateral type, whereby collateral is disclosed up to the gross amount of receivable, as of 31 December 2022 and 2021, is provided in the following table:

	Gross exposure 31 December 2022	Gross exposure 31 December 2021
Business purpose loans	**70,478,579**	**77,785,605**
Secured by deposit	1,180,947	1,568,237
Secured by mortgage	30,840,318	30,732,400
Secured by guarantee	13,635,608	14,159,946
Unsecured	24,821,706	31,325,022
Home improvement and housing loans	**6,291,632**	**5,981,848**
Secured by deposit	38,648	63,066
Secured by mortgage	5,802,756	5,499,255
Unsecured	450,228	419,527
Agricultural loans	**30,779,770**	**32,985,095**
Secured by deposit	98,165	89,713
Secured by mortgage	19,907,013	20,517,540
Secured by guarantee	2,207,026	2,228,216
Unsecured	8,567,566	10,149,626
Consumer loans	**1,290,594**	**1,013,233**
Secured by deposit	27,497	11,208
Secured by mortgage	102,464	95,380
Unsecured	1,160,633	906,645
Development Fund and the Ministry of Agriculture	**105,659**	**105,991**
Unsecured	105,659	105,991
Total	**108,946,234**	**117,871,772**

An overview of ratio of the gross balance of housing loans to collateral value (LTV ratio) as of 31 December 2022 and 2021 is provided in the table below:

Housing LTV	31 December 2022	Housing LTV	31 December 2021
<50%	2,683,659	<50%	2,186,697
51%-70%	1,610,844	51%-70%	1,617,680
71%-90%	1,233,348	71%-90%	1,302,811
91%-100%	47,493	91%-100%	208,589
>100%	29,135	>100%	78,584
Total	**5,604,479**	**Total**	**5,394,361**

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.5 Structure and Diversification of Loan Portfolio

Breakdown of the Bank's loans and placements to customers per industry sector as of 31 December 2022 and 2021 is presented below:

	Loans to customers 31 December 2022	Loans to customers 31 December 2021
Agricultural	30,455,712	32,705,381
Industrial and other manufacturing	29,223,796	32,060,326
Trade	20,266,097	21,448,901
Construction	6,585,666	8,508,929
Other services	5,947,848	6,429,405
Private individuals	7,265,490	6,720,906
Transport	3,260,233	4,345,706
Tourism	3,893,454	3,973,439
Other	14,843	7,552
Total	**106,913,139**	**116,200,545**

The geographical distribution of the Bank's loans and placements to customers as of 31 December 2022 and 2021 is presented below:

	31 December 2022		31 December 2021	
	Loans to customers	Share (%)	Loans to customers	Share (%)
Belgrade region	45,638,783	42,69%	50,011,754	43,04%
Central region	10,564,476	9,88%	11,508,534	9,90%
Southern region	12,689,814	11,87%	13,649,299	11,75%
Northern region	38,020,066	35,56%	41,030,958	35,31%
Total	**106,913,139**	**100.00%**	**116,200,545**	**100.00%**

The structure of the loan portfolio is constantly monitored through meetings of the Credit Risk Committee in order to identify any form of concentration risk.

Events which may have an impact on a large segment of the portfolio, whether in terms of geographic region or industry, may result in the Bank establishing limits for certain client groups that belong to these segments exposed to this common risk factor.

6. RISK MANAGEMENT (Continued)

6.2. Market Risk

6.2.1 Interest Rate Risk

The Bank is exposed to changes in market interest rates, which have an effect on its financial position and its cash flows. As a result of these changes the interest margin may either increase or decrease. Interest rates are based on market interest rates and are regularly adjusted by the Bank. Interest rate risk management is an activity whose goal is to optimise the net interest income, while maintaining market interest rates at a constant level in accordance with the Bank's business strategy.

The Assets and Liabilities Management Committee manages maturity match of assets and liabilities based on: macroeconomic analysis and forecasting, forecasting conditions for achieving liquidity, as well as by analysing and forecasting interest rate trends on the market for various segments of assets and liabilities.

Interest rate risk is the risk that changes in market interest rates will adversely affect the Bank's economic value, interest income and possibly the Bank's capital.

The following tables summarize the effects of potential changes in interest rates on the Bank's income for the year ended December 2022 and 2021, respectively. The effects of potential changes in interest rates are based on interest-bearing assets and liabilities in the Bank's balance sheet, as well as on the position Interest bearing assets and liabilities from the Bank's sub-balance linked to the EUR and the sub-balance linked to the RSD. In comparison to the previous reporting period, there have been no changes in the methodology used to calculate the effects of changes in interest rates on income and capital.

	Effects on income (cumulative throughout a 12-month period)					
	2% increase in interest rates			2% decrease in interest rates		
	TOTAL	EUR	RSD	TOTAL	EUR	RSD
2022	**199,386**	**275,011**	**(75,625)**	**(199,386)**	**(275,011)**	**75,625**

	Effects on income (cumulative throughout a 12-month period)					
	2% increase in interest rates			2% decrease in interest rates		
	TOTAL	EUR	RSD	TOTAL	EUR	RSD
2021	**164,523**	**241,447**	**(76,924)**	**(164,523)**	**(241,447)**	**76,924**

The duration gap between interest-bearing assets and liabilities is primarily due to the overall classification of foreign exchange mandatory reserves in non-interest-bearing assets, as well as the Bank's capital in non-interest-bearing liabilities.

The Bank carefully monitors exposure to interest rate risk. As of 31 December 2022 and 2021, the Bank did not have valid agreements on swap interest rates. On the other hand, the Bank's loan portfolio includes a variable interest rate loan portfolio, linked to 3 and 6-month EURIBOR rates, which as of 31 December 2022 amounted to RSD 61,119 million (31 December 2021: RSD 52,973 million). The Bank's loan portfolio also includes a variable interest rate loan portfolio, linked to the key policy rate of the NBS and BELIBOR, which as of 31 December 2022 amounted to RSD 14.141 million (31 December 2021: RSD 17.415 million).

The Bank's exposure to interest rate risk as of 31 December 2022 and 2021 is presented in the following tables. The tables contain assets and liabilities exposed to interest rate risk by the earlier of the interest repricing date (*Repricing Date*) and the maturity date.

6. RISK MANAGEMENT (Continued)

6.2. Market Risk (Continued)

6.2.1 Interest Rate Risk (Continued)

31 December 2022	Total	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Non-interest bearing
ASSETS								
Cash and balances with Central Bank	19,814,215	-	-	-	-	-	-	19,814,215
Financial assets measured at FVOCI	6,741,979	-	-	1,151,036	418,442	4,555,065	1,707	615,729
Loans and placements to banks and other financial institutions	11,611,839	11,607,342	-	-	-	-	-	4,497
Loans and placements to customers	106,913,139	57,072,982	8,746,263	12,393,420	15,462,211	11,871,241	754,633	612,389
TOTAL ASSETS	**145,081,172**	**68,680,324**	**8,746,263**	**13,544,456**	**15,880,653**	**16,426,306**	**756,340**	**21,046,830**
Off-balance sheet items	***3,569,142***	***2,461,763***	***942,152***	-	***165,227***	-	-	-
LIABILITIES								
Deposits and other liabilities due to banks, other financial institutions and Central Bank	34,137,851	-	3,934,230	5,012,704	8,696,889	13,462,054	2,100,614	931,360
Deposits and other liabilities due to other customers	94,219,102	3,265,379	6,998,279	9,971,754	19,222,386	14,617,743	1,273,193	38,870,368
TOTAL LIABILITIES	**128,356,953**	**3,265,379**	**10,932,509**	**14,984,458**	**27,919,275**	**28,079,797**	**3,373,807**	**39,801,728**
Off-balance sheet items	***24,242,965***	***2,461,946***	***938,579***	-	***167,275***	-	-	***20,675,165***
Maturity mismatch		**65,414,945**	**(2,186,246)**	**(1,440,002)**	**(12,038,622)**	**(11,653,491)**	**(2,617,467)**	**(18,754,898)**
Cumulative gap		**65,414,945**	**63,228,699**	**61,788,697**	**49,750,075**	**38,096,584**	**35,479,117**	**16,724,219**

* *Loans and placements are stated on a net basis i.e., gross amounts less allowance for impairment. Off-balance sheet assets include derivatives, while off-balance sheet liabilities include derivatives, unused credit facilities and contingencies from guarantees.*

6. RISK MANAGEMENT (Continued)

6.2. Market Risk (Continued)

6.2.1 Interest Rate Risk (Continued)

31 December 2021	Total	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Non-interest bearing
ASSETS								
Cash and balances with Central Bank	18,757,005	-	-	-	-	-	-	18,757,005
Financial assets measured at FVOCI	7,156,940	-	-	1,172,377	-	5,735,520	1,424	247,619
Loans and placements to banks and other financial institutions	9,745,021	9,744,406	-	-	-	-	-	615
Loans and placements to customers	116,200,545	56,779,932	8,147,290	11,061,766	17,535,455	19,465,833	2,479,909	730,360
TOTAL ASSETS	**151,859,511**	**66,524,338**	**8,147,290**	**12,234,143**	**17,535,455**	**25,201,353**	**2,481,333**	**19,735,599**
Off-balance sheet items	***914,551***	*914,551*	-	-	-	-	-	-
LIABILITIES								
Deposits and other liabilities due to banks, other financial institutions and Central Bank	37,988,582	1,881,315	3,923,336	1,622,713	13,467,957	15,091,623	1,420,134	581,504
Deposits and other liabilities due to other customers	96,331,145	3,130,877	4,734,039	15,344,227	17,896,017	12,909,045	3,233,151	39,083,789
Subordinated liabilities	1,895,568	-	-	-	-	1,881,314	-	14,254
TOTAL LIABILITIES	**136,215,295**	**5,012,192**	**8,657,375**	**16,966,940**	**31,363,974**	**29,881,982**	**4,653,285**	**39,679,547**
Off-balance sheet items	***19,657,806***	*914,248*	-	-	-	-	-	*18,743,558*
Maturity mismatch		**61,512,146**	**(510,085)**	**(4,732,797)**	**(13,828,519)**	**(4,680,629)**	**(2,171,952)**	**(19,943,948)**
Cumulative gap		**61,512,146**	**61,002,061**	**56,269,264**	**42,440,745**	**37,760,116**	**35,588,164**	**15,644,216**

* *Loans and placements are stated on a net basis i.e., gross amounts less allowance for impairment. Off-balance sheet assets include derivatives, while off-balance sheet liabilities include derivatives, unused credit facilities and contingencies from guarantees.*

6. RISK MANAGEMENT (Continued)

6.2. Market Risk (Continued)

6.2.1 Interest Rate Risk (Continued)

The following tables present the impact of changes to interest rates on the Bank's net income and net impact on the economic value of the Bank's net assets by applying the standard scenario. The standard scenario implies parallel movement of the yield curve by 100bps and 200 bps.

Sensitivity of the Bank's net assets on changes in interest rates	100bp upward shock	100bp downward shock	200bp upward shock	200bp downward shock
2022				
As of 31 December 2022	99,978	(99,978)	199,956	(199,956)
Period average	25,083	(25,083)	50,166	(50,166)
Period maximum	105,060	(105,060)	210,120	(210,120)
Period minimum	(38,254)	38,254	(76,508)	76,508
2021				
As of 31 December 2021	83,403	(83,403)	166,807	(166,807)
Period average	37,335	(37,335)	74,669	(74,669)
Period maximum	95,481	(95,481)	190,961	(190,961)
Period minimum	(5,344)	5,344	(10,687)	10,687

Sensitivity of the economic value of the Bank's capital on changes in the interest rates	100bp upward shock	100bp downward shock	200bp upward shock	200bp downward shock
2022				
As of 31 December 2022	26,553	(26,553)	53,106	(53,106)
Period average	(200,744)	200,744	(401,489)	401,489
Period maximum	(369,298)	369,298	(738,596)	738,596
Period minimum	26,553	263,149	53,106	(53,106)
2021				
As of 31 December 2021	(252,358)	252,358	(504,715)	504,715
Period average	(154,613)	154,613	(309,226)	309,226
Period maximum	(252,358)	252,358	(504,715)	504,715
Period minimum	(73,780)	73,780	(147,559)	147,559

6. RISK MANAGEMENT (Continued)

6.2. Market Risk (Continued)

6.2.2 Foreign Exchange Risk - Risk from Changes in Currency Exchange Rates

Foreign exchange risk arises from the potential adverse effects of changes in the foreign exchange rates on the Bank's financial results or its capital.

The Bank manages foreign exchange risk through careful planning and evaluation of the open foreign exchange position, and its compliance with the limits prescribed by the National Bank of Serbia (the limit on the open foreign exchange position is 20% of the regulatory capital). It also manages this risk by observing the limits prescribed by the National Bank of Serbia, as well as limitations set up by the internal policies prescribed by the Board of Directors and the Assets and Liabilities Management Committee (open foreign exchange position limit of 10% of capital in total).

The Bank actively manages foreign currency risk by adjusting the foreign currency structure of its assets and liabilities. The Bank maintains its foreign exchange position by approving loans with foreign currency clauses (loans indexed in EUR) and concluding agreements on foreign exchange swaps.

The following table presents the potential effects in case of an increase or decrease in exchange rates of 1500 basis points on profit or loss and equity as of 31 December 2022 and 31 December 2021, respectively.

In comparison to the previous reporting period, there have been no changes in the methodology used to calculate the potential effects of changes in foreign exchange rates.

	Balance of the open foreign exchange position based on balance sheet items		Effect of RSD depreciation by 15%		Effect of RSD appreciation by 15%	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**
USD	18,317	16,274	2,748	2,441	(2,748)	(2,441)
EUR	410,463	166,963	61,569	25,044	(61,569)	(25,044)
CHF	(1,550)	(1,389)	(233)	(208)	233	208
GBP	(59,017)	4,396	(8,853)	659	8,853	(659)
Other currencies	7,622	11,148	1,143	804	(1,143)	(804)

During 2022, a foreign exchange risk indicator ranged within the internal and regulatory limit.

6. RISK MANAGEMENT (Continued)

6.2. Market Risk (Continued)

6.2.2 Foreign Exchange Risk - Risk from Changes in Currency Exchange Rates (Continued)

The following table presents the summarised exposure to foreign exchange risk as of 31 December 2022. The table includes assets and liabilities at their carrying values per currency.

31 December 2022	EUR (including indexing)	USD	Other currencies	RSD	Total
Cash and balances with Central Bank	10,050,053	87,253	65,110	9,611,799	19,814,215
Derivatives	-	-	-	5,642	5,642
Securities	1,707	-	-	6,740,272	6,741,979
Loans and placements to banks and other financial institutions	2,016,313	1,268,603	264,401	8,062,522	11,611,839
Loans and placements to customers	87,135,250	-	-	19,777,889	106,913,139
Investments in subsidiaries	-	-	-	127,752	127,752
Intangible assets	-	-	-	329,363	329,363
Property, plant and equipment	-	-	-	2,022,577	2,022,577
Investment property	-	-	-	140,515	140,515
Non-current assets held for sale and assets from discontinued operations	-	-	-	47,370	47,370
Other assets	894,299	11,648	-	72,922	978,869
TOTAL ASSETS	**100,097,622**	**1,367,504**	**329,511**	**46,938,623**	**148,733,260**
Derivatives	-	-	-	581	581
Deposits and other liabilities due to banks, other financial institutions and Central Bank	32,913,892	28,252	2,706	1,193,001	34,137,851
Deposits and other liabilities due to other customers	62,706,380	2,753,151	369,420	28,390,151	94,219,102
Provisions	-	-	-	378,583	378,583
Current tax liabilities	-	-	-	64,913	64,913
Deferred tax liabilities	-	-	-	67,284	67,284
Other liabilities	576,170	21,784	10,330	557,364	1,165,648
Equity	-	-	-	18,699,298	18,699,298
TOTAL LIABILITIES	**96,196,442**	**2,803,187**	**382,456**	**49,351,175**	**148,733,260**
Net spot line item	**3,901,180**	**(1,435,683)**	**(52,945)**		
Net forward line item	**(3,490,717)**	**1,454,000**	**-**		
Open FX position	**410,463**	**18,317**	**(52,945)**		

6. RISK MANAGEMENT (Continued)

6.2. Market Risk (Continued)

6.2.2 Foreign Exchange Risk - Risk from Changes in Currency Exchange Rates (Continued)

The following table presents the summarised exposure to foreign exchange risk as of 31 December 2021. The table includes assets and liabilities at their carrying values per currency.

31 December 2021	EUR (including indexing)	USD	Other currencies	RSD	Total
Cash and balances with Central Bank	10,422,911	36,309	45,262	8,252,523	18,757,005
Derivatives	-	-	-	699	699
Securities	1,424	-	-	7,155,516	7,156,940
Loans and placements to banks and other financial institutions	2,752,995	294,168	163,826	6,534,032	9,745,021
Loans and placements to customers	92,800,669	-	-	23,399,876	116,200,545
Investments in subsidiaries	-	-	-	127,752	127,752
Intangible assets	-	-	-	278,156	278,156
Property, plant and equipment	-	-	-	1,724,443	1,724,443
Investment property	-	-	-	370,785	370,785
Current tax assets		-	-	33,974	33,974
Non-current assets held for sale and assets from discontinued operations	-	-	-	47,370	47,370
Other assets	48,092	-	-	848,915	897,007
TOTAL ASSETS	**106,026,091**	**330,477**	**209,088**	**48,774,041**	**155,339,697**
Deposits and other liabilities due to banks, other financial institutions and Central Bank	37,289,101	39,102	14,338	646,041	37,988,582
Deposits and other liabilities due to other customers	65,392,783	1,179,690	176,280	29,582,392	96,331,145
Subordinated liabilities	1,895,568	-	-	-	1,895,568
Provisions	12,280	-	-	353,379	365,659
Deferred tax liabilities	-	-	-	42,543	42,543
Other liabilities	355,148	9,962	10,100	615,557	990,767
Equity	-	-	-	17,725,433	17,725,433
TOTAL LIABILITIES	**104,944,880**	**1,228,754**	**200,718**	**48,965,345**	**155,339,697**
Net spot line item	**1,080,211**	**(898,277)**	**8,370**		
Net forward line item	**(914,248)**	**914,551**	**-**		
Open FX position	**166,963**	**16,274**	**8,370**		

6. RISK MANAGEMENT (Continued)

6.2. Market Risk (Continued)

6.2.3 Fair Value of Financial Assets and Liabilities

The Bank measures fair value by means of the following fair value hierarchy reflecting the importance of the inputs used in measurement:

- Level 1: Quoted market prices (uncorrected) in active markets for identical instrument.
- Level 2: Valuation techniques based on the observable inputs that are not the quoted prices from the level 1, whether directly (as prices) or indirectly (derived from prices). This category includes instruments valued through their use: quoted prices in active markets for similar instruments; stated prices for same or similar instruments in the markets considered as less active; or other assessment techniques in which all important inputs are directly or indirectly observable from the market data.
- Level 3: Valuation techniques used for non-observable inputs. This category includes all instruments relative to which the valuation techniques include inputs not based on observable data and non-observable inputs that have a significant effect on the valuation of the instruments. This category includes instruments valued on the basis of quoted prices of similar instruments with significant non-observable adjustments or assumptions necessary to reflect the difference between the instruments.

The fair value of financial assets and financial liabilities traded in an active market is based on market prices. For all other financial instruments, the Bank determines fair value using the valuation techniques.

The following tables present *the values of financial assets and liabilities based on the fair value hierarchy* as of 31 December 2022 and 2021:

31 December 2022	**Carrying value**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Receivables arising from derivatives	5,642	5,642	-	-	5,642
Securities	6,741,979	6,741,979	6,741,979	-	-
Financial assets	**6,747,621**	**6,747,621**	**6,741,979**	**-**	**5,642**
Liabilities arising from derivatives	581	581	-	-	581
Financial liabilities	**581**	**581**	**-**	**-**	**581**

31 December 2021	**Carrying value**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Receivables arising from derivatives	699	699	-	-	699
Securities	7,156,940	7,156,940	-	7,156,940	-
Financial assets	**7,157,639**	**7,157,639**	**-**	**7,156,940**	**699**
Liabilities arising from derivatives	-	-	-	-	-
Financial liabilities	**-**	**-**	**-**	**-**	**-**

6. RISK MANAGEMENT (Continued)

6.2. Market Risk (Continued)

6.2.3 Fair Value of Financial Assets and Liabilities (Continued)

The following tables present *the carrying values and fair values of financial assets and liabilities* which are not measured at fair value as of 31 December 2022 and 2021:

31 December 2022

Financial assets	**Carrying value**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Cash and balances with Central Bank:	19,814,215	19,814,215	-	19,814,215	-
- Cash	*2,456,623*	*2,456,623*	-	*2,456,623*	-
- Cash held at Central Bank	*17,357,592*	*17,357,592*	-	*17,357,592*	-
Loans and placements to banks and other financial institutions	11,611,839	11,611,839	-	-	11,611,839
Loans and placements to customers	106,913,139	106,190,165	-	-	106,190,165
Investments in subsidiaries	127,752	127,752	-	-	127,752
Total	**138,466,945**	**137,743,971**	**-**	**19,814,215**	**117,929,756**

Financial liabilities	**Carrying value**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Deposits and other liabilities due to banks, other financial institutions and Central Bank:	34,137,851	32,776,752	-	5,899,698	26,877,054
- Liabilities to financial institutions	*28,238,153*	*26,877,054*	-	-	*26,877,054*
- Deposits and other liabilities due to banks and Central Bank	*5,899,698*	*5,899,698*	-	*5,899,698*	-
Deposits and other liabilities due to other customers:	94,219,102	93,523,952	-	-	93,523,952
- Liabilities to financial institutions	*12,441,323*	*11,627,275*	-	-	*11,627,275*
- Deposits and other liabilities due to other customers	*81,777,779*	*81,896,677*	-	-	*81,896,677*
Total	**128,356,953**	**126,300,704**	**-**	**5,899,698**	**120,401,006**

6. RISK MANAGEMENT (Continued)

6.2. Market Risk (Continued)

6.2.3 Fair Value of Financial Assets and Liabilities (Continued)

31 December 2021

Financial assets	Carrying value	Fair value	Level 1	Level 2	Level 3
Cash and balances with Central Bank:	18,757,005	18,757,005	-	18,757,005	-
- Cash	*1,848,363*	*1,848,363*	-	*1,848,363*	-
- Cash held at Central Bank	*16,908,642*	*16,908,642*	-	*16,908,642*	-
Loans and placements to banks and other financial institutions	9,745,021	9,745,021	-	-	9,745,021
Loans and placements to customers	116,200,545	119,420,263	-	-	119,420,263
Investments in subsidiaries	127,752	127,752	-	-	127,752
Total	**144,830,323**	**148,050,041**	**-**	**18,757,005**	**129,293,036**

Financial liabilities	Carrying value	Fair value	Level 1	Level 2	Level 3
Deposits and other liabilities due to banks, other financial institutions and Central Bank:	37,988,582	37,363,698	-	5,249,216	32,114,482
- Liabilities to financial institutions	*32,739,366*	*32,114,482*	-	-	*32,114,482*
- Deposits and other liabilities due to banks and Central Bank	*5,249,216*	*5,249,216*	-	*5,249,216*	-
Deposits and other liabilities due to other customers	96,331,145	95,955,086	-	-	95,955,086
- Liabilities to financial institutions	*21,470,452*	*21,191,646*	-	-	*21,191,646*
- Deposits and other liabilities due to other customers	*74,860,693*	*74,763,440*	-	-	*74,763,440*
Subordinated liabilities	1,895,568	1,895,568	-	-	1,895,568
Total	**136,215,295**	**135,214,352**	**-**	**5,249,216**	**129,965,136**

6. RISK MANAGEMENT (Continued)

6.2. Market Risk (Continued)

6.2.3 Fair Value of Financial Assets and Liabilities (Continued)

The fair value is the price that would be received for the sale of an asset or the price paid to transfer liabilities during regular transactions between market participants, on the measurement date. The fair value best reflects the current market price. The estimated fair value of financial instruments is determined by the Bank based on existing available market information, appropriate assessment methodology and the necessary judgment to interpret data in determining fair value.

Loans and Placements to Banks and Other Financial Institutions

The fair value of loans and placements to banks and other financial institutions is equal to their carrying amounts, as the maturity of these loans is up to six months considering that highly liquid, short-term financial instruments are in question.

Loans and Placements to Customers

The fair value of receivables arising from loans granted to customers is calculated based on expected cash flows using market interest rates at the balance sheet date.

Deposits and Other Liabilities due to Banks, Other Financial Institutions and Central Bank and Deposits and Other Liabilities due to Other Customers

The estimated fair value of demand deposits equals to their carrying amount.

The fair values of term deposits are calculated by discounting the cash flows on agreed dates by applying the effective interest rates for the deposits with maturity of over six months in which the current interest rates from the pricelist are not equal to the agreed interest rates for these deposits.

Borrowings include borrowing from banks and other international financial institutions. Fair value of liabilities to banks is equal to their carrying amounts, as the maturity of these loans is up to six months.

Fair value of loans from other international financial institutions is calculated for loans contracted with fixed and variable interest rates and by discounting the cash flows on agreed dates, by applying the interest rate set by ProCredit Group for Serbia (*ProCredit Group Funding Interest Rates*). The aforesaid interest rates of the Group are regularly compared with the rates in third-party transactions in order to determine their compatibility with market rates.

The fair value of subordinated liabilities is calculated using the interest rates set by ProCredit Group in the manner described in the previous paragraph.

The fair value of financial derivatives is determined using the official median exchange rates of the National Bank of Serbia, as well as the official interest rate for the given maturity of derivatives.

The fair value of investment in the subsidiary is equal to the fair value of the net assets of the subsidiary.

6. RISK MANAGEMENT (Continued)

6.3. Liquidity Risk

Liquidity risk arises from the Bank's inability to meet its due obligations, which can have an adverse effect on the Bank's financial result and its capital. The Bank manages this risk by providing an adequate and diverse structure of its funding base, which includes the following:

- Government securities;
- Customers' deposits with wide ranges of maturity;
- Money market deposits;
- Loans from foreign banks and international financial institutions;
- Subordinated loans; and
- Share capital.

The liquidity management policy is in place to secure sufficient assets for the timely payment of all liabilities at maturity dates and to satisfy clients' demands for new loans.

The Bank manages liquidity risk through the constant monitoring of the maturity mismatch and gap between assets and sources of funding, as well as by analysing expected cash flows in order to ensure that the Bank is able to meet its obligations at all times.

In addition, the Bank allocates funds into the mandatory reserve with the National Bank of Serbia in accordance with applicable legislation, which is a measure used as protection from sudden and significant withdrawal of deposits and other sources of funding.

The liquidity level is expressed through the liquidity ratio, the narrow liquidity ratio, as well as the liquidity coverage ratio (LCR).

The bank's liquidity ratio is the sum of the bank's Tier I + II liquid receivables, on the one hand, and the sum of the bank's demand liabilities or those without contractual maturity and the bank's liabilities with fixed maturity within the next month from the date of the calculation of the liquidity ratio, on the other.

The bank's narrow liquidity ratio is the sum of the bank's Tier I liquid receivables, on the one hand, and the sum of the bank's demand liabilities or those without contractual maturity and the bank's liabilities with fixed maturity within the next month from the date of the calculation of the liquidity ratio, on the other.

Tier I liquid receivables consist of cash, gyro account balances, gold and other precious metals, balances held with banks with an available credit rating of selected credit rating agencies to which a credit quality rating corresponds to a step 3 or higher, or is determined in accordance with the Decision on Capital Adequacy of Banks (investment grade); deposits held with the National Bank of Serbia; cheques and other monetary receivables in the process of realisation; irrevocable credit lines approved to the bank, shares and debt securities quoted on the stock exchange; 100% of the fair value of securities denominated in RSD, without a foreign currency clause, issued by the Republic of Serbia and whose minimum maturity is three months, i.e. 90 days, which the Bank has classified according to the business model for trading and 'hold to collect and sale.

The bank's Tier II liquid receivables are all of the bank's other receivables that mature within the following month from the date of the calculation of the liquidity ratio.

The bank's demand liabilities or those without contractual maturities are obligations of the bank, namely: 40% demand deposits by banks, 20% demand deposits from other clients, 10% savings deposits, 5% guarantees and other forms of sureties, 20% approved but unused irrevocable lines of credit. All of the bank's other liabilities that mature within the following month from the date of the calculation of the liquidity ratio represent the bank's liabilities with contractual maturity.

6. RISK MANAGEMENT (Continued)

6.3. Liquidity Risk (Continued)

The liquidity coverage ratio (LCR) is the relationship between the bank's liquidity buffer and net outflows of its liquid assets that would arise in the following 30-days from the date of calculating this ratio under assumed stress conditions.

The calculation of the elements of the aforesaid ratio is done in accordance with the requirements of the Nationa Bank of Serbia's Decision on Risk Liquidity Management by Banks ("RS Official Gazette", No. 103/2016).

The Bank's liquidity ratios in 2022 and 2021 are summarized in the following table:

	31 December	Average	Maximum	Minimum
Liquidity ratio				
2022	2.81	2.28	2.81	2.03
2021	2.35	2.28	2.46	2.05
Narrow liquidity ratio				
2022	2.63	2.03	2.63	1.74
2021	2.10	1.99	2.17	1.72
LCR (%)				
2022	256	172	256	144
2021	171	159	194	139

As part of managing liquidity risks that arise from financial obligations, the Bank has liquidity reserves in the form of cash and cash equivalents, such as debt securities issued by the state, which can be easily sold in line with liquidity needs.

The Bank also has liquidity reserves in the form of approved, but unwithdrawn credit lines and the aforementioned liquidity reserve as of 31 December 2022 amounted to RSD 1,173 million = EUR 10 million (31 December 2021: RSD 1,175 million).

6. RISK MANAGEMENT (Continued)

6.3. Liquidity Risk (Continued)

The following table presents the breakdown of *total liquidity reserves* of the Bank as of **31 December 2022**, presented by the corresponding EDP parts:

	Carrying amount / fair value	Available amount
Exposure to central banks - Loans and placements to banks and other financial institutions (part 0005)	8,083,844	8,083,844
Exposure to the Republic of Serbia - Securities (part 0004); Loans and placements to customers (part 0006)	6,740,272	6,740,272
Banknotes and coins - Cash and balances with Central Bank (part 0001)	2,455,220	2,455,220
Reserves held with the National Bank of Serbia (above the required amount for the period) - Cash and balances with Central Bank (part 0001)	2,236,854	2,236,854
Stand-by-line (credit line) - Off-balance sheet items	1,173,224	1,173,224
Total	**20,689,414**	**20,689,414**

The following table presents the breakdown of *total liquidity reserves* of the Bank as of **31 December 2021**:

	Carrying amount / fair value	Available amount
Exposure to central banks - Loans and placements to banks and other financial institutions (part 0005)	6,604,706	6,604,706
Exposure to the Republic of Serbia - Securities (part 0004); Loans and placements to customers (part 0006)	7,293,572	7,293,572
Banknotes and coins - Cash and balances with Central Bank (part 0001)	1,858,711	1,858,711
Reserves held with the National Bank of Serbia (above the required amount for the period) - Cash and balances with Central Bank (part 0001)	556,042	556,042
Stand-by-line (credit line) - Off-balance sheet items	1,175,821	1,175,821
Total	**17,488,852**	**17,488,852**

6. RISK MANAGEMENT (Continued)

6.3. Liquidity Risk (Continued)

The following tables summarize financial assets and liabilities allocated according to maturity into appropriate time buckets according to the remaining contractual maturity at the reporting date. The largest maturity mismatch in the period of one month arises from the fact that the Bank's current accounts (which form a significant portion of the deposit portfolio) are allocated to the ‘up to one month’ bucket.

31 December 2022	Total	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years
ASSETS							
Cash and balances with Central Bank	19,814,215	19,814,215	-	-	-	-	-
Financial assets measured at FVOCI	6,741,979	400,341	-	1,191,515	433,158	4,715,258	1,707
Loans and placements to banks and other financial institutions	11,611,839	11,611,839	-	-	-	-	-
Loans and placements to customers	106,913,139	4,552,423	8,690,797	11,457,784	22,377,623	44,177,503	15,657,009
TOTAL ASSETS	**145,081,172**	**36,378,818**	**8,690,797**	**12,649,299**	**22,810,781**	**48,892,761**	**15,658,716**
Off-balance sheet items*	***3,569,142***	*2,461,763*	*942,152*	-	*165,227*	-	-
LIABILITIES							
Deposits and other liabilities due to banks, other financial institutions and Central Bank	34,137,851	931,355	3,934,230	5,012,704	8,696,889	13,462,059	2,100,614
Deposits and other liabilities due to other customers	94,219,102	42,135,747	6,998,279	9,971,754	19,222,386	14,617,743	1,273,193
TOTAL LIABILITIES	**128,356,953**	**43,067,102**	**10,932,509**	**14,984,458**	**27,919,275**	**28,079,802**	**3,373,807**
Off-balance sheet items*	***24,242,965***	*4,529,463*	*3,462,704*	*2,980,732*	*4,141,585*	-	-
Maturity mismatch (other assets and liabilities excluded)		**(6,688,284)**	**(2,241,712)**	**(2,335,159)**	**(5,108,494)**	**20,812,959**	**12,284,909**
Cumulative gap (other assets and liabilities excluded)		**(6,688,284)**	**(8,929,996)**	**(11.265.155)**	**(16.373.649)**	**4.439.310**	**16.724.219**

* *Loans and placements are shown on a net basis i.e., gross amounts less allowance for impairment.*

** *Off-balance sheet assets include derivatives, while off-balance sheet liabilities include derivatives, unused credit facilities and contingencies from guarantees, which are not fully allocated by maturity buckets for these purposes in accordance with the Bank’s policy.*

6. RISK MANAGEMENT (Continued)

6.3. Liquidity Risk (Continued)

31 December 2021	Total	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years
ASSETS							
Cash and balances with Central Bank	18,757,005	18,757,005	-	-	-	-	-
Financial assets measured at FVOCI	7,156,940	-	-	-	1,214,402	5,941,114	1,424
Loans and placements to banks and other financial institutions	9,745,021	9,745,021	-	-	-	-	-
Loans and placements to customers	116,200,545	4,044,348	7,554,956	10,730,735	24,746,449	52,938,995	16,185,062
TOTAL ASSETS	**151,859,511**	**32,546,374**	**7,554,956**	**10,730,735**	**25,960,851**	**58,880,109**	**16,186,486**
Off-balance sheet items**	***914,551***	*914,551*	-	-	-	-	-
LIABILITIES							
Deposits and other liabilities due to banks, other financial institutions and Central Bank	37,988,582	2,462,819	3,923,336	1,622,713	13,467,957	15,091,623	1,420,134
Deposits and other liabilities due to other customers	96,331,145	42,214,666	4,734,039	15,344,227	17,896,017	12,909,045	3,233,151
Subordinated liabilities	1,895,568	14,254	-	-	-	1,881,314	-
TOTAL LIABILITIES	**136,215,295**	**44,691,739**	**8,657,375**	**16,966,940**	**31,363,974**	**29,881,982**	**4,653,285**
Off-balance sheet items**	***19,657,806***	*2,788,603*	*2,442,461*	*3,010,566*	*4,014,088*	-	-
Maturity mismatch (other assets and liabilities excluded)		**(12,145,365)**	**(1,102,419)**	**(6,236,205)**	**(5,403,123)**	**28,998,127**	**11,533,201**
Cumulative gap (other assets and liabilities excluded)		**(12,145,365)**	**(13,247,784)**	**(19,483,989)**	**(24,887,112)**	**4,111,015**	**15,644,216**

* *Loans and placements are shown on a net basis i.e., gross amounts less allowance for impairment.*

** *Off-balance sheet assets include derivatives, while off-balance sheet liabilities include derivatives, unused credit facilities and contingencies from guarantees, which are not fully allocated by maturity buckets for these purposes in accordance with the Bank's policy.*

6. RISK MANAGEMENT (Continued)

6.3. Liquidity Risk (Continued)

The Bank defines gap limits per currencies (RSD and EUR, as well as in total amounts) in buckets up to 90 days, given the conservativeness of the assumptions applied in allocating time buckets as defined by the Bank's Risk Management Strategy and other respective policies, and in line with this definition, initiates measures in case a negative gap should arise.

Furthermore, the Bank's ALCO is familiar with the gaps which are regularly considered together with the options available in order to make the necessary timely decisions.

The following table presents the carrying amount of *non-derivative financial assets and financial liabilities* expected to be settled within **the 12-month period** following the reporting date.

	2022	2021
ASSETS		
Cash and balances with Central Bank	19,814,215	18,757,005
Financial assets measured at FVOCI	2,025,014	1,214,402
Loans and placements to banks and other financial institutions	11,611,839	9,745,021
Loans and placements to customers	47,078,627	47,076,488
LIABILITIES		
Deposits and other liabilities due to banks, other financial institutions and Central Bank	18,575,178	21,476,825
Deposits and other liabilities due to other customers	78,328,166	80,188,949
Subordinated liabilities	-	14,254

The following table presents the carrying amount of *non-derivative financial assets and financial liabilities* expected to be settled within the **period exceeding 12 months** following the reporting date.

	2022	2021
ASSETS		
Financial assets measured at FVOCI	4,716,965	5,942,538
Loans and placements to customers	59,834,512	69,124,057
LIABILITIES		
Deposits and other liabilities due to banks, other financial institutions and Central Bank	15,562,673	16,511,757
Deposits and other liabilities due to other customers	15,890,936	16,142,196
Subordinated liabilities	-	1,881,314

The Bank does not engage in speculative transactions - transactions of purchase or the sale of securities or currencies whose main objective is to maximise profits on the expected movement of their prices. Agreements on the sale of securities and currencies are concluded only with the aim of closing the liquidity position, i.e. reducing exposure to financial and market risks.

At the end of 2022, the Bank had exposures arising from swap and spot transactions that had no significant impact on the overall liquidity of the Bank.

6. RISK MANAGEMENT (Continued)

6.3. Liquidity Risk (Continued)

The following tables present derivatives at fair value, which the Bank had as of 31 December 2022 and 2021:

31 December 2022	Total	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years
ASSETS - SWAP	**3,650**	787	1,115	-	1,748	-	-
LIABILITIES -SWAP	**347**	347	-	-	-	-	-

31 December 2021	Total	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years
ASSETS - SWAP	**699**	699	-	-	-	-	-
LIABILITIES -SWAP	**-**	-	-	-	-	-	-

6.4. Exposure Risks

The Bank's exposure risks are monitored at the individual entity level, as well as at the group level of related entities in accordance with the Bank's procedures and regulations of the National Bank of Serbia (NBS).

The credit risk management policy defines the assessment of the Bank's exposure to a single entity or a group of related parties and to a person related to the Bank.

The policy is a set of all activities related to identifying, measuring and assessing this risk, defining clear guidelines for finding and understanding the forms of connection, determining the responsibility of persons in charge of collecting documentation relevant for identifying forms of connection, in order to comply with defined limits and legislation.

The management of the Bank's risk exposure to a single entity, a group of related entities, as well as to a person related to the Bank is controlled during the approval process and through the usage of the Bank's placements in the Credit Risk Department, in accordance with the adopted/prescribed exposure limits in such a manner that:

- The Bank's exposure to a single entity or a group of related parties is maximum 25% of the Bank's regulatory capital; and
- The sum of all large exposures of the Bank and the Bank's exposure to entities related to the Bank does not exceed 400% of the Bank's regulatory capital.

The Bank controls its exposure risks by establishing exposure limits that enable it to diversify its loan portfolio, as well as by using material and non-material credit protection instruments, in accordance with the NBS Decision on Capital Adequacy of Banks.

As of 31 December 2022, the Bank's maximum exposure to a single entity or a group of related parties was 15.74%, while the sum of all large exposures (an aggregate large exposures ratio) was 26.27% of the regulatory capital, thus significantly below the prescribed maximum.

6. RISK MANAGEMENT (Continued)

6.5. Investment Risk

Pursuant to the effective laws and by-laws, the Bank is obligated to ensure preconditions for its successful business operations under conditions of acceptable risk parameters in order to achieve its business objectives and positive financial result, as well as to preserve the equity.

The risk inherent in the Bank's investments in other legal entities and property, plant and equipment and investment property relates to the following:

(a) Investment of the Bank in a single non-financial sector entity; and
(b) The total investments of the Bank in non-financial entities and property, plant and equipment and investment property of the Bank.

In accordance with the Decision of the National Bank of Serbia, investments in non-financial sector entities, property, plant and equipment and investment property are a regulatory indicator, which the Bank must maintain at a level not exceeding 60% of its regulatory capital. The Bank's investment in a non-financial sector entity may not exceed 10% of its regulatory capital, provided that this restriction does not apply to the acquisition of shares for resale within six months from the date of such acquisition. Risk appetites of the Bank have lower limits calibrated.

The Bank's investments in the non-financial sector entities do not include purchase of shares for the purpose of their resale within six months from the share acquisition date.

The Procedure for identifying risks in the Bank's investments enables timely and comprehensive identification of risks the Bank is exposed to, as well as the root cause analysis.

The Bank is exposed to investment risk and risk from potential fluctuations in the value of investments in other non-financial legal entities and in property, plant and equipment and investment property.

The Bank's exposure to investment risk in 2022 was within the prescribed limits, and as of 31 December 2022, the Bank's investment indicator amounted to 12.71% of the regulatory capital, which is significantly below the prescribed and internally determined indicator (31 December 2021: 12.81%).

6.6. Country Risk

Country risk is defined by the Bank as the risk related to the country of origin of the counterparty to which the Bank is exposed, i.e. the risk that the Bank will not be able to exercise rights over certain assets in another country or that the other party in a foreign country is unable to fulfil its obligation because there are restrictions on transfers and convertibility or expropriation imposed on cross-border exposure (due to political, economic or social circumstances in the counterparty's country of origin), and there is a possibility of adverse effects on the Bank's financial result and capital.

The Bank implements the internally adopted Country Risk Management Policy, as well as the Country Risk Management Rule in order to protect its operations from this risk. In order to control the country's risk, the Bank has defined the limits and triggers for the limits that are established at the local level. The level of limits defines tolerance to this risk. The trigger zone serves as an early warning signal to avoid violating the limit, but does not necessarily mean taking certain measures.

In 2022, the Bank's exposure to country risk ranged within the prescribed limits. ProCredit banks, i.e. the Group members, are generally not significantly exposed to country risk because they do not have relevant cross-border exposures. The largest part of exposures to non-residents relates to funds on nostro accounts with banks abroad.

6. RISK MANAGEMENT (Continued)

6.7. Operational Risk

Operational risk is the risk of possible adverse effects on the Bank's financial results and capital due to staff failures, inadequate internal procedures, inadequate management of information and other systems in the Bank, as well as due to unforeseen external events, including legal risk.

The Bank's Operational Risk Management Policy is fully compliant with local regulations, as well as ProCredit Holding's Operational Risk Management Policy and the Fraud Prevention Policy.

In order to reduce the risk of operational risks and prevent fraud, all processes are precisely documented and control mechanisms are in place. The Risk Monitoring Database (RED) established at the Bank level enables continuous and systematic monitoring of all operational risks, as well as defining corrective and preventive actions in order to avoid these events in the future or reduce the possibility of their occurrence or effect on the Bank. The analysis of these events is presented at the Operational Risk Management Committee, which is the main body for operational risk management in the Bank.

The Bank conducts a risk self-assessment using the defined self-assessment questionnaire applied at the Bank's level on an annual basis. This assessment allows the Bank to consider the impact of each individual scenario on the Bank' losses, and the level of control implementation and the manner in which controls mitigate risk exposure.

The Bank particularly focuses on the analysis of implementing new products (activities), which includes new products, services, business processes, financial instruments, IT systems and organisational structures. Significantly adjusted material products (activities) also fall under the definition of a 'new product/activity'.

The calculation of the capital requirement for operational risk is performed by applying the basic indicator approach, in accordance with the prescribed methodology. As of 31 December 2022, the capital requirement for operational risk amounted to RSD 649,969 thousand.

6.8. Capital Management

The Bank's objectives with regard to capital management can be summarized as follows:

- Compliance with the capital requirements prescribed by the National Bank of Serbia;
- Compliance with the capital requirements of international financial institutions on the basis of long-term loan agreements; and
- Adequate capital management on behalf of the Bank's management should provide for the expected stable growth and development of the Bank, as well as a strong foundation for the development of the Bank's business opportunities.

Capital adequacy is planned in detail during the preparation of the business plan. The National Bank of Serbia is reported to on a quarterly basis regarding the achieved capital ratios.

The National Bank of Serbia requires that all banks maintain a minimum of EUR 10 million in core (Tier 1) capital, and at the same time, banks are obliged to calculate the following ratios:

1. Common equity Tier 1 capital ratio, representing a percentage ratio of a bank's common equity Tier 1 capital to a bank's risk-weighted assets;
2. Tier 1 capital ratio, representing a percentage ratio of a bank's Tier 1 capital to a bank's risk-weighted assets; and
3. The capital adequacy ratio, representing a percentage ratio of a bank's total capital to a bank's risk-weighted assets.

6. RISK MANAGEMENT (Continued)

6.8. Capital Management (Continued)

The Bank is obliged to maintain these ratio levels above the following:

1. 4.5%, for the common equity Tier 1 capital ratio;
2. 6%, for the Tier 1 capital ratio; and
3. 8% for the (total) capital adequacy ratio.

The capital adequacy ratio of the Bank is the ratio between capital and risk-weighted assets and are the sum of the following:

- total credit risk-weighted assets; and
- capital requirements for market risks and the capital requirements for operational risk, multiplied by the reciprocal value of capital adequacy ratio defined by the Decision on Capital Adequacy of Banks of 8%.

In addition to the minimal capital adequacy ratios defined by the National Bank of Serbia, in its regular operations, the Bank implements significant buffers in terms of the aforementioned ratios, which are above those prescribed by regulations, within the framework of its risk appetite defined in the Bank's Risk Management Strategy.

The capital is equal to the sum of Tier 1 capital (core share capital) and Tier 2 capital (supplementary capital - most often subject to debt (subordinated liabilities) and cumulative preferred shares), where a bank's Tier 1 capital is the sum of common equity - Tier 1 (most often owner shares) and additional common equity - Tier 1 capital (most often non-cumulative preferred shares).

Capital buffers prescribed by the National Bank of Serbia are as follows:

1. The capital conservation buffer (2.5%);
2. Countercyclical capital buffer (0%);
3. Capital buffer for a systemically important bank from 0-2% (the Bank is not on the National Bank of Serbia's list of systemically significant banks; thus, it is not obliged in terms of this segment);
4. Capital buffer for a globally systemically important bank (the Bank is not a globally systemically important bank); and
5. Systemic risk buffer (3%).

The Bank's capital adequacy ratios as of 31 December 2021 and 2022 were as follows i:

	2022	2021
Common equity Tier 1 capital ratio (min. 4.5%)	19.06%	15.46%
Tier 1 capital ratio (min. 6%)	19.06%	15.46%
Capital adequacy ratio (min. 8%)	19.06%	16.53%

During 2022, the capital adequacy ratio was well above the prescribed regulatory limit of 8%.

The amount and structure of the Bank's capital always need to provide coverage of the minimum capital requirements and internal capital requirements regarding the risks that the Bank is exposed to in its operations. The Bank's regulatory capital as of 31 December 2022 amounted to RSD 17,018,718 thousand (31 December 2021: RSD 16,355,704 thousand).

The Bank's equity structure is presented in Note 38, while the capital adequacy ratio and other performance indicators of the Bank are provided in Note 42 - Compliance with the performance indicators prescribed by the National Bank of Serbia.

7. INTEREST INCOME AND EXPENSES

Interest income and expenses by type of financial instrument are presented in the following table:

	2022	2021
Interest income		
Loans and placements	4,541,295	4,012,526
Deposits and required reserves	62,989	8,429
Securities	266,471	133,863
Other placements and assets	10,170	12,485
Total	**4,880,925**	**4,167,303**
Interest expense		
Borrowings	(379,958)	(368,184)
Deposits	(570,166)	(583,215)
Other liabilities	(6,102)	(6,629)
Total	**(956,226)**	**(958,028)**
Net interest income	**3,924,699**	**3,209,275**

Interest income and expenses relate to:

	2022	2021
Interest income		
Banks and other financial institutions	145,516	13,128
Public sector	182,014	259,526
Corporate sector	3,129,134	2,754,118
Retail sector	298,281	103,067
Entrepreneurs	177,168	172,040
Farmers	943,779	865,282
Foreign banks	5,033	142
Total	**4,880,925**	**4,167,303**
Interest expenses		
Banks and other financial institutions	(57,380)	(27,461)
Public sector	(27,109)	(16,303)
Corporate sector	(159,503)	(161,664)
Retail sector	(212,891)	(232,700)
Entrepreneurs	(1,791)	(368)
Farmers	(13)	-
Foreign entities	(1,848)	(2,388)
Foreign banks	(83,028)	(75,634)
Foreign financial institutions	(406,563)	(434,885)
Interest expenses on lease liabilities - IFRS 16	(6,100)	(6,625)
Total	**(956,226)**	**(958,028)**
Net interest income	**3,924,699**	**3,209,275**

8. FEE AND COMMISSION INCOME AND EXPENSES

	2022	2021
Fee and commission income		
Domestic payment transactions	878,401	801,619
Banking services per credit transactions	51,586	64,914
Card transactions	544,509	384,930
Issued guarantees	172,882	153,294
Foreign payment transactions	264,334	195,496
Other banking services	43,810	42,972
Foreign currency purchase and sale	291,664	190,978
Total	**2,247,186**	**1,834,203**
Fee and commission expenses		
Loans and borrowings	(135,188)	(121,419)
Domestic payment transactions	(39,796)	(36,368)
Foreign payment transactions	(150,654)	(141,805)
Card transactions	(170,858)	(127,354)
Other commissions and fees	(11,221)	(7,922)
Foreign currency purchase and sale fees	(53,105)	(17,223)
Total	**(560,822)**	**(452,091)**
Net fee and commission income	**1,686,364**	**1,382,112**

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

	2022	2021
Gains from derivatives		
Gains from currency swaps	544,363	182,245
Gains from spot transactions	22	-
Total	**544,385**	**182,245**
Losses from derivatives		
Losses from currency swaps	(388,436)	(117,622)
Losses from spot transactions	(234)	-
Total	**(388,670)**	**(117,622)**
Net gains	**155,715**	**64,623**

10. NET FOREIGN EXCHANGE LOSSES AND EFFECTS OF CONTRACTED FOREIGN CURRENCY CLAUSE

	2022	2021
Net foreign exchange gains/(losses)	109,048	(66,674)
Net (losses)/gains from contracted foreign currency clause application	(205,716)	84
Net losses	**(96,668)**	**(66,590)**

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

(a) Net gains and losses on impaired financial assets and credit risk off-balance sheet items not measured at fair values through profit or loss include the following:

	2022	2021
Net losses arising from individual impairment	(518,655)	(626,312)
Net losses from impairment of loans	(260,668)	(130,451)
Net losses from impairment of overdrafts and credit cards	(1,862)	(10,674)
Net gains/(losses) from release of provision/(impairment) - loans and placements to banks	49	(44)
Net gains/(losses) from impairment of placements with the National Bank of Serbia	996	(1,199)
Net losses from impairment of other placements – discounting bills of exchange	(48)	(11)
Net losses from impairment of other receivables	(1,068)	(1,089)
Net losses from impairment and bank charges	(4,268)	(14,700)
Net losses from impairment of receivables for retail fees and commissions	(25,923)	(3,700)
Net provision for off-balance sheet items	(44,538)	(23,387)
Net gains/(losses) from impairment of financial assets through other comprehensive income (FVOCI)	455	(859)
Net losses from impairment of receivables arising from documentary transactions	(11,394)	(10,197)
Total net losses from impairment of assets	**(866,924)**	**(822,623)**
Recovery of written-off receivables	68,084	102,664
Direct write-off of unrecoverable receivables	(9,385)	(23,444)
Net gains from liabilities waived	**58,699**	**79,220**
Net impairment losses	**(808,225)**	**(743,403)**

11. NET LOSSES FROM IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

(b) Movements in the **allowance for impairment** accounts during the year were as follows:

2022	Cash and balances with Central Bank (Note 19)	Loans and placements to banks and other financial institutions (Note 21)	Loans and placement to customers (Note 22)	Other assets (Note 29)	Total
Balance as of 1 January 2022	**10,348**	**153**	**1,671,227**	**21,554**	**1,703,282**
Increases	2,810	607	2,325,030	4,294	2,332,741
Decreases	(3,806)	(656)	(1,502,212)	(3,226)	(1,509,900)
Write-off – transfer to off-balance sheet items	-	-	(458,638)	(2,336)	(460,974)
Sales	-	-	-	(4,859)	(4,859)
Impairment	-	-	-	3,990	3,990
FX differences	(12)	-	(2,312)	(398)	(2,722)
Balance of allowance for impairment as of 31 December 2022	**9,340**	**104**	**2,033,095**	**19,019**	**2,061,565**
Net gains/(losses) arising from impairment	996	49	(822,818)	(1,068)	(822,841)
Net provision for off-balance sheet items (Note 34)	-	-	-	-	(44,538)
Net gains from reversal of impairment of FVOCI	-	-	-	-	455
Total net impairment losses for the period (Note 11(a))	**966**	**49**	**(822,818)**	**(1,068)**	**(866,924)**

2021	Cash and balances with Central Bank (Note 19)	Loans and placements to banks and other financial institutions (Note 21)	Loans and placement to customers (Note 22)	Other assets (Note 29)	Total
Balance as of 1 January 2021	**9,141**	**109**	**1,111,186**	**20,691**	**1,141,127**
Increases	3,321	414	1,907,117	3,346	1,914,198
Decreases	(2,122)	(370)	(1,111,072)	(2,257)	(1,115,821)
Write-off – transfer to off-balance sheet items	-	-	(235,957)	(685)	(236,642)
Sales	-	-	-	473	473
Unwinding	-	-	(94)	-	(94)
FX differences	8	-	47	(14)	41
Balance of allowance for impairment as of 31 December 2021	**10,348**	**153**	**1,671,227**	**21,554**	**1,703,282**
Net impairment losses	(1,199)	(44)	(796,045)	(1,089)	(798,377)
Net provision for off-balance sheet items (Note 34)	-	-	-	-	(23,387)
Net impairment losses of FVOCI	-	-	-	-	(859)
Total net impairment losses for the period (Note 11(a))	**(1,199)**	**(44)**	**(796,045)**	**(1,089)**	**(822,623)**

12. OTHER OPERATING INCOME

	2022	2021
Income from fees on bills of exchange	2,500	3,221
Reimbursement of expenses from related parties	51,393	6,615
Income from collected expenses from sued clients	13,941	5,681
Other operating income	558	1,085
Rental income from investment property	31,549	43,010
Gains on sale of repossessed property following foreclosure	10,886	21,764
Gains from government subsidies	289	-
Total	**111,116**	**81,376**

Reimbursement of expenses from related parties in 2022 includes:

- Accommodation costs, transportation costs and other services paid by the Bank and compensated to the members of the ProCredit Group and ProCredit Holding in the amount of RSD 49,672 thousand (2021: RSD 4,891 thousand); and
- Income from the lease of office space to ProCredit Leasing in the amount of RSD 508 thousand (2021: RSD 508 thousand), cost of the Collaboration Agreement with ProCredit Leasing in the amount of RSD 1,014 thousand (2021: RSD 823 thousand) and reimbursement of IT costs totalling RSD 200 thousand (2021: RSD 393 thousand).

Rental income from investment property mostly relates to the lease of a part of the business premises located at 17, Milutina Milankovica Street in the amount of RSD 30,049 thousand (2021: RSD 41,643 thousand).

13. SALARIES, COMPENSATIONS AND OTHER PERSONAL EXPENSES

	2022	2021
Net salaries and compensations	652,544	592,807
Payroll contributions	324,827	299,876
Payroll taxes	83,356	75,463
Other personal expenses - other staff benefits	30,070	20,774
Cost of engaging workers on temporary jobs	5,643	5,500
Provisions for retirement benefits (Note 34)	406	406
Total	**1,096,846**	**994,826**

14. AMORTISATION AND DEPRECIATION EXPENSE

	2022	2021
Amortisation of intangible assets (Note 25)	15,580	16,008
Depreciation of property, plant and equipment (Note 26)	141,383	170,860
Amortisation of right-of-use assets (Note 26)	35,193	35,363
Depreciation of investment property (Note 27)	4,863	10,028
Total	**197,019**	**232,259**

15. OTHER INCOME

	2022	2021
Release of provisions for litigations (Note 34)	197,722	17,298
Income from changes in property value (Note 26)	6,801	-
Gains on sale of property, plant and equipment	5,746	6,079
Gains from reversal of impairment of repossessed property following foreclosure	4,859	1,096
Sundry income	1,497	50,353
Total	**216,625**	**74,826**

Income from the release of provisions for litigations in 2022 relates to the decrease in the amount of individual provisions attributable to legal disputes in the total amount of RSD 197,722 thousand (2021: RSD 17,298 thousand).

16. OTHER EXPENSES

	2022	2021
Lease expenses	41,214	41,650
Marketing costs	139,789	69,076
Cost of material	40,408	30,748
Communication costs	49,361	53,776
Cost of authorisation of payment cards - Dina, Master and Visa	382,906	279,306
Insurance premiums	218,527	220,513
Consulting services	213,893	208,884
Security services	53,678	47,041
Employee insurance costs	18,461	18,612
Cost of seminars	46,806	41,430
Entertainment expenses	15,667	9,052
Cost of licences	415,021	395,384
E-banking costs	75,278	69,104
Indirect contributions	7,362	6,104
Provisions for litigations (Note 34)	197,293	190,425
Maintenance costs	104,298	73,088
Non-production costs	93,884	80,254
Cost of debt collection agency services	1,773	1,643
Business travel expenses	13,496	4,048
Transportation services	12,485	6,235
Public charges	79,310	73,875
Shortages and damage compensation	116,247	124,177
Auditing costs	7,549	8,606
Impairment of property, plant and equipment and assets held for sale	723	389
Losses on sale of repossessed property following foreclosure	3,242	2,870
Cost of legal representation	20,316	28,530
Indirect taxes	30,059	25,706
Impairment of property, plant and equipment and repossessed property following foreclosure	3,990	4,859
Other operating costs	85,273	95,964
Total	**2,488,309**	**2,211,349**

Marketing expenses include the printing of promotional materials, the development of marketing solutions, radio campaigns and broadcasting TV reports, as well as donations.

The costs of insurance include property insurance, vehicle insurance, transportation insurance and compulsory insurance premium of retail deposits, deposits of entrepreneurs and small and medium-sized legal entities, in accordance with the Law on Deposit Insurance.

Consulting services costs in 2022 mostly relate to services stipulated by the Management Service Agreement with ProCredit Holding totalling RSD 190,971 thousand (2021: RSD 182.637 thousand) and other advisory services totalling RSD 22,922 thousand (2021: RSD 26,247 thousand).

Cost of licences include costs of one-year use of software programmes, which are not owned by the Bank and related maintenance cost (Microsoft licence, SQL, Quipu, EMC, Siron, Sophos, etc.).

16. OTHER EXPENSES (Continued)

Non-production costs include:

	2022	2021
Maintenance of business premises	24,881	18,252
Maintenance of IT equipment and software	5,134	10,657
Utilities	46,993	40,795
Other expenses	16,876	10,550
Total	**93,884**	**80,254**

17. INCOME TAXES

(a) Components of Income Taxes

	2022	2021
Income tax	173,429	103,534
Deferred tax income	(4,832)	(9,501)
Deferred tax expenses	7,365	-
Total income tax expense	**175,962**	**94,033**

(b) Numerical Reconciliation of Income Tax Recognised in the Income Statement and Profit for the Year before Tax Multiplied by the Statutory Income Tax Rate

	2022 rate	2022	2021 rate	2021
Profit before tax		**1,407,452**		**563,785**
Income tax calculated at statutory tax rate	**(15%)**	**(211,118)**	**(15%)**	**(84,568)**
Expenses not recognized for tax purposes		(31,940)		(42,527)
Income not recognized for tax purposes		69,629		23,561
Effective tax rate	***(12.32%)***	***(173,429)***	***(18.36%)***	***(103,534)***
Deferred tax income		4,832		9,501
Deferred tax expenses		(7,365)		-
Total income tax expense		**(175,962)**		**(94,033)**
Effective tax rate		***12.50%***		***16.68%***

The Bank has unused tax losses carried forwards totalling RSD 10.065 thousand (31 December 2021: RSD 15.978 thousand), which can be used up to 31 December 2023.

17. INCOME TAXES (Continued)

(c) Deferred Tax Income/(Expenses)

	2022	2021
Difference between tax and carrying value of property, plant and equipment and intangible assets	(7,365)	4,670
Deferred tax income based on revaluation of property	2,994	2,993
Deferred tax income from retirement benefits	60	61
Deferred tax income from the first-time adoption of IFRS 9	1,778	1,777
Deferred tax expenses/(income) (Note 36(b))	**(2,533)**	**9,501**

As of 31 December 2022, the Bank has current income tax payable (Note 35) in the amount of RSD 64,913 thousand (31 December 2021: RSD 0).

(d) Deferred Tax Expenses related to Other Comprehensive Income

	2022	2021
Deferred tax expenses based on property revaluation	(22,165)	-
Deferred tax expenses based on securities valuation	(43)	(12)
Deferred tax expenses (Note 36(b))	**(22,208)**	**(12)**

18. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

The classification of financial instruments according to IFRS 9 is presented in the table below:

31 December 2022	Measured at amortised cost	Measured at FVOCI - debt instruments	Measured at FVOCI - equity instruments	Measured through profit and loss	Total
ASSETS					
Cash and balances with Central Bank (Note 19)	19,814,215	-	-	-	19,814,215
Derivatives (Note 23)	-	-	-	5,642	5,642
Securities (Note 20)	-	6,740,272	1,707		6,741,979
Loans and placements to banks and other financial institutions (Note 21)	11,611,839	-	-	-	11,611,839
Loans and placements to customers (Note 22)	106,913,139	-	-	-	106,913,139
Other assets (Note 6.1.2)	624,101	-	-	-	624,101
TOTAL ASSETS	**138,963,294**	**6,740,272**	**1,707**	**5,642**	**145,710,915**
LIABILITIES					
Derivatives (Note 30)	-	-	-	581	581
Deposits and other liabilities due to banks, other financial institutions and Central Bank (Note 31)	34,137,851	-	-	-	34,137,851
Deposits and other liabilities due to other customers (Note 32)	94,219,102	-	-	-	94,219,102
TOTAL LIABILITIES	**128,356,953**	**-**	**-**	**581**	**128,357,534**

18. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES (Continued)

31 December 2021	Measured at amortised cost	Measured at FVOCI - debt instruments	Measured at FVOCI - equity instruments	Measured through profit and loss	Total
ASSETS					
Cash and balances with Central Bank (Note 19)	18,757,005	-	-	-	18,757,005
Derivatives (Note 23)	-	-	-	699	699
Securities (Note 20)	-	7,155,516	1,424		7,156,940
Loans and placements to banks and other financial institutions (Note 21)	9,745,021	-	-	-	9,745,021
Loans and placements to customers (Note 22)	116,200,545	-	-	-	116,200,545
Other assets (Note 6.1.2)	486,672	-	-	-	486,672
TOTAL ASSETS	**145,189,243**	**7,155,516**	**1,424**	**699**	**152,346,882**
LIABILITIES					
Deposits and other liabilities due to banks, other financial institutions and Central Bank (Note 31)	37,988,582	-	-	-	37,988,582
Deposits and other liabilities due to other customers (Note 32)	96,331,145	-	-	-	96,331,145
Subordinated liabilities (Note 33)	1,895,568	-	-	-	1,895,568
TOTAL LIABILITIES	**136,215,295**	**-**	**-**	**-**	**136,215,295**

19. CASH AND BALANCES WITH CENTRAL BANK

	31 December 2022	31 December 2021
Gyro account	6,611,375	7,377,424
Treasury	902,321	879,349
Surpluses of liquid funds deposited with the National Bank of Serbia	2,100,000	-
Undue interest based on required reserves with the National Bank of Serbia	2,154	266
Cash in RSD	**9,615,850**	**8,257,039**
Treasury in foreign currency	1,563,643	979,362
Required reserves with the National Bank of Serbia in foreign currency	8,644,062	9,530,952
Cash in foreign currency	**10,207,705**	**10,510,314**
Less: Allowance for impairment (Note 11(b))	(9,340)	(10,348)
Balance as of	**19,814,215**	**18,757,005**

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

The Bank is obliged to calculate and set aside the required dinar reserve against the average daily balance of the liabilities in RSD during the preceding calendar month applying the rate of 5% to liabilities maturing within 2 years, i.e. within 730 days, and 0% to liabilities maturing in a period of over 2 years, i.e. over 730 days (2021: 5% and 0%). In addition, the required dinar reserve includes 38% and 30% of the RSD equivalent of the required foreign currency reserve (2021: 38% and 30%).

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

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

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

The Bank is obliged to maintain the average daily balance of the required foreign currency reserve during the accounting period in the amount of the calculated required foreign currency reserve. The calculated required foreign currency reserve for the accounting period from 18 December 2022 to 17 January 2023 was in compliance with the Decision of the National Bank of Serbia.

A summary of cash and cash equivalents included in the Statement of Cash Flows is presented in Note 44.

20. SECURITIES

	31 December 2022	31 December 2021
Securities measured at FVOCI – equity securities in EUR	1,707	1,424
Securities measured at FVOCI – debt securities in RSD	6,740,272	7,155,516
Balance as of	**6,741,979**	**7,156,940**

Debt securities in RSD include government bonds of the Republic of Serbia.

21. LOANS AND PLACEMENTS TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2022	31 December 2021
Regular foreign currency accounts	3,539,264	3,082,004
Repo transactions with the National Bank of Serbia	8,003,690	6,500,271
Cash balances with the Central Registry	5,342	5,346
Loans to financial institutions	58,833	58,106
Short-term deposits of related banks and the National Bank of Serbia	3,818	99,095
Fee and commission receivables	1,102	494
Deferred fee income on loans	(106)	(142)
Gross loans and placements	**11,611,943**	**9,745,174**
Less: Allowance for impairment (Note 11(b))	(104)	(153)
Balance as of	**11,611,839**	**9,745,021**

In 2022, the Bank invested funds in RSD repo transactions with the National Bank of Serbia at interest rates ranging from 0.50% to 4.40% per annum.

22. LOANS AND PLACEMENTS TO CUSTOMERS

	31 December 2022	31 December 2021
Loans and placements	108,174,970	116,980,176
Interest and fees receivable	1,079,768	1,211,138
Receivables from guarantee protests	51,003	52,536
Gross loans and placements	**109,305,741**	**118,243,850**
Deferred loan origination fee	(359,507)	(372,078)
Less: Allowance for impairment (Note 11(b))	(2,033,095)	(1,671,227)
Balance as of	**106,913,139**	**116,200,545**

22. LOANS AND PLACEMENTS TO CUSTOMERS (Continued)

Breakdown of Loans and Placements to Customers per Sector

31 December 2022	Public sector	Corporate sector	Entrepre-neurs	Retail sector	Agricultural producers	Foreign entities	Total 2022
Interest and fees receivable	105,661	620,741	44,403	82,394	226,432	137	1,079,768
Protests	-	42,620	8,383	-	-	-	51,003
Short-term loans	-	16,048,950	523,575	145,304	3,282,225	-	20,000,054
Long-term loans	-	62,500,575	3,768,833	7,388,140	14,517,368	-	88,174,916
Gross loans to clients	**105,661**	**79,212,886**	**4,345,194**	**7,615,838**	**18,026,025**	**137**	**109,305,741**
Deferred loan origination fee	-	(194,153)	(12,462)	(41,821)	(111,071)	-	(359,507)
Allowance for impairment	(105,659)	(1,121,567)	(335,715)	(198,001)	(272,104)	(49)	(2,033,095)
Balance as of 31 December 2022	**2**	**77,897,166**	**3,997,017**	**7,376,016**	**17,642,850**	**88**	**106,913,139**

31 December 2021	Public sector	Corporate sector	Entrepre-neurs	Retail sector	Agricultural producers	Foreign entities	Total 2021
Interest and fees receivable	105,989	684,255	51,791	106,872	262,106	124	1,211,137
Protests	-	266,799	8,468	-	-	-	275,267
Short-term loans	-	15,201,926	486,798	115,760	3,584,856	-	19,389,340
Long-term loans	-	70,914,718	4,262,075	6,809,264	15,382,049	-	97,368,106
Gross loans to clients	**105,989**	**87,067,698**	**4,809,132**	**7,031,896**	**19,229,011**	**124**	**118,243,850**
Deferred loan origination fee	-	(201,707)	(13,403)	(36,845)	(120,123)	-	(372,078)
Allowance for impairment	(105,854)	(1,036,576)	(114,130)	(176,152)	(238,489)	(26)	(1,671,227)
Balance as of 31 December 2021	**135**	**85,829,415**	**4,681,599**	**6,818,899**	**18,870,399**	**98**	**116,200,545**

Short-term RSD loans were approved to corporate customers and entrepreneurs for a period of up to 12 months at nominal interest rates ranging from 4.50%+3mBB to 5.25%+3mBB per annum. Short-term foreign-currency indexed loans were approved to corporate customers at interest rates ranging from 4.90%+6mEB to 5.30%+6mEB per annum.

Long-term RSD loans were approved to corporate customers at interest rates ranging from 4.50%+6mEB to 5.30%+6mEB per annum. Long-term RSD loans (with a foreign currency clause index) were approved to corporate customers and entrepreneurs at interest rates ranging from 4.70%+3mBB do 5.45%+3mBB per annum.

Loans and placements to entrepreneurs are granted under the terms and conditions applicable to the SMEs segment.

Short-term RSD loans were extended to retail customers at a fixed nominal interest rate of 9% per annum. Short-term RSD loans were approved to registered agricultural households at nominal interest rates ranging from 5.05%+3mBB to 6.25%+3mBB per annum.

Long-term RSD loans were extended to registered agricultural producers, whose holders are retail customers, at nominal interest rates ranging from 5.25%+3mBB to 6.45%+3mBB per annum.

23. DERIVATIVES

	31 December 2022	31 December 2021
Currency swaps with the National Bank of Serbia	2,607	-
Currency swaps with domestic banks	22	-
Currency swaps with foreign banks	3,013	699
Balance as of	**5,642**	**699**

Receivables arising from derivatives in the amount of RSD 5,642 thousand as of 31 December 2022 (31 December 2021: RSD 699 thousand) mostly relate to the change in fair value and the interest differential of currency swaps with ProCredit Bank of Germany and the National Bank of Serbia.

24. INVESTMENTS IN SUBSIDIARIES

	31 December 2022	31 December 2021
Investment in subsidiaries in RSD - ProCredit Leasing d.o.o. Belgrade	127,752	127,752
Balance as of	**127,752**	**127,752**

The Bank is the founder and the sole owner of ProCredit Leasing d.o.o. Belgrade.

In accordance with the Bankruptcy and Liquidation of Banks and Insurance Companies Law, on 1 January 2018 the Assembly of ProCredit Leasing d.o.o. Belgrade passed the decision to cease operations and initiate voluntarily liquidation procedure. The process of liquidating of ProCredit Leasing d.o.o. Belgrade commenced on 30 April 2018 and is still ongoing.

25. INTANGIBLE ASSETS

	Intangible assets under development	Software licences	Total
Cost			
Balance as of 1 January 2021	230,446	526,970	757,416
Additions	8,314	-	8,314
Transfer (from)/to	(381)	381	-
Disposals and sales	-	(27,165)	(27,165)
Balance as of 31 December 2021	**238,379**	**500,186**	**738,565**
Accumulated amortisation			
Balance as of 1 January 2021	-	471,566	471,566
Amortisation expense (Note 14)	-	16,008	16,008
Disposals and sales	-	(27,165)	(27,165)
Balance as of 31 December 2021	**-**	**460,409**	**460,409**
Carrying value as of 1 January 2021	**230,446**	**55,404**	**285,850**
Carrying value as of 31 December 2021	**238,379**	**39,777**	**278,156**
Cost			
Balance as of 1 January 2022	238,379	500,186	738,565
Additions	66,787	-	66,787
Transfer (from)/to	(11,960)	11,960	-
Disposals and sales	-	(26,774)	(26,774)
Balance as of 31 December 2022	**293,206**	**485,372**	**778,578**
Accumulated amortisation			
Balance as of 1 January 2022	-	460,409	460,409
Amortisation expense (Note 14)	-	15,580	15,580
Disposals and sales	-	(26,774)	(26,774)
Balance as of 31 December 2022	**-**	**449,215**	**449,215**
Carrying value as of 31 December 2022	**293,206**	**36,157**	**329,363**

The major portion of intangible assets under development relates to licences for transfer to new banking application, whose activation is expected in 2023.

The Bank does not have intangible assets with indefinite useful lives.

As of 31 December 2022, the Bank has ownership over the assets and no encumbrance on them.

As of 31 December 2022, intangible assets under development were tested for impairment and there were no indications of impairment thereof.

26. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment (PP&E) include:

	31 December 2022	31 December 2021
Leasehold improvements	26,926	28,979
Equipment	124,959	117,679
Other PP&E	2,192	5,747
Commercial building	1,660,600	1,333,643
Right-of-use assets	175,093	185,055
Construction in progress	32,807	53,340
Balance as of	**2,022,577**	**1,724,443**

Movements in PP&E during 2022 and 2021 were as follows:

	Leasehold improve-ments	Equipment	Other PP&E	Commercial buildings	Constru-ction in progress	Right-of-use assets	Total
Cost							
1 January 2021	103,044	1,480,664	116,103	1,906,480	3,652	249,798	3,859,741
Additions	-	-	-	-	74,000	71,334	145,334
Transfer (from)/to	2,645	12,079	2,072	7,516	(24,312)	-	-
Disposal and sales	-	(28,657)	(183)	-	-	(46,037)	(74,877)
Balance as of 31 December 2021	**105,689**	**1,464,086**	**117,992**	**1,913,996**	**53,340**	**275,095**	**3,930,198**
Accumulated depreciation							
Balance as of 1 January 2021	69,033	1,273,106	98,480	532,675	-	70,051	2,043,345
Depreciation/amortisation expense (Note 14)	7,677	101,557	13,948	47,678		35,363	206,223
Disposal and sales	-	(28,256)	(183)	-	-	(15,374)	(43,813)
Balance as of 31 December 2021	**76,710**	**1,346,407**	**112,245**	**580,353**	**-**	**90,040**	**2,205,755**
Carrying value as of 1 January 2021	**34,011**	**207,558**	**17,623**	**1,373,805**	**3,652**	**179,747**	**1,816,396**
Carrying value as of 31 December 2021	**28,979**	**117,679**	**5,747**	**1,333,643**	**53,340**	**185,055**	**1,724,443**
Cost							
1 January 2022	105,689	1,464,086	117,992	1,913,996	53,340	275,095	3,930,198
Additions	-	-	-	225,407	70,232	25,231	320,870
Revaluation (Note 38(d))	-	-	-	147,765	-	-	147,765
Reversal of revaluation decrease (Note 15)	-	-	-	6,801	-	-	6,801
Transfer (from)/to	8,480	80,918	1,367	-	(90,765)	-	-
Disposal and sales	-	(34,302)	(174)	-	-	(15,185)	(49,661)
Balance as of 31 December 2022	**114,169**	**1,510,702**	**119,185**	**2,293,969**	**32,807**	**285,141**	**4,355,973**
Accumulated depreciation							
Balance as of 1 January 2022	76,710	1,346,407	112,245	580,353	-	90,040	2,205,755
Depreciation/amortisation expense (Note 14)	10,533	72,912	4,922	53,016		35,193	176,576
Disposal and sales	-	(33,576)	(174)	-	-	(15,185)	(48,935)
Balance as of 31 December 2022	**87,243**	**1,385,743**	**116,993**	**633,369**	**-**	**110,048**	**2,333,396**
Carrying value as of 31 December 2022	**26,926**	**124,959**	**2,192**	**1,660,600**	**32,807**	**175,093**	**2,022,577**

26. PROPERTY, PLANT AND EQUIPMENT (Continued)

External appraisals of the fair value of business premises are performed by certified appraisers every 5 years. At the end of each reporting year, internal appraisals are made to determine whether there are any departures from the carrying value at the reporting date. As of 31 December 2022, the Bank has no property whose appraisal is older than 5 years.

The total carrying value of commercial buildings owned by the Bank as of 31 December 2022, which the Bank uses for its own needs, amounts to RSD 1,660,600 thousand (31 December 2021: RSD 1,333,643 thousand). These buildings are measured according to the revaluation model.

Out of the previously mentioned carrying value of business premises, the most significant amount of RSD 1,061,644 thousand (31 December 2021: 730,549 thousand) relates to the part of the Head Office building that the Bank uses for its own needs. The remaining amount of business premises relates to other buildings with the carrying value of RSD 598,956 thousand (31 December 2021: RSD 603,094 thousand).

External appraisals of the Head Office building and a commercial building in Subotica were carried out in December 2022. External appraisals of other buildings were performed in a period between 2018 and 2022 since valuations by external appraisers are performed every 5 years. At the end of each year, internal fair value estimates are made to confirm that the current carrying value of these buildings, based on the latest external appraisal, does not depart significantly from their current fair value.

In October 2018, it was decided that a part of the Head Office building (entrance B) should be leased. Accordingly, this part of the building was reclassified to investment property and since then that part of the building has been measured according to the cost model (Note 27). An external appraisal of the leased part of the Head Office building was performed in December 2022, confirming it was not impaired.

The Bank has satisfactory title deed over its property and has no encumbrances on these assets.

As of 31 December 2022, the Bank has no commitments for purchase of property, plant and equipment.

27. INVESTMENT PROPERTY

Cost	
Balance as of 1 January 2021	401,124
Balance as of 31 December 2021	**401,124**
Accumulated depreciation	
As of 1 January 2021	(20,311)
Depreciation expense (Note 14)	(10,028)
Balance as of 31 December 2021	**(30,339)**
Carrying value as of 31 December 2021	**370,785**
Cost	
Balance as of 1 January 2022	401,124
Decrease – reclassification to property, plant and equipment	(225,407)
Balance as of 31 December 2022	**175,717**
Accumulated depreciation	
As of 1 January 2022	(30,339)
Depreciation expense (Note 14)	(4,863)
Balance as of 31 December 2022	**(35,202)**
Carrying value as of 31 December 2022	**140,515**

On 1 January 2022, the Bank signed an Annex to the Lease Agreement, based on which the leased area was reduced and, accordingly, the Bank derecognised the proportional share in the amount of RSD 225,407 thousand from investment property and recorded it as a part of the commercial buildings (Note 26).

An external appraiser, engaged by the Bank, performed a valuation of investment property as of 31 December 2022 and there was no indication of impairment thereof. The appraised fair value of investment property as of 31 December 2022 amounted to RSD 233,098 thousand (31 December 2021: RSD 393,589 thousand).

28. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale in the amount of RSD 47,370 thousand as of 31 December 2022 (31 December 2021: RSD 47,370 thousand) relate to the building in Novi Pazar.

29. OTHER ASSETS

	31 December 2022	31 December 2021
Financial assets exposed to credit risk:		
Receivables based on payment cards	548,397	413,200
Transitional and temporary accounts	77,123	75,004
Other assets:		
Small inventory	1,373	1,518
Advances paid	4,078	15,149
Prepaid expenses	173,813	161,724
Prepaid taxes and contributions	-	63
Deposits for apartment lease	798	1,241
Repossessed assets following foreclosure	115,998	146,943
Other receivables	76,308	103,719
Gross other assets	**997,888**	**918,561**
Less: Allowance for impairment (Note 11(b))	(19,019)	(21,554)
Balance as of	**978,869**	**897,007**

Movements in repossessed assets (property) following foreclosure during the year were as follows:

	2022	2021
Balance as of 1 January	146,943	129,188
Increase in repossessed property	10,889	69,245
Sale of repossessed property	(41,834)	(51,490)
Balance as of 31 December	**115,998**	**146,943**

The Bank collects bad debts from movable or immovable property of a client, in accordance with court decisions. Repossessed assets are included in Other assets, unless otherwise stated.

30. DERIVATIVES

	31 December 2022	31 December 2021
Currency spots with domestic banks	234	-
Currency swaps with foreign banks	347	-
Balance as of	**581**	**-**

Liabilities arising from derivatives as of 31 December 2022 are related to currency spot transactions with domestic banks and currency swap transactions with ProCredit Bank Germany.

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

	31 December 2022	31 December 2021
Transaction deposits	418,750	214,314
Specific-purpose deposits	936	1,539
Other deposits	4,599,630	5,057,353
Deposits from banks and financial institutions (a)	8,476,543	10,494,202
Borrowings from banks and financial institutions (b)	20,582,867	22,245,074
Other liabilities - interest and fees payable	2,757	2,349
Undue interest	146,384	65,642
Deferred fees on borrowings	(90,016)	(91,891)
Balance as of	**34,137,851**	**37,988,582**

In 2022, the effective interest rate on deposits in foreign currency from banks ranged from -0.050% to 3.556% per annum.

(a) Deposits from Banks and Financial Institutions

Financial institutions	31 December 2022 in EUR	Maturity	31 December 2022 in RSD 000	31 December 2021 in RSD 000
ProCredit Bank Germany	50,250,000	2023	5,895,451	4,703,284
Banca Intesa a.d. Belgrade	7,000,000	2023	821,256	-
Blue Orchard, Luxembourg	15,000,000	2023	1,759,836	5,790,918
Balance as of	**72,250,000**		**8,476,543**	**10,494,202**

(b) Borrowings from Banks and Financial Institutions

Financial institution	Approved loans in EUR/RSD	31 December 2022 in EUR/RSD	Maturity	31 December 2022 in RSD 000	31 December 2021 in RSD 000
European Fund for South East Europe	15,000,000	12,000,000	2026	1,407,869	1,763,732
EBRD	60,000,000	34,285,714	2022-2025	4,022,482	7,738,022
EBRD	10,000,000	8,571,429	2025	1,005,621	1,175,821
European Investment Bank 1	7,108,434	-	2019-2022	-	75,984
European Investment Bank 2	30,000,000	19,426,675	2027-2030	2,279,184	2,672,768
Good Governance Fund	20,000,000	17,142,857	2025	2,011,241	2,351,642
Council of Europe Development Bank	10,000,000	10,000,000	2027	1,173,224	1,175,821
Council of Europe Development Bank	30,000,000	24,000,000	2026	2,815,738	3,527,463
Council of Europe Development Bank	10,000,000	10,000,000	2026	1,173,224	1,175,821
European Investment Bank	20,000,000	20,000,000	2033	2,346,448	-
EBRD	15,000,000	15,000,000	2027	1,759,836	-
Total (I)	**227,108,434**	**170,426,675**		**19,994,867**	**21,657,074**
EBRD	588,000,000	588,000,000	2026	588,000	588,000
Total (II)	**588,000,000**	**588,000,000**		**588,000**	**588,000**
Balance as of (I+II)				**20,582,867**	**22,245,074**

31. DEPOSITS AND OTHER LIABILITIES TO BANKS, OTHER FINANCIAL INSTITUTIONS AND CENTRAL BANK (Continued)

(b) Borrowings from Banks and Financial Institutions (Continued)

The Bank was granted a loan by the European Bank for Reconstruction and Development at an interest rate of 6M Euribor +1.0% per annum.

The Bank has an obligation to align its operations with certain covenants defined in the loan agreements with the European Bank for Reconstruction and Development and the Good Governance Fund. As of 31 December 2022, according to the Bank's calculation, all defined covenants were reconciled.

The table below presents cash flows from *financing activities* related to borrowings from banks, funds and other customers and changes during 2022 and 2021.

	Borrowings from foreign banks and funds	Borrowings from other customers (Note 32)	Total borrowings
Balance as of 1 January 2022	**22,245,074**	**15,468,905**	**37,713,979**
Proceeds from loans and borrowings	4,106,284	2,432,411	6,538,695
Repayment of loans and borrowings	(5,768,491)	(7,337,152)	(13,105,643)
Balance as of 31 December 2022	**20,582,867**	**10,564,164**	**31,147,031**
Balance as of 1 January 2021	**22,002,081**	**13,313,246**	**35,315,327**
Proceeds from loans and borrowings	4,703,374	6,720,510	11,423,884
Repayment of loans and borrowings	(4,460,381)	(4,564,851)	(9,025,232)
Balance as of 31 December 2021	**22,245,074**	**15,468,905**	**37,713,979**

32. DEPOSITS AND OTHER LIABILITIES DUE TO OTHER CUSTOMERS

	31 December 2022	31 December 2021
Retail customers:		
- Transaction	6,576,379	5,730,558
- Savings	29,147,074	25,398,924
- Arising from loans	1,210,936	1,077,037
- Special-purpose	4,022	10,165
- Other financial liabilities	9,372	11,975
- Other deposits	1	1
- Undue interest	5,209	4,357
	36,952,993	**32,233,017**
Corporate customers:		
- Transaction	28,569,030	28,452,197
- Arising from loans	3,066,208	1,506,630
- Special-purpose	311,554	212,879
- Other	11,233,488	13,681,231
- Borrowings	10,564,164	15,468,905
- Other financial liabilities	55,923	116,699
- Interest payable	2,645	2,330
- Undue interest	95,569	110,880
- Callable deposits	3,367,528	4,546,377
	57,266,109	**64,098,128**
Balance as of	**94,219,102**	**96,331,145**

For retail term deposits of private individuals in RSD, the Bank pays a nominal interest rate ranging from 0% up to 5% per annum, depending on the term period.

The interest rates on retail deposits in foreign currency range from 0% up to 4.3% per annum, depending on the term period.

For corporate term deposits in RSD, the Bank pays a nominal interest rate ranging from 0% up to 6% per annum, depending on the term period.

The interest rates on corporate deposits in foreign currency range from 0% up to 4% per annum, depending on the term period.

Borrowings from corporate customers are presented in the following table:

Financial institution	Approved amount in EUR	Balance as of 31 December 2022 in EUR	Maturity	31 December 2022 In RSD 000	31 December 2021 In RSD 000
APEKS	39,075,110	24,043,880	2022–2030	2,820,886	3,357,948
ProCredit Holding	53,000,000	-	2022–2024	-	6,231,852
ProCredit Holding	16,000,000	16,000,000	2023–2025	1,877,158	-
Proparco, France	50,000,000	50,000,000	2027	5,866,120	5,879,105
Total	**158,075,110**	**90,043,880**		**10,564,164**	**15,468,905**

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

There are no covenants for the aforementioned borrowings from APEKS and ProCredit Holding Germany.

The Bank is obliged to harmonize its operations with certain indicators defined by the loan agreements with the lender Proparco. As of 31 December 2022, according to the Bank's calculation, there was no non-compliance with all of the defined indicators.

Interest rates on received loans range from 6M Euribor + 1.70% per annum.

Unused credit lines are presented in the table below:

Financial institution	Contracted amount	Currency	Unused amount as of 31 December 2022 in EUR	Unused amount as of 31 December 2022 in RSD 000	Unused amount as of 31 December 2021 in RSD 000	Maturity
ProCredit Holding	10,000,000	EUR	10,000,000	1,173,224	1,175,821	30/03/2023
European Investment Bank	20,000,000	EUR	15,000,000	1,759,836	2,351,642	Upon withdrawal
Total				**2,933,060**	**3,527,463**	

33. SUBORDINATED LIABILITIES

Financial institution	Contracted amount	Currency	31 December 2022 In EUR	Maturity	31 December 2022 In RSD 000	31 December 2021 In RSD 000
ProCredit Holding	6,000,000	EUR	-	18/10/2023	-	705,493
ProCredit Holding	10,000,000	EUR	-	01/06/2025	-	1,175,821
Total					**-**	**1,881,314**
Undue interest					-	14,254
Balance as of					**-**	**1,895,568**

The interest rates on the subordinated liabilities ranged from 6M Euribor+6.25% to 6M Euribor+6.3% per annum.

During 2022, pursuant to the Decision no. 5616 issued by the National Bank of Serbia on 29 April 2022, the Bank converted subordinated loans before the contracted maturity date into senior loans from ProCredit Holding (Note 32). The conversion was done on 29 June 2022.

33. SUBORDINATED LIABILITIES (Continued)

The following below presents the cash flows from *financial activities* in respect of subordinated liabilities and changes during 2022 and 2021.

	Subordinated liabilities
Balance as of 1 January 2022	**1,895,568**
Cash outflows on principal	(1,891,870)
Cash outflows on interest	(14,254)
FX differences	(2,494)
Other non-cash changes	13,050
Balance as of 31 December 2022	**-**
Balance as of 1 January 2021	**1,895,491**
FX differences	30
Other non-cash changes	47
Balance as of 31 December 2021	**1,895,568**

34. PROVISIONS

	31 December 2022	31 December 2021
Provision for retirements benefits	5,938	5,532
Provision for litigations (Note 39.1)	279,431	311,414
Provisions for off-balance sheet items (Note 39.2)	93,214	48,713
Balance as of	**378,583**	**365,659**

Movements in the provisions **during 2022** were as follows:

	Retirement benefits	Litigations	Off-balance sheet items	Total
Opening balance	5,532	311,414	48,713	365,659
Increase – charge for the year	406	197,293	172,484	370,183
Decrease – release of provision	-	(197,722)	(127,946)	(325,668)
Utilised amount	-	(31,554)	-	(31,554)
FX differences	-	-	(37)	(37)
Balance as of 31 December 2022	**5,938**	**279,431**	**93,214**	**378,583**

34. PROVISIONS (Continued)

Movements in the provisions **during 2021** were as follows:

	Retirement benefits	Litigations	Off-balance sheet items	Total
Opening balance	5,126	174,751	25,323	205,200
Increase – charge for the year	406	190,425	71,809	262,640
Decrease – release of provision	-	(17,298)	(48,422)	(65,720)
Utilised amount	-	(36,464)	-	(36,464)
FX differences	-	-	3	3
Balance as of 31 December 2021	**5,532**	**311,414**	**48,713**	**365,659**

Provisions for retirement benefits as of 31 December 2022 were determined in accordance with the legal regulations and general acts of the Bank, by using a discount rate of 7.52% per annum (31 December 2021: 3.50% per annum) and an average salary growth rate of 10% per annum (31 December 2021: 6% per annum), as well as an employee turnover rate of 9% per annum (31 December 2021: 8% per annum).

The Bank calculates provisions for potential losses that may arise from litigations in accordance with the methodology explained in Note 3.

As of 31 December 2022, 10,616 court proceedings were pending before courts against the Bank (31 December 2021: 10,506). Based on the procedure established in the Bank for the calculation of potential losses for litigations, total provisions in the amount of RSD 279,431 thousand were estimated and recognised in the Bank's books of account (31 December 2021: RSD 311,414 thousand). The Bank's management has approved the amount of calculated provisions for litigations and agrees with the assessment that no material losses will arise from the ongoing lawsuits other than those provided for.

35. CURRENT TAX LIABILITIES

Current income tax payable as of 31 December 2022 amounted to RSD 64,913 thousand.

As of 31 December 2022, there were no outstanding current tax liabilities.

36. DEFERRED TAX LIABILITIES

(a) Deferred tax liabilities, net, relate to:

	31 December 2022	31 December 2021
Difference between the depreciation for accounting and tax purposes	39,251	46,616
Deferred tax liabilities - revaluation of property	(107,261)	(88,090)
Deferred tax liabilities - valuation of financial assets	(162)	(119)
Deferred tax assets - provision for retirement benefits	888	828
Deferred tax liabilities - effects of the first-time adoption of IFRS 9	-	(1,778)
Balance as of	**(67,284)**	**(42,543)**

(b) Movements in net deferred tax liabilities during the year were as follows:

2022	1 January 2022	Recognised in profit and loss	Recognised in OCI	Total 31 December 2022
Difference between the depreciation for accounting and tax purposes	46,616	(7,365)	-	39,251
Deferred tax liabilities - revaluation of property	(88,090)	2,994	(22,165)	(107,261)
Deferred tax liabilities - valuation of financial assets	(119)	-	(43)	(162)
Deferred tax assets - provision for retirement benefits	828	60	-	888
Deferred tax liabilities - effects of the first-time adoption of IFRS 9	(1,778)	1,778	-	-
Deferred tax liabilities, net	**(42,543)**	**(2,533)**	**(22,208)**	**(67,284)**

2021	1 January 2021	Recognised in profit and loss	Recognised in OCI	Total 31 December 2021
Difference between the depreciation for accounting and tax purposes	41,946	4,670	-	46,616
Deferred tax liabilities - revaluation of property	(91,083)	2,993	-	(88,090)
Deferred tax liabilities - valuation of financial assets	(107)	-	(12)	(119)
Deferred tax assets - provision for retirement benefits	767	61	-	828
Deferred tax liabilities - effects of the first-time adoption of IFRS 9	(3,555)	1,777	-	(1,778)
Deferred tax liabilities, net	**(52,032)**	**9,501**	**(12)**	**(42,543)**

37. OTHER LIABILITIES

	31 December 2022	31 December 2021
Trade payables	103,368	92,451
Liabilities for remittance payments abroad	154,543	1,229
Deferred fees for issuing guarantees and letters of credit	18,008	15,729
Accrued liabilities for unused vacations	31,760	26,870
Accrued overhead costs	8,135	7,563
Deferred income from subsidised interest	137,286	182,244
VAT payable	7,762	5,303
Other taxes payable	4,870	375
Other accounts payable	480,308	433,584
Lease liabilities – IFRS 16 (Note 40)	182,166	190,887
Accrued fees liabilities	16,583	16,409
Deferred commission fee in foreign currency from loans	20,859	18,123
Balance as of	**1,165,648**	**990,767**

Other accounts payable include:

	31 December 2022	31 December 2021
Closed accounts	118,436	121,489
Non-allocated accounts	49,506	47,441
Liabilities to the Development Fund	3,261	3,261
Liabilities to the National Mortgage Insurance Company	1,036	1,797
Liabilities for received advances for the sale of property	35,685	20,639
Liabilities for property appraisal	3,077	2,429
Temporary accounts	42,264	11,273
Liabilities in calculation	221,407	219,648
Other liabilities	5,636	5,607
Balance as of	**480,308**	**433,584**

38. EQUITY

The Bank’s equity consists of:

	31 December 2022	31 December 2021
Share capital – ordinary shares (a)	3,663,012	3,663,012
Share premium (b)	2,776,745	2,776,745
Reserves from profit (c)	1,643,864	1,643,864
Revaluation reserves (d)	433,411	691,036
Accumulated result - retained earnings (e)	8,950,776	8,481,024
Profit for the current year	1,231,490	469,752
Balance as of	**18,699,298**	**17,725,433**

38. EQUITY (Continued)

(a) As of 31 December 2022 and 2021, the Bank's share capital consists of 3,663,012 ordinary shares with a nominal value per share of RSD 1 thousand, which makes a total of RSD 3,663,012 thousand. In 2022, there were no changes in the share capital.

The shareholders' structure according to ownership interest and voting rights as of 31 December 2022 and 2021 is as follows:

	31 December 2022		31 December 2021	
	Number of shares	**% of ownership**	**Number of shares**	**% of ownership**
ProCredit Holding AG & CO, Frankfurt, Germany	3,663,012	100%	3,663,012	100%

(b) The share premium in the amount of RSD 2,776,745 thousand as of 31 December 2022 and 2021 arose as the difference between the total nominal value of shares and the dinar equivalent of the amount paid by the Bank's shareholder at the median exchange rate of the National Bank of Serbia prevailing at the date of payment.

ProCredit Holding AG & CO KGaA is the ultimate owner of the Bank holding 100% interest. The shareholder has the right to manage the Bank, as well as the right to participate in the profit distribution. Holder of ordinary shares are liable for liabilities and bear the risk of the Bank's operations in proportion to the number of shares at their disposal.

In accordance with the regulations of the National Bank of Serbia, the Bank has sufficient net capital to meet the minimal requirements of the National Bank of Serbia. In accordance with the Law on Banks, the pecuniary portion of the Bank's share capital may not be less than EUR 10,000,000, calculated at the median exchange rate at the balance sheet date.

(c) Reserves from profit are established in accordance with the legislation for estimated losses.

(d) Revaluation reserves have been created from the revaluation of property and valuation adjustments of equity and debt instruments to fair value:

	31 December 2022	**31 December 2021**
Revaluation reserve from property appraisals	804,170	678,570
Fair value reserve from equity instruments measured through OCI	916	675
Fair value reserve from debt instruments measured through OCI	(371,675)	11,791
Balance as of	**433,411**	**691,036**

38. EQUITY (Continued)

(d) Movements in *revaluation reserve from property appraisals* were as follows:

	31 December 2022	31 December 2021
Opening balance as of 1 January	678,570	678,570
Positive effects of revaluation	147,765	-
Deferred taxes	(22,165)	-
Balance as of	**804,170**	**678,570**

Movements in *fair value reserve from equity instruments* measured through OCI were as follows:

	31 December 2022	31 December 2021
Opening balance as of 1 January	675	605
Increase in reserve – net valuation gains	284	82
Deferred taxes	(43)	(12)
Balance as of	**916**	**675**

Movements in *fair value reserve from debt instruments* measured through OCI were as follows:

	31 December 2022	31 December 2021
Opening balance as of 1 January	11,791	28,181
Decrease in revaluation reserves - net valuation losses	(383,466)	(16,390)
Balance as of	**(371,675)**	**11,791**

(e) Accumulated result represents cumulative retained earnings from previous years, which arose from the difference between income and expenses. Profit from the year is the difference between income and expenses less income tax, increased or decreased by deferred taxes.

	31 December 2022
Retained earnings from 2009	120,094
Retained earnings from 2011	500,000
Retained earnings from 2013	807,537
Retained earnings from 2014	1,080,758
Retained earnings from 2015	738,000
Retained earnings from 2016	1,621,259
Retained earnings from 2017	1,189,346
Retained earnings from 2018	996,082
Retained earnings from 2019	680,985
Retained earnings from 2020	687,724
Profit for the year	469,752
Effects of the first-time adoption of IFRS 9	59,239
Accumulated result	**8,950,776**
Profit for the year	1,231,490
Total retained earnings	**10,182,266**

39. CONTINGENT LIABILITIES AND OFF-BALANCE SHEET ITEMS

39.1. Litigations

As of 31 December 2022, the Bank acts as a defendant in a number of court proceedings. There are 10,616 (31 December 2021:10,506) court proceedings against the Bank. The total estimated value of claims, including costs and interest, amounts to RSD 748.946 thousand (31 December 2021: RSD 692,849 thousand).

The final outcome of the ongoing litigations is uncertain. As disclosed in Note 34, the Bank has established provisions for potential losses that may arise from these court proceedings in the total amount of RSD 279,431 thousand (31 December 2021: RSD 311,414 thousand). The Bank's management estimates that no material losses will arise from the ongoing lawsuits other than those provided for.

The Bank is involved in lawsuits filed against third parties for the purpose of collecting its receivables. For all claims against corporate and retail customers, the Bank has made an adequate provision by charging profit of the current and prior years.

39.2. Off-balance Sheet Items

Off-balance sheet items exposed to credit risk are presented in the table below:

Commitments	31 December 2022	31 December 2021
Payable guarantees:		
- in RSD	788,197	814,799
- in foreign currency	2,229,479	2,362,702
Customs guarantees	1,118,056	1,048,483
Approved unused credit facilities	9,935,774	10,035,221
Off-balance sheet items exposed to credit risk	**14,071,506**	**14,261,205**
Performance bonds in RSD	2,531,741	1,673,534
Performance bonds in foreign currency	3,703,257	2,143,144
Total off-balance sheet items as of	**20,306,504**	**18,077,883**

The structure of approved **unused credit facilities** is as follows:

	31 December 2022	31 December 2021
Approved overdrafts on current RSD accounts	249,307	229,568
Approved loan facilities to corporate customers and entrepreneurs in RSD	1,610,351	1,744,185
Approved loans in respect of credit cards in RSD	46,118	46,783
Approved indexed revolving loans	4,920,222	4,925,834
Approved RSD revolving loans	2,651,088	2,670,449
Loans approved for project financing	191,477	256,864
Approved unused cash limits	267,211	161,538
Balance as of	**9,935,774**	**10,035,221**

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

39.2. Off-balance Sheet Items (Continued)

As of 31 December 2022, the Bank recognized provisions for off-balance sheet items in the amount of RSD 93,214 thousand (31 December 2021: RSD 48,713 thousand), as follows:

	31 December 2022	31 December 2021
Payable guarantees in RSD	10,010	5,941
Payable guarantees – indexed	57,498	9,125
Unused credit facilities in RSD	9,203	6,791
Unused credit facilities – indexed	4,623	3,155
Payable guarantees – indexed – related banks	1	-
Total provisions for contingent liabilities within off-balance sheet items	**81,335**	**25,012**
Provisions for performance bonds	11,879	23,701
Total provisions for off-balance sheet items (Note 34)	**93,214**	**48,713**

40. LEASES

Identified Assets and Lease Term

As of 31 December 2022, the Bank has 12 concluded lease agreements. All lease agreements relate to the rental of commercial space. In assessing the lease term for branches, the Bank estimates that early withdrawal from the agreements would carry economic consequences to its operations.

Furthermore, prior to entering into the lease, the plan was to remain in the leased property for the full term of the agreement. For this reason, when determining the term of the lease agreement for branches, the Bank opts for a period that is equal to the contracted term without deductions linked to the option of early withdrawal from the agreement.

Apart from the lease of commercial space, the Bank has 5 apartments lease agreements for the needs of its employees, all contracted for a 12-month period. In assessing the lease term for flats, the Bank estimates that early withdrawal from the agreements would not carry economic consequences to its operations, therefore it treats the above mentioned in line with the contractual term of 12 months, i.e. as short-term leases.

In addition, upon the expiry of the lease, the Bank's management makes a decision on whether to extend the term of flat leases, making it uncertain as to whether the contracted term of 12 months will be extended or not.

As of 31 December 2022, the Bank has a concluded lease agreement for IT equipment, however, considering that the value of each individual asset specified by the agreement is below EUR 5,000, the Bank applies the low-value asset lease exemption and does not recognise the lease in line with IFRS 16.

40. LEASING (Continued)

Movements in lease liabilities and right-of-use assets during the year were as follows:

Lease liabilities recognised as of 1 January 2021	**185,025**
Lease liabilities paid in 2021	(40,452)
New lease agreements in 2021	71,336
Terminated agreements during 2021	(31,649)
Effect of discounting lease liabilities by the incremental borrowing rate - interest expense	6,625
FX differences	2
Total lease liabilities as of 31 December 2021	**190,887**
Lease liabilities paid in 2022	(39,553)
New lease agreements in 2022	25,231
Terminated agreements during 2022	-
Effect of discounting lease liabilities by the incremental borrowing rate - interest expense	5,983
FX differences	(382)
Total lease liabilities as of 31 December 2022 (Note 37)	**182,166**
Lease liabilities with maturity up to 1 year	-
Lease liabilities with maturity from 1 to 5 years	128,665
Lease liabilities with maturity over 5 years	53,501
Right-of-use assets recognised as of 1 January 2022	**185,055**
Amortisation of right-of-use assets in 2022 – charge for the year	(35,193)
Terminated agreements during 2022	-
New lease agreements in 2022	25,231
Total right-of-use assets as of 31 December 2022 (Note 26)	**175,093**

41. RECONCILIATION OF OUTSTANDING BALANCES OF RECEIVABLES AND PAYABLES WITH COUNTERPARTIES

Pursuant to the Law on Accounting, the Bank conducted the reconciliation of its receivables by sending confirmations of outstanding items to all corporate customers and entrepreneurs with the outstanding balance as of 30 November 2022.

Out of 11,219 (2021: 11,880) confirmations sent, 919 (2021: 871) were confirmed, 19 (2021: 32) were disputed, while the remaining portion has not been returned.

The total value of disputed receivables of the Bank amounts to RSD 27 thousand (2021: RSD 2,022 thousand).

Considering that the reconciliation with the suppliers was performed on three different dates, it is not practical to state the amount of the unreconciled liabilities to suppliers, but there were no materially significant unreconciled balances of trade payables.

42. COMPLIANCE WITH THE PERFORMANCE INDICATORS PRESCRIBED BY THE NATIONAL BANK OF SERBIA

Performance indicators	Prescribed values	Realised 31 December 2022	Realised 31 December 2021
	EUR	EUR	EUR
Capital	10 million	145 million	139 million
Capital adequacy ratio	8% min	19.06%	16.53%
Tier 1 capital adequacy ratio	6% min	19.06%	15.46%
Common equity Tier 1 capital adequacy ratio	4.5% min	19.06%	15.46%
Investments in non-financial sector entities and property, plant and equipment	60% max	12.71%	12.81%
Aggregate large exposure ratio – sum of all exposures	400% max	26.27%	12.23%
Exposure to a single party or a group of related parties	25% max	15.74%	12.23%
Liquidity ratio	1 min	2.81	2.35
Narrow liquidity ratio	0.5 min	2.63	2.10
Liquidity coverage ratio (LCR)	100% min	256%	171%
Foreign exchange risk indicator	20% max	2.56%	1.19%
Concentration risk indicator	50% max	0.00%	0.00%

43. RELATED PARTY DISCLOSURES

The Bank is a member of the ProCredit Group, comprised of development-oriented banks operating in Eastern Europe, Africa, and the bank in Germany. The parent company of the Group is ProCredit Holding, Frankfurt - the company leading the ProCredit Group. ProCredit Holding also has two academies and the software development firm Quipu.

At consolidated level, the ProCredit Group is supervised by Bundesbank and BaFin. All members of the Group are majority owned by ProCredit Holding, and in the case of ProCredit Bank Serbia, ProCredit Holding (PCH) owns 100% of the Bank's ordinary shares.

(a) Outstanding Balances of Receivables and Payables from/to Related Parties at the End of Year

	Subsidiary (ProCredit Leasing)	Other related parties	Balance as of 31/12/2022	Balance as of 31/12/2021
Loans and placements to banks and other financial institutions	**-**	**801,643**	**801,643**	**1,967,062**
ProCredit Bank Germany	**-**	**800,783**	**800,783**	**1,966,670**
Other deposits in foreign currency	-	-	-	-
Nostro accounts	-	800,783	800,783	1,966,670
ProCredit Finance II SPV	**-**	**860**	**860**	**392**
Investments in subsidiaries	**127,752**	**-**	**127,752**	**127,752**
ProCredit Leasing (Note 24)	127,752	-	127,752	127,752

43. RELATED PARTY DISCLOSURES (Continued)

(a) Outstanding Balances of Receivables and Payables from/to Related Parties at the End of Year (Continued)

	Parent company (PCH)	Subsidiary (ProCredit Leasing)	Other related parties	Balance as of 31/12/2022	Balance as of 31/12/2021
Other assets	**-**	**-**	**1,289**	**1,289**	**898**
ProCredit Leasing	-	-	1	1	-
ProCredit Bank Germany	-	-	400	400	379
ProCredit Bulgaria	-	-	888	888	-
ProCredit Holding	-	-	-	-	101
ProCredit Bank Kosovo	-	-	-	-	259
ProCredit Bank Georgia	-	-	-	-	50
ProCredit Bank Ukraine	-	-	-	-	109

	Parent company (PCH)	Subsidiary (ProCredit Leasing)	Other related parties	Balance as of 31/12/2022	Balance as of 31/12/2021
Deposits and other liabilities due to banks and other financial institutions	**-**	**193,158**	**5,953,591**	**6,146,749**	**6,015,293**
ProCredit Bank Germany	**-**	**-**	**5,947,746**	**5,947,746**	**5,813,707**
Deposit	-	-	5,895,451	5,895,451	5,790,919
Other	-	-	52,295	52,295	22,788
ProCredit Finance II SPV	**-**	**-**	**5,845**	**5,845**	**1,149**
Deposit	-	-	5,845	5,845	1,149
ProCredit Leasing		**193,158**	**-**	**193,158**	**200,437**
Deposit - transaction	-	193,158	-	193,158	200,437
Deposits and other liabilities due to customers	**3,779,093**	**-**	**-**	**3,779,093**	**12,298,141**
ProCredit Holding	**3,779,093**	**-**	**-**	**3,779,093**	**12,298,141**
Deposit	1,877,158	-	-	1,877,158	5,996,688
Borrowings (Note 32)	1,877,158	-	-	1,877,158	6,231,852
Other	24,777	-	-	24,777	69,601

	Parent company (PCH)	Subsidiary (ProCredit Leasing)	Other related parties	Balance as of 31/12/2022	Balance as of 31/12/2021
Subordinated liabilities	**-**	**-**	**-**	**-**	**1,895,568**
ProCredit Holding (Note 33)	-	-	-	-	1,895,568
Other liabilities	**-**	**-**	**50,585**	**50,585**	**50,616**
QUIPU GMBH Germany	-	-	28,418	28,418	31,688
ProCredit Bank Kosovo	-	-	581	581	205
ProCredit Bank North Macedonia	-	-	214	214	-
QUIPU Shpk Kosovo	-	-	-	-	518
Germany Academy	-	-	514	514	180
ProCredit Holding	-	-	20,858	20,858	18,025

43. RELATED PARTY DISCLOSURES (Continued)

(a) Income and Expenses from Related Party Transactions During the Year

	Parent company (PCH)	Subsidiary (ProCredit Leasing)	Other related parties	2022 Total	2021 Total
Interest income	**-**	**-**	**2,330**	**2,330**	**141**
Procredit Bank Germany	-	-	2,330	2,330	141
Interest expenses	**139,723**	**-**	**78,936**	**218,659**	**355,613**
ProCredit Bank Germany	-	-	74,228	74,228	65,870
ProCredit Holding	139,723	-	-	139,723	286,575
ProCredit Bank Bulgaria	-	-	4,708	4,708	3,168
Fee and commission income	**-**	**42**	**470**	**512**	**510**
SPV	-	-	470	470	470
ProCredit Leasing	-	42	-	42	40
Fee and commission expenses	**71,549**	**-**	**91,665**	**163,214**	**144,382**
ProCredit Bank Germany	-	-	91,665	91,665	82,285
ProCredit Holding	71,549	-	-	71,549	62,097

	Parent company (PCH)	Subsidiary (ProCredit Leasing)	Other related parties	2022 Total	2021 Total
Net gains from changes in fair value of financial instruments	**-**	**-**	**126,573**	**126,573**	**63,798**
ProCredit Bank Germany	-	-	126,573	126,573	63,798
Other operating income	**-**	**1,722**	**61,625**	**63,347**	**6,863**
ProCredit Bank B&H	-	-	6,570	6,570	514
ProCredit Bank Macedonia	-	-	6,587	6,587	514
ProCredit Bank Romania	-	-	4,043	4,043	514
ProCredit Holding	-	-	65	65	1,027
ProCredit Bank Bulgaria	-	-	6,609	6,609	514
ProCredit Leasing	-	1,722	-	1,722	1,724
ProCredit Bank Albania	-	-	8,514	8,514	514
ProCredit Bank Georgia	-	-	9,861	9,861	514
ProCredit Bank Kosovo	-	-	16,645	16,645	514
ProCredit Bank Moldova	-	-	2,731	2,731	-
ProCredit Bank Ukraine	-	-	-	-	514

	Parent company (PCH)	Subsidiary (ProCredit Leasing)	Other related parties	2022 Total	2021 Total
Other expenses	**159,496**	**-**	**341,921**	**501,417**	**471,994**
GA	-	-	34,160	34,160	32,706
Macedonian Academy	-	-	-	-	1,082
ProCredit Holding	159,496	-	-	159,496	152,550
QUIPU GMBH Germany	-	-	304,920	304,920	280,680
QUIPU Shpk Kosovo	-	-	2,841	2,841	4,976

43. RELATED PARTY DISCLOSURES (Continued)

(c) Commitments and Contingent Liabilities

	Parent company (PCH)	Subsidiary (ProCredit Leasing)	Other related parties	Balance as of 31/12/2022	Balance as of 31/12/2021
Issued payable guarantees	-	-	**8,927**	**8,927**	**12,000**
ProCredit Bank North Macedonia	-	-	2,927	2,927	-
ProCredit Bank Bulgaria	-	-	6,000	6,000	12,000
Revolving loan	**1,173,224**	**-**	**-**	**1,173,224**	**1,175,821**
ProCredit Holding (Note 32)	1,173,224	-	-	1,173,224	1,175,821
Receivables for forward FX swap purchases – ProCredit Bank Germany	**-**	**-**	**1,376,894**	**1,376,894**	**914,551**
Receivables for forward FX swap sales - ProCredit Bank Germany	**-**	**-**	**1,378,913**	**1,378,913**	**914,248**

(d) Loans to Employees

In 2022, the Bank approved loans to its employees under the terms and conditions that do not differ from those available on the market.

In 2022, the Bank approved loans to employees in the amount of RSD 93,404 thousand (2021: RSD 102,255 thousand). The outstanding balance of loans granted to employees as of 31 December 2022 amounts to RSD 390,284 thousand (31 December 2021: RSD 306,320 thousand).

During 2022, no loans were approved to members of the Board of Directors.

(e) Remuneration to the Executive Board and the Board of Directors

Members of the Executive Board earn a salary. The gross salaries paid out to the Executive Board’s members in 2022 amounted to RSD 35,366 thousand (2021: RSD 31,664 thousand).

The total gross compensation of the Board of Directors’ members amounted to RSD 3,146 thousand in 2022 (2021: RSD 2,762 thousand).

44. CASH AND CASH EQUIVALENTS IN THE STATEMENT OF CASH FLOWS

A summary of cash and cash equivalents included in the Statement of Cash Flows is presented in the following table:

	31 December 2022	31 December 2021
In RSD:		
Gyro account	6,611,375	7,377,424
Cash on hand	902,321	879,349
Total	**7,513,696**	**8,256,773**
In foreign currency:		
Foreign currency accounts (Note 21)	3,539,264	3,082,004
Cash on hand in foreign currency	1,563,643	979,362
Total	**5,102,907**	**4,061,366**
Balance as of 31 December	**12,616,603**	**12,318,139**

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

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

The Bank conducted an analysis of its loan portfolio in order to assess the possibility of an adverse impact of the war in Ukraine and sanctions against Russia and Belarus on the quality of its loan portfolio and business operations.

Clients that have material business relationships with these countries were initially identified. For the most part, they were able to adapt to the changing situation and adjust their business relationships accordingly, as well as to mitigate potential risks. Neither the sanctions nor indirect war effects resulted in any significant changes in the quality of the loan portfolio.

The Bank additionally evaluated clients with poor financial indicators belonging to economic sectors that the Bank classified as vulnerable. As a result, out of 39 client groups, two clients migrated to a default cluster (non-performing loan portfolio). The volume of these clients that have migrated to the default cluster is EUR 2.1 million (the exposure as of 31 December 2022). The remaining 37 client groups did not show a considerable deterioration (the volume of EUR 39.3 million).

In addition to the previously mentioned crisis, the Bank has been estimating the potential impact of the energy crisis on its loan portfolio since the third quarter of 2022, by having identified clients from energy-intensive industries along with weaker financial indicators.

It can be concluded that the Bank neither had clients that migrated to a worse cluster nor the energy crisis had significant adverse effects on the loan portfolio by the end of 2022.

Certainly, the Bank will continue to carefully monitor the trends and respond in a timely manner to any additional market disruptions, and if necessary, carry out further analyses of the loan portfolio.

46. EVENTS AFTER THE REPORTING PERIOD

There have been no significant events after the reporting date that would require adjustments or disclosures in the notes to the accompanying financial statements of the Bank as of and for the year ended 31 December 2022.

In Belgrade, 9 March 2023

Ivan Smiljkovic Member of the Executive Board	Igor Anic Chairman of the Executive Board

PROCREDIT BANK A.D. BELGRADE

ANNUAL BUSINESS REPORT
FOR THE YEAR ENDED 31 DECEMBER 2022

Contents

1. Business Activities and Organisational Structure of ProCredit Bank a.d. Belgrade

ProCredit Bank a.d. Belgrade (hereinafter: the “Bank“ or “ProCredit Bank“) was established based on the Contract on Incorporation of Micro Finance Bank a.d. Belgrade concluded on 31 March 2001 among five founders - foreign financial institutions.

The Bank obtained an operational licence according to the Decision no. G. 538 passed by the National Bank of Yugoslavia on 5 April 2001. The Bank acquired the status of a legal entity after being registered with the court register of the Commercial Court in Belgrade under the number V Fi-3571- 01, dated 9 April 2001 (registration folder 3-135-00).

The Bank performs its operations in accordance with the Law on Banks, the Contract on Incorporation and Articles of Association and has the “significant authorisation” for performing payment transactions and foreign credit transactions.

The Bank performs its operations at its Head Office in Belgrade, situated at 17 Milutina Milankovica, and in 6 branches located in Belgrade, Novi Sad, Kragujevac, Nis, Subotica and Pancevo.

Who are the shareholders of ProCredit Bank in Serbia?

ProCredit Bank operates in Serbia as a part of the ProCredit Group, which is managed by ProCredit Holding, headquartered in Frankfurt am Main, Germany. ProCredit Bank is a member of the ProCredit Group.

ProCredit Holding AG & CO KGaA owns 100% of the Bank's capital and it is the ultimate parent company of the ProCredit Group.

Key Features of the ProCredit Group

The Procredit Group is comprised of banks and financial institutions offering banking services in developing countries in Eastern Europe, Africa and Germany. All ProCredit Group banks adhere to the highest standards of responsible banking when performing their operations.

All ProCredit Group banks operate as “parent companies“ for small and medium-sized enterprises (SMEs), farmers and individuals, while fostering a business approach based on ethical values. The following five principles guide the operations of the ProCredit institutions:

Transparency: We provide transparent information to our customers, to the public and to our employees. For example, we endeavour to ensure that our customers fully understand the terms and conditions of the agreements they conclude with us and we are engaged in delivering financial education so as to raise public awareness of the dangers of non-transparent financial offerings.

Open communication culture: We communicate openly, fairly and constructively with each other. We deal with conflicts at work in a professional manner, working together to find solutions.

Social responsibility and tolerance: We offer our customers sound and well-founded advice. Before offering loans to our customers, we assess their economic and financial position, their business potential and repayment capacity in order to avoid over-indebtedness and provide appropriate financial services. In addition, we are committed to treating all customers and employees with fairness and respect, regardless of their origin, colour, language, gender or religious beliefs.

We also ensure that loan applications are evaluated based on the applicant’s compliance with our ethical business practices. Loans are not granted to enterprises or individuals if they are suspected of making use of unsafe, environmentally harmful or morally objectionable forms of labour, in particular child labour.

1. Business Activities and Organisational Structure of ProCredit Bank a.d. Belgrade (Continued)

High professional standards: Our employees take personal responsibility for the quality of their work and constantly work on their professional development.

Personal integrity and commitment: The rights and personal integrity of all ProCredit Group employees are respected to the highest degree. At the same time, dedication and honesty are expected of all employees at all times.

In our daily operations, we are not focused on a short-term profit gain, but rather on establishing and maintaining long-term partnerships with our customers.

Related Party Transactions

The Bank is a member of the ProCredit Group, comprised of development-oriented banks operating in Eastern Europe and Africa, and a bank in Germany.

The Group's parent company, ProCredit Holding, Frankfurt – a company managing the ProCredit Group, is comprised of two academies and Quipu, a software development firm.

At consolidated level, the Group is supervised by Bundesbank and BaFin. ProCredit Holding is a majority shareholder of all Group members, and in the case of ProCredit Bank Serbia, ProCredit Holding owns 100% of the Bank's ordinary shares.

The Bank is the founder of ProCredit Leasing d.o.o. Belgrade, which is registered with the Serbian Business Registers Agency in Belgrade under the registration no. 1973/2005 of 17 February 2005. The Bank is the sole owner of ProCredit Leasing d.o.o. Belgrade.

Pursuant to the Law on Bankruptcy and Liquidation of Banks and Insurance Companies, on 1 January 2018 the General Meeting of ProCredit Leasing d.o.o. passed a Decision on Terminating Operations and Initiating a Liquidation Procedure, which was submitted to the National Bank of Serbia, as the official regulator, within the legal deadline, which consented to the initiation of the liquidation procedure. The liquidation procedure of ProCredit Leasing d.o.o. Belgrade commenced on 30 April 2018 and is still ongoing.

Since the Bank meets the requirements disclosed in Article 8 of the National Bank of Serbia's Decision on the Supervision of the Banking Group on a Consolidated Basis, the Bank has not prepared the consolidated financial statements as of and for the year ended 31 December 2022.

Transactions performed among the Group members include lending, deposits, employee training and other transactions and are subject to a transfer pricing analysis for 2022.

A detailed breakdown of related party transactions is disclosed in Note 43 to the Bank's financial statements for the year ended 31 December 2022.

2. *Analysis of Financial Statements*

ANALYSIS OF THE BALANCE SHEET

A structure of total balance sheet assets and equity and liabilities of the Bank as of **31 December 2022** and a share of individual categories are as follows:

ASSETS	In RSD thousand	Share in %	LIABILITIES AND EQUITY	In RSD thousand	Share in %
Cash and balances held with Central Bank	19,814,215	13.32	Deposits and other liabilities due to banks, other financial institutions and central bank	34,137,851	22.95
Derivatives	5,642	0.00	Deposits and other liabilities due to other customers	94,219,102	63.35
Securities	6,741,979	4.53	Derivatives	581	0.00
Loans and placements to banks and other financial institutions	11,611,839	7.81	Provisions	378,583	0.25
Loans and placements to customers	106,913,139	71.89	Current tax liabilities	64,913	0.04
Investments in subsidiaries	127,752	0.09	Deferred tax liabilities	67,284	0.05
Intangible assets	329,363	0.22	Other liabilities	1,165,648	0.78
Property, plant and equipment	2,022,577	1.36	**Total liabilities**	**130,033,962**	**87.43**
Investment property	140,515	0.09	Share capital	6,439,757	4.33
Non-current assets held for sale and assets from discontinued operations	47,370	0.03	Retained earnings	10,182,266	6.84
Other assets	978,869	0.66	Reserves	2,077,275	1.40
			Total equity	**18,699,298**	**12.57**
TOTAL ASSETS	**148,733,260**	**100.00**	**TOTAL LIABILITIES AND EQUITY**	**148,733,260**	**100.00**

The Bank's total balance sheet sum as of 31 December 2022 decreased by RSD 6,606,437 thousand or by 4.25% in comparison to 31 December 2021, when it amounted to RSD 155,339,697 thousand.

The largest decrease was recorded in loans and placements to customers in the amount of RSD 9,287,406 thousand, i.e. 7.99% compared to the same date in 2021. As regards the structure of granted loans and placements by sector structure, corporate customers dominate with a share in the total gross placements of RSD 82,772,418 thousand (77.42%), whereby long-term placements participate with 79.91%.

Securities also decreased in 2022 by RSD 414,961 thousand (or 5.79%), due to matured government bonds issued by the Ministry of Finance of the Republic of Serbia.

On the other hand, loans and placements to banks recorded an increase by RSD 1,866,818 thousand or 19.16% in comparison to 31 December 2021, primarily due to the Bank's surplus liquid assets deposited with the National Bank of Serbia.

In the liabilities structure, there was a decrease in deposits of other customers by RSD 2,112,043 thousand, i.e. 2.19% %, in comparison to 31 December 2021, which is mainly the result of a decrease in time deposits and balances on customers' current accounts.

As of 31 December 2022, retail deposits accounted for 39.22% (31 December 2021: 33.46%), while corporate deposits accounted for 60.78% of the total customers' deposits (31 December 2021: 66.54%).

2. *Analysis of Financial Statements (Continued)*

ANALYSIS OF THE BALANCE SHEET (Continued)

Simultaneously with the decrease in customer deposits, there was also a decrease in liabilities to other financial institutions in the amount of RSD 3,850,731 thousand, i.e. 10.14% compared to 31 December 2021, mostly due to a decrease in foreign currency deposits from related parties. During the course of 2022, total subordinated liabilities in the amount of RSD 1,895,568 thousand were converted into senior bank loans.

The total capital constitutes 12.57%, and share capital 4.33% of the Bank's total liabilities and equity as of 31 December 2022 (31 December 2021: 11.41% and 4.15%, respectively).

There were no changes in the shareholder structure during 2022. In addition, no dividends were paid to the shareholder in 2022.

The Bank is solely owned by one shareholder holding a 100% stake in the total share capital. The structure of the Bank's shareholders as of 31 December 2022 and 2021 is as follows:

In RSD thousand	**Share capital in RSD thousand**	**% of equity interest**
ProCredit Holding AG & CO KGaA, Frankfurt, Germany	3,663,012	100.00
Total	**3,663,012**	**100.00**

A detailed structure of the balance sheet items and the information on the business policies of the Bank and the ProCredit Group in terms of funds placement, loan collection and an evaluation of the borrower’s financial position are disclosed in Notes 19 to 40 to the Bank’s financial statements for the year ended 31 December 2022.

Pursuant to Article 22 of the Law on Accounting, the Bank reconciled its receivables and payables with its debtors and there were no materially unreconciled receivables and payables.

2. *Analysis of Financial Statements (Continued)*

ANALYSIS OF THE INCOME STATEMENT

According to the financial statements for the year ended 31 December 2022, the Bank reported income in the amount of RSD 7,616,399 thousand and expenses in the amount of RSD 6,384,909 thousand. The Bank realized a profit in the current year in the amount of RSD 1,231,490 thousand (2021: RSD 469,752 thousand).

The structure of the Bank's income statement for the **year ended 31 December 2022** is as follows:

Description	**In RSD thousand**
Income	
Interest income	4,880,925
Fee and commission income	2,247,186
Net gains from changes in fair value of financial instruments	155,715
Other operating income	111,116
Other income	216,625
Deferred tax income	4,832
Total income	**7,616,399**
Expenses	
Interest expenses	(956,226)
Fee and commission expenses	(560,822)
Net foreign exchange losses	(96,668)
Net losses from impairment of financial assets not measured at fair value through profit or loss	(808,225)
Salaries, compensations and other personal expenses	(1,096,846)
Amortisation and depreciation expense	(197,019)
Other expenses	(2,488,309)
Income taxes	(173,429)
Deferred tax expense	(7,365)
Total expenses	**(6,384,909)**
Net result – profit after tax	**1,231,490**

The Bank's profit after tax increased by 162.16%, mostly due to an increase in interest and fee income in 2022.

Interest income accounted for 64.08% of total income in 2022 and it increased by RSD 713,622 thousand in comparison to 2021, primarily due to an increase in interest income on loans to corporate customers and entrepreneurs and depositing surplus liquid assets with the National Bank of Serbia.

Interest expenses accounted for 14.98% of total expenses in 2022 and they decreased by RSD 1,802 thousand in comparison to 2021. The most significant decrease relates to interest expenses on borrowings from domestic and foreign financial institutions.

An increase in net losses from impairment of financial assets not measured at fair value through profit or loss in 2022 by RSD 64,822 thousand or 8.72% in comparison to 2021 is the result of an increase in provisions for loans and placements to customers.

A detailed breakdown of income statement items is disclosed in Notes 7 to 17 to the Bank's financial statements for the year ended 31 December 2022.

3. HR Information

The Bank had 404 employees as of 31 December 2022 the (31 December 2021: 388 employees).

ProCredit Bank puts considerable effort and invests significant funds in continuous professional development of its staff. Over the last years, namely from 2013 until to the end of 2022, the Bank invested approximately EUR 8 million in various professional development training programmes for its employees.

During 2022, training programs and all seminars partially continued to be held online, while for the most part trainings returned to regular mode of operation, i.e. live and in the premises of the academy in Furth, as well as in the training centre on Avala.

The plan is to invest approximately EUR 500,000 in 2023 in training programs. Intensive, multiannual, training programmes are organised and paid by the Bank for existing managers and for employees in whom this potential has been recognised. Apart from them, all employees interested in this form of professional development may apply for these programmes. 58 employees have successfully completed all courses at these academies, and currently 21 employees are attending courses at both academies.

Special attention is paid to English language learning. Six-week intensive English courses are organised for all employees, taught by native speakers. In 2022, 7 four to six-week online courses were organised and a total of 11 employees attended. The courses continue in 2023, there will be 6 courses, and they will be organised both online and as a hybrid (combination of live and online lectures).

Apart from the aforesaid training for permanent employees, in 2023 an introductory training course on banking and finance named ProCredit Onboarding Programme will be organised four times over a six-month period for university graduates and all those who are interested and have practical experience. The goal of this program is the training of new employees and the selection of the best candidates for open positions in our team.

The ProCredit Onboarding Programme is an international programme held in the English language and attended by employees from all of the countries in which ProCredit Bank operates. This programme is an entry point for employment with the Bank and over the past ten years more than 700 young graduates from all over Serbia have attended it, out of which about 320 found employment with the Bank, whereas over 100 of them have remained in the Bank and are an important part of its team.

ProCredit Bank fosters a culture of open and direct communication at all levels. The performance of all employees is regularly evaluated on an annual basis by a team of evaluators comprised of top management members, including the members of the Executive Board. These evaluations began in 2013 and have had a significant impact on improving staff performance and on the resource management.

Apart from a thorough annual evaluation, all employees have interviews with their line managers twice a year, allowing for continuous feedback that stimulates two-way communication and gives employees the chance to get a broader picture of the development strategy and their own personal contribution to the Bank’s success.

4. Information on Environmental Protection Investments

ProCredit Bank tends to reduce a negative impact on the environment and the social community in which it operates through its business activities and the provision of services to its customers. Doing business in a way that ensures a sustainable environmental and social approach is a key component of all institutions that are members of the ProCredit Group. In that regard, all ProCredit institutions have defined and implemented high standards of environmental protection and the community in which they operate through an environmental management system.

When conducting its operations the Bank adheres to the Group's Environmental Management Policy, which was implemented in 2011. The Group’s Policy was updated in 2016 and harmonized with the requirements of the ISO 14001 Standard. Furthermore, the Policy was also updated in 2019 and additionally harmonised with the requirements of ProCredit Holding. The Policy defines the Bank's approach based on which the institution systematically and comprehensively reduces an internal and external impact on the environment and the community. ProCredit Bank has fully adopted the Environmental Management System (EMS). The Bank has managed to reduce the negative environmental impact over the past year using this system, not only through internal measures for reducing energy consumption and resources, but also by financing energy efficiency projects, renewable energy sources and by implementing other environmental protection measures.

In order to institutionalise the EMS, the Bank established the Energy Efficiency and Environmental Protection Unit with two full-time employees whose tasks, among other things, include the monitoring of the Bank’s compliance with the applicable environmental legislation and regular encouragement and raising awareness of employees to apply in their daily work the underlying rules and principles that guide companies towards the environmental management and protection.

In 2016, ProCredit Bank harmonised the EMS with the requirements of ISO 14001:2015 Standard and, thereby, was the first one to be awarded an environmental protection management certificate in the local financial sector. Having obtained this certificate, the Bank confirmed its compliance with the environmental protection legislation and a planned environmental impact reduction by involving the top management in EMS processes.

At the end of 2019, after the expiration of the original three-year certification period, the Bank successfully underwent a recertification process, which reaffirmed the Bank's compliance with the required ISO 14001 Standard. In 2020 and 2021, regular annual internal and external EMS reviews were performed and no incompatibilities with the standard were identified. In December 2022, the Bank successfully completed another recertification process in accordance with ISO standard 14001:2015.

A systemic and comprehensive approach to this topic at ProCredit institutions is conducted through the following three pillars:

Pillar 1 - Internal Environmental Protection System

This pillar refers to all measures taken in the Bank with the aim of improving environmental protection and reducing negative environment impact through energy and resources consumption. Measures applied by the Bank are related not only to those measures that affect employee habits, but also to the measures that refer to changes in business processes, including technical improvement of buildings and equipment used in our daily operations.

In order to track the consumption of energy and other resources, we use a special tool (iEMS tool) to manage and monitor the consumption of the following items: electric and thermal energy, gas, fuel, water, paper, paper and other waste, and greenhouse gas emissions. All forms of consumption are analysed and based on that, goals are set for reducing consumption and saving these resources by defining the Annual Environmental Plan.

4. Information on Environmental Protection Investments (Continued)

Pillar 1 - Internal Environmental Protection System (*Continued*)

The Bank applies the selection criteria for so-called green suppliers in its procurement procedures, based on which the Bank further seeks to reduce the negative environmental impact. In 2019, based on updated guidelines provided by ProCredit Holding, the Bank began applying sustainable development criteria for its suppliers. A screening process was introduced on existing processes. In addition, changes in procurement processes and procedures were initiated. A Bank's short-term goal is to achieve a minimum of 50% of suppliers that meet the defined sustainability criteria, while in the long run we expect cooperation with fully sustainable suppliers. With this move, the Bank further promotes sustainable development in Serbia.

In 2022, the Bank continued to strictly adhere to the standards related to the Environmental Protection System, which entails the further implementation of technical and other measures in the Bank, which will further reduce negative environmental impacts.

The Bank has set a medium-term goal to become a carbon-neutral institution. In order to do so, it will continue to invest in a reduction in energy consumption and the use of renewable energy sources and material. The Bank's vehicle fleet represents part of that goal, and in 2022 we reached the result of over 90% of electric or hybrid vehicles in the vehicle fleet. The plan for 2023 is to reach our goal of 100% eco-friendly vehicles.

As regards employee education and raising awareness of environmental protection, our experts regularly attend training sessions on environmental protection, participate in conferences and numerous activities of the Bank, whose objective is to raise ecological awareness of citizens in their daily lives, both at work and in their homes.

Continuous improvement of internal performance is certainly a feature of ProCredit Bank. Through continuous monitoring of consumption, analysis of results, raising employee awareness and constant investment and commitment, the Bank strives to reduce its negative impact on the environment to the smallest possible extent on the one hand. On the other hand, it always strives to, where possible, achieve a positive impact on society and the environment in which it is located.

Pillar 2 - Environmental and Social Risk in Lending

This pillar's objective is to reduce the Bank's external impact through lending to customers. All ProCredit banks have a List of Excluded Activities, which comprises activities that the Group is unwilling to support, finance or promote as they are not in line with our principles and have a negative impact on both the environment and the community. We apply the *Standard for Managing the Impact of Lending Activities on Environmental Protection and Social Responsibility* to the operations we support. This Standard prescribes the conditions and method for assessing environmental and social risks in lending.

In applying the environmental aspect to the loan approval process, ProCredit Bank aims to improve the overall environmental awareness of its customers.

Therefore, on the one hand, the Bank endeavours to provide the most reliable assessment of the environmental and social impact of customers' investments, and on the other hand, it estimates whether customers' business operations comply with the Bank's environmental protection principles and the effective laws and by-laws.

In addition, the Bank promotes investments in technologies and measures that are not harmful to the environment and help to reduce hazardous environmental impacts or improve environmental performance.

4. Information on Environmental Protection Investments (Continued)

Pillar 2 - Environmental and Social Risk in Lending (Continued)

In 2020, the updated *Standard for Managing the Impact of Lending Activities on Environmental Protection and Social Responsibility* was implemented, which resulted in further improvement of this risk assessment aspect at the Bank and its compliance with current challenges triggered by climate and resource risks. The responsibilities of the Unit for Customers' Operational Risk Assessment in terms of Environmental and Community Protection and the Energy Efficiency and Environmental Protection Unit were specified. The instruction for an external review of environmental and social risks was simplified and the risk assessment process for protection zone was clarified. In addition, the List of Excluded Activities was amended, representing the most important part of the changes to the Standard in 2020.

At the end of 2021, the *Standard for Managing the Impact of Lending Activities on Environmental Protection and Social Responsibility* was further updated, which additionally contributed to monitoring and analysing the activities that significantly affect the environment and social responsibility. Furthermore, the List of Excluded Activities was also updated to include explanations of existing items and new items.

The constant improvement of the process continued in 2022, as well as the assessment of our customers from the point of view of environmental and social aspects. The Bank regularly analyses its portfolio in accordance with environmental risk groups that can be classified as low, medium and high-risk levels. Certainly, considering the List of Excluded Activities, the Bank does not finance the estimated riskiest activities and thus makes its contribution to the preservation of the environment.

Pillar 3 - Green Financing

Green financing is a significant part of the Bank's business development. Through this type of financing, the Bank strongly supports the green economy development in Serbia by supporting energy efficiency projects, renewable energy sources, as well as other green measures.

The benefits of such an approach and support are multiple for the domestic economy, since energy efficiency improvement provides entrepreneurs, companies and farmers in our country with an opportunity to enhance their competitive advantage, i.e. to reduce costs and increase their productivity and product quality.

Additionally, the Bank carries out numerous activities dedicated to raising awareness of customers about the importance of investing in energy efficient solutions and renewable energy sources, while interested customers are provided with credit support, based on which they can modernize their business activities, improve living comfort and ensure significant savings.

In 2020, the Bank disbursed almost EUR 40 million of green loans and thus achieved an 8% growth of this portfolio on an annual basis.

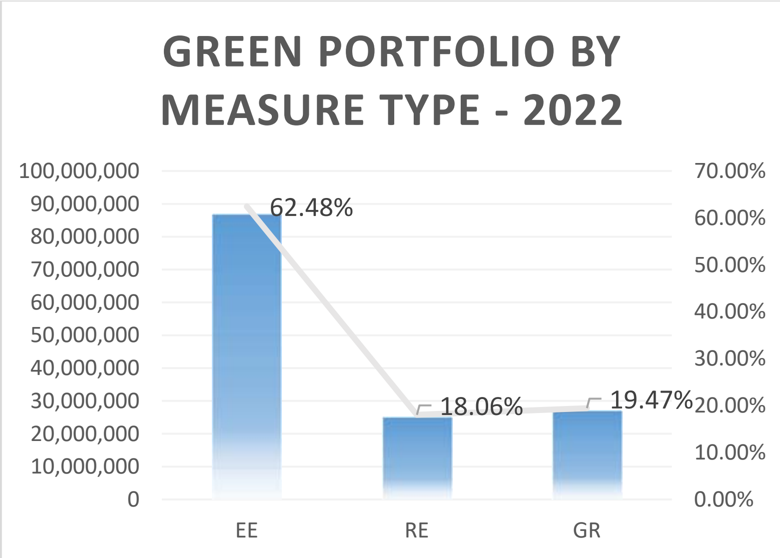
The share of green loans in the total portfolio reached almost 16%, while the Bank's medium-term goal is for the green portfolio to reach one fifth of the total customers' exposures.

In 2021, the Bank disbursed over EUR 45 million of green loans, whereas the share of the green portfolio in the total portfolio was about 14%.

In 2022, the Bank disbursed almost EUR 42 million in the green portfolio, whereas the share of the green portfolio in the total portfolio increased to 15%.

4. Information on Environmental Protection Investments (Continued)

Pillar 3 - Green Financing (Continued)



EE - energy efficient measures; RE - renewable energy sources; GR – environmentally friendly measures (in accordance with ProCredit classification and internal procedures)

We believe that only this systemic and comprehensive approach to environmental protection demonstrates our true dedication to these values, and that, on the other hand, it can ensure sustainability in managing the Bank's environmental and community protection activities.

5. Planned Development in the Coming Period

ProCredit Bank is a development-oriented commercial bank that promotes family savings with a focus on the development and improvement of the quality of banking services, while achieving sustainable development and adequate business performance.

The Bank's primary focus in the following year will be on a significant increase of the deposit portfolio and improvement of the deposit-to-credit ratio. An increase in deposits is expected in all customer segments, with a special focus on retail deposits, whose growth will follow as a result of the increase in the number of customers, mostly regular salary earners.

The retail lending strategy aims to satisfy the needs of our customers for various credit products, especially those customers with medium and high income, and therefore with a high potential for using banking services.

The strategy for corporate customers is to maintain the current level of the loan portfolio with a slight tendency to increase, especially in the local currency. In addition, the Bank will continue the trend of focusing on the lower segments of the loan portfolio at the expense of large and medium exposures. The Bank plans to maintain the exceptional quality of the loan portfolio through close monitoring of the existing loan portfolio and careful assessment of new exposures.

Green loans will remain a pillar of the lending strategy. The goal is to increase the green portfolio to 17% of the total portfolio.

5. Planned Development in the Coming Period (Continued)

Increasing the customer base in all segments remains a strategic goal of the Bank, as a basis for the future operations. A higher volume of transactions, as well as the disaggregation of demand deposits will ensure a stable source of funding in the coming years.

The continued promotion of savings is planned for our retail segment, along with expected increase in deposits that are a combination of transaction and savings deposits. As far as the customers are concerned, we are focused on customers who wish to perform their business transactions with the Bank electronically only and/or in 24/7 Zones.

Since the Bank has opted for direct banking when dealing with customers, the target group in this segment is customers who keep up with new technologies, who value their time and see the Bank as a long-term partner. The focus will remain on customers who value the stability and security of their deposits, with a flexible approach to money at any time and the profitability of their investments.

The Bank will continue to rely on the support of international financial institutions that see ProCredit Bank as a stable partner, successful in investing their funds on the Serbian market.

The professional staff development will continue through identifying with our institution by respecting the approach of high personal responsibility via trainings, promotions, supporting employee initiatives and selecting personnel who share the values of the ProCredit Group. One of the Bank's most important investments will remain investing in training and employee development.

Future optimization of internal processes is expected to improve efficiency. The concept of cashless operations has a direct impact on increasing the efficiency of staff and processes. Increasing efficiency will remain an important goal for the coming year as well. Promotion of electronic and mobile banking and self-service zones helped position the Bank as a modern institution, available to customers 24 hours a day, 7 days a week. The above-mentioned services will be supported by a new software system that will improve the efficiency of employees working with customers.

Adequate operating costs management will allow the cost-to-income ratio to be further reduced to 54%.

Achieving the planned ROE is expected from an increase in overall cooperation with customers, both existing and new. A higher return is expected from the increase in interest rates, but also from the increase in fee and commission income, through the optimization of existing price lists, as well as through an increase in the total number of customers with whom the Bank cooperates. High interest rates on liabilities are expected to be mitigated by asset side pricing.

6. Research and Development Activities

The Bank has not been engaged in any activities relating to market research and development in 2022.

7. Information on Treasury Shares

The Bank does not have treasury shares and has not been engaged in any activities relating to repurchase of treasury shares in 2022 or in prior years.

8. Existence of Branch Offices

The Bank does not have any branch offices in its organization.

9. Financial Risk Management and Protection

Risk management system is organised according to the provisions of the Law on Banks and relevant decisions of the National Bank of Serbia that define risk management and capital adequacy, as well as the provisions of the Articles of Association of the Bank.

According to current legislation, the Board of Directors is responsible for establishing a uniform system of risk management and supervision thereof. It is obliged to ensure that the Executive Board of the Bank is capable of identifying risks to which the Bank is exposed, and to ensure that the control of these risks is carried out in line with approved policies and procedures.

The responsibilities of the Executive Board of the Bank, in terms of risk, are implementation of risk management strategy and policies and capital management strategy; adoption of procedures for identification, measurement and assessment of risk, and managing risks, i.e. analysing the effectiveness of their implementation and to report to the Board of Directors on these activities.

The Risk Management Department is responsible for the identification, measurement, assessment and management of the risks assumed by the Bank in its regular business, as well as providing opinions on new products generating risk and other general areas that imply risk.

The risk management policies applied by the Bank and approved by the Board of Directors are in line with the applicable legal framework and requirements of the National Bank of Serbia.

In addition to compliance with the local regulatory requirements, the Bank's policies comply with the requirements of the regulator of the Federal Republic of Germany. The Bank regularly notifies the competent risk management departments of the Group of its risk position, i.e. on a quarterly basis. The Group’s Risk Management Department regularly monitors key risk indicators, providing additional support in case of need.

The Risk Management Strategy and Plan that defines the Bank’s risk appetites, policies relating to all significant risks, the Capital Management Strategy, Capital Management Policy and the Capital Management Plan, govern risk management at the Bank.

Indicators of risk appetite established at the Bank’s level are based on the following principles (criteria):

- Indicators describe in detail the high risk (limit) appetite by converting to quantitative and qualitative measurements, which cover principal (core) business areas;
- Indicators are integrated with the strategic objectives and reflect the structure of significant risks to which the Bank is exposed, and the level of risk required for the achievement of the Business Plan. The risk appetite includes quantitative indicators, which can be assigned to the levels of the Bank’s business, risk types, and other levels in order to effectively control the risk profile of the Bank and the ProCredit Group;
- Risk appetite indicators have targeted risk levels set out in the Bank's Strategy in correlation with the system of limits/thresholds applied to control the risk profile at operational level;
- The risk appetite includes indicators that define the amount of risk in stressful environment for an adequate assessment of the Bank's resistance to internal and external risk factors;
- Risk appetite indicators are integrated into all internal processes of the Bank, including its business planning, capital adequacy, liquidity and asset and liability management (ALM); and
- Risk appetite indicators include a risk matrix (risk assessment and risk impact) provided by the legal requirements of the national regulator.

Due to the nature of its activities, the Bank is exposed to a number of risks, with the most significant ones listed below.

9. Financial Risk Management and Protection (Continued)

/i/ Credit Risk

In its operations, the Bank is exposed to credit risk, which may be defined as the possibility of the debtor defaulting on their obligations towards the Bank in terms of the contracted amount and the due date. Exposure to credit risk arises primarily from lending to customers.

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

- Evaluates the creditworthiness of each individual debtor based on its total indebtedness under loans, guarantees, and other credit products;
- Analyses risks arising from the very investment that is the subject of lending;
- Specifies the limits of clients' credit indebtedness based on a risk assessment;
- Lends only to creditworthy clients and obtains appropriate collateral; and
- Has separate processes for lending credit products, i.e. customer relationships that start with the process of analysing client creditworthiness for all loans to medium and large clients.

In order to control credit risks, the Bank has developed a prudential credit policy. The clients to whom loans are granted are analysed carefully and in detail. Decisions on lending to clients are made based on the borrower's repayment capacity and the corresponding collateral.

The decision on credit exposure is based on the following four criteria:

(a) **Reliability, reputation and stability of the client's operations**: results of the client profile analysis and how well the client mitigates operational risk, management risk, organisational risk, market risk and political and legal risk. This includes the client's credit history with the Bank and other financial institutions, and the 'Hausbank' principle - utilising the services the Bank has on offer; decisions made by the client in the past, as well as the client's legal history. For exposures which require the results of the classification of risk, such results are taken into account.

(b) **Ability to pay/liquidity**: results obtained by responsible employees concerning the client's ability to repay its debt.

(c) **Pledge/collateral**: structure and value that meets the Bank's requirements.

(d) **Business/operational potential**: the client's needs as a supplement to the request that is being processed and potential future collaboration with the Bank.

Classification of Financial Assets and Credit Risk Provisions

The Bank has developed procedures for classification of loans and other receivables in line with the assessed level of collectability.

The central element of the IFRS 9 impairment approach for the Bank is the expected credit loss (ECL) model for impairment recognition and measurement. This model requires the timely identification of ECLs in order to ensure that the amount of identified ECLs reflects changes in the credit risk of financial instruments at each reporting date.

The objective of the impairment model is to identify ECLs during the lifetime of a financial instrument considering all realistic and supporting information, including the forward-looking.

This model has three stages, which are based on changes in the credit risk exposure occurred since the date of initial recognition – Stages 1, 2 and 3.

9. Financial Risk Management and Protection (Continued)

/i/ Credit Risk (Continued)

Classification of Financial Assets and Credit Risk Provisions (Continued)

Stage 1 includes financial assets that have not experienced a significant increase in credit risk since the initial recognition, as well as those assets that show low credit risk at the reporting date or those assets for which there are no triggers indicating a need for allocation to Stage 2 or Stage 3.

Stage 2 includes financial assets that have experienced a significant increase in credit risk since the initial recognition, but for which there is no objective evidence of impairment, whereas Stage 3 includes all exposures that are impaired at the reporting date.

Through the calculation of provisions, the Bank calculates impairment on a monthly basis on receivables where impairment is established at the portfolio level (group provisions), and individually - impairments determined at the level of an individual client.

In case of *group-based impairment assessment*, firstly the classification of financial assets according to portfolio quality indicators into impairment levels is conducted. The impairment stage differs according to the degree of increase in credit risk from the moment of initial recognition.

In accordance with IFRS 9, an appropriate loan loss provision (LLP) rate depends on the segment of the portfolio in which client exposure is classified (Stage 3, Stage 2 and Stage 1).

In case of insignificant individual credit exposures which indicate signs of impairment, usually an individual impairment test is not performed, as operational costs do not justify a comprehensive impairment test for each of these clients.

Provisions are calculated by applying a general weight under the contamination principle, on the established principal in the event of group provisioning. Only in exceptional cases, the Bank can perform an impairment test on insignificant individual credit exposures through individual impairment assessment.

Specific individual impairment is calculated on the individually significant exposures that show signs of impairment; for these, the impairment test is carried out on an individual basis.

Individually significant exposures – are credit exposures to clients, whose sum of the balance sheet and off-balance sheet exposure exceeds EUR 150,000 at the reporting date.

The process of determining specific provisions on an individual bases aims to measure impairment loss at the level of clients with related parties. Individual impairment is determined based on the net current value of future inflows. In other words, provisions are determined in the amount of individual receivables or portion of receivables for which collection is not expected.

In 2022 and 2021 there were no credit-impaired financial assets, whose contractual terms and conditions were considerably modified to result in the derecognition of the original asset and the recognition of a new financial asset (POCI).

9. Financial Risk Management and Protection (Continued)

/i/ Credit Risk (Continued)

Loan Portfolio Quality and Maximum Exposure

The table below presents an overview of the exposure to credit risk as of 31 December 2022 and 2021, indicating the Bank’s maximum exposure to credit risk before collaterals.

In addition to credit exposures based on loans to banks and loans to clients, the table also includes: placements to the National Bank of Serbia (NBS) based on repo transactions, the NBS treasury bills, financial assets at FVOCI and off-balance sheet items that may generate credit risk for the Bank (broken down according to the items constituting the position).

Balance sheet items exposed to credit risk	Net exposure 31 December 2022	Net exposure 31 December 2021
Loans and placements for business purposes	69,177,093	75,218,471
Loans and placements for improving housing conditions and housing loans	6,146,747	5,737,082
Agricultural loans and placements	30,352,087	34,414,169
Consumer loans and placements	1,237,212	830,685
Other receivables from clients*	-	138
Loans and placements to customers	**106,913,139**	**116,200,545**
Loans and placements to banks and other financial institutions	**11,611,839**	**9,745,021**
Cash and balances with Central Bank	**19,814,215**	**18,757,005**
Securities	**6,741,979**	**7,156,940**
Other assets* **	**624,101**	**486,672**
Total balance sheet items exposed to credit risk	**145,705,273**	**152,346,183**
Off-balance sheet items exposed to credit risk **	**20,213,290**	**14,236,193**
Balance as of (balance sheet and off-balance sheet items)	**165,918,563**	**166,582,376**

* *Subsidised interest reveivable from the Development Fund of the Republic of Serbia and the Ministry of Agriculture.*

** *The structure of gross exposures of all off-balance sheet items is disclosed in Note 39 to the financial statements for the year ended 31 December 2022, whereas the net exposure is provided in the table above.*

The table above presents the Bank's total exposure to credit risk as of 31 December 2022 and 31 December 2021, respectively, where 64.44% (31 December 2021: 69.76%) relates to loans and placements to customers.

Observed through the share of balance sheet receivables only (including Loans and placements to customers), 91.93% of total balance sheet placements are classified in the most favourable risk category according to the Bank's internal classification, reflecting high collectability of receivables (31 December 2021: 97.08%).

9. *Financial Risk Management and Protection (Continued)*

/i/ Credit Risk (Continued)

Loan Portfolio Quality and Maximum Exposure (Continued)

The following tables present the quality of **loans and placement to customers** classified according to impairment stages as of 31 December 2022 and 2021:

31 December 20212	Gross exposures	Allowance for impairment	Net exposures
Stage 1	98,897,645	(611,903)	98,285,742
Stage 2	7,191,283	(178,433)	7,012,850
Stage 3	2,857,306	(1,242,759)	1,614,547
Total	**108,946,234**	**(2,033,095)**	**106,913,139**

31 December 2021	Gross exposures	Allowance for impairment	Net exposures
Stage 1	113,262,925	(453,452)	112,809,473
Stage 2	2,131,872	(76,543)	2,055,329
Stage 3	2,476,975	(1,141,232)	1,335,743
Total	**117,871,772**	**(1,671,227)**	**116,200,545**

Collaterals

Collaterals used by the Bank in its activities include deposits, mortgages on commercial and residential buildings, pledges on movable property, sureties of legal entities and private individuals, guarantees issued by other banks, etc. Determining the fair value of collaterals is in accordance with the applicable Bank's policy for assessing the value of a collateral.

The Bank mostly used mortgages as an instrument to secure the collection of its receivables - as of 31 December 2022, 52.0% of gross loans to customers was secured by mortgages.

Credit Risk Reporting and Analysis

In terms of its operations, the Bank has established a system of reporting on exposures to credit risk, which aims to ensure timely identification, true assessment, monitoring and a comprehensive overview in line with domestic regulations and the Bank's internal rules.

Through reporting and analysis at the total portfolio level and at the level of individual receivables, the full, accurate and timely information pertaining to the situation, quality and movement of the loan portfolio is provided. This insures that the Board of Directors, the Executive Board and the Credit Risk Management Department are able to make sound decisions based on information and analysis on risk associated with the Bank's credit activities.

Credit risk monitoring at the portfolio level is carried on a monthly basis. The report aims to provide an analysis of the structure and characteristics of the current portfolio, the specifics expressed through credit risk and comparison with previous periods, in order to gain a clear picture of trends and possible increase in credit risk level.

9. Financial Risk Management and Protection (Continued)

/i/ Credit Risk (Continued)

Credit Risk Reporting and Analysis (Continued)

Important elements of the report are:

- Breakdown of the portfolio according to types of loans;
- Overview of top exposures;
- Quality trends in the overall portfolio;
- Monitoring of risk parameters according to the portfolio structure in relation to internally set limits;
- Portfolio structure according to internal classification;
- Changes in provisions calculated according to the internal methodology;
- Portfolio coverage by collaterals;
- Restructured portfolio;
- Monitoring of set concentration limits; and
- Other analyses and reports that indicate changes in credit risk and deterioration in portfolio quality.

Detailed reviews and analyses regarding the Bank's exposure to credit risk are presented in Note 6.1. to the Bank's financial statements for the year ended 31 December 2022.

/ii/ Liquidity Risk

Liquidity risk arises from the Bank's inability to meet its due and future liabilities, which can have an adverse effect on the Bank's financial result and its capital.

ProCredit Bank manages this risk by providing an adequate and diverse structure of its funding base, which include the following:

- Clients' deposits with wide ranges of maturity;
- Money market deposits;
- Borrowings from foreign banks and international financial institutions;
- Subordinated loans;
- Share capital; and
- Government securities.

The liquidity management policy is in place to secure sufficient assets for the timely payment of all liabilities at maturity dates and to satisfy clients' demands for new loans. The Bank manages liquidity risk through the constant monitoring of the maturity mismatch and gap between assets and sources of funding, as well as by analysing expected cash flows in order to ensure that the Bank is able to meet its obligations at all times.

In addition, the Bank allocates funds into the mandatory reserve with the National Bank of Serbia in accordance with applicable legislation, which is a measure used as protection from sudden and significant withdrawal of deposits and other sources of funding.

The liquidity level is expressed through the liquidity ratio, the narrow liquidity ratio, as well as the liquidity coverage ratio (LCR).

The bank's liquidity ratio is the sum of the bank's Tier I + II liquid receivables, on the one hand, and the sum of the bank's demand liabilities or those without contractual maturity and the bank's liabilities with fixed maturity within the next month from the date of the calculation of the liquidity ratio, on the other.

9. Financial Risk Management and Protection (Continued)

/ii/ Liquidity Risk (Continued)

The bank's narrow liquidity ratio is the sum of the bank's Tier I liquid receivables, on the one hand, and the sum of the bank's demand liabilities or those without contractual maturity and the bank's liabilities with fixed maturity within the next month from the date of the calculation of the liquidity ratio, on the other.

Tier I liquid receivables consist of cash, gyro account balances, gold and other precious metals, balances held with banks with an available credit rating of selected credit rating agencies to which a credit quality rating corresponds to a step 3 or higher, or is determined in accordance with the Decision on Capital Adequacy of Banks (investment grade); deposits held with the National Bank of Serbia; cheques and other monetary receivables in the process of realisation; irrevocable credit lines approved to the bank, shares and debt securities quoted on the stock exchange; 100% of the fair value of securities denominated in RSD, without a foreign currency clause, issued by the Republic of Serbia and whose minimum maturity is three months, i.e. 90 days, which the Bank has classified according to the business model for trading and 'hold to collect and sale.

The bank's Tier II liquid receivables are all of the bank's other receivables that mature within the following month from the date of the calculation of the liquidity ratio. The bank's demand liabilities or those without contractual maturities are obligations of the bank, namely: 40% demand deposits by banks, 20% demand deposits from other clients, 10% savings deposits, 5% guarantees and other forms of sureties, 20% approved but unused irrevocable lines of credit. All of the bank's other liabilities that mature within the following month from the date of the calculation of the liquidity ratio represent the bank's liabilities with contractual maturity.

During 2022 and 2021, the Bank's daily liquidity ratio remained above the prescribed minimal indicators. In addition, as of 31 December 2022 and in 2021, the Bank's narrow liquidity ratio remained above the statutory minimum.

The daily liquidity ratio as of 31 December 2022 amounted to 2.81, and the narrow liquidity ratio amounted to 2.63.

The liquidity coverage ratio (LCR) is the relationship between the bank's liquidity buffer and net outflows of its liquid assets that would arise in the following 30-days from the date of calculating this ratio under assumed stress conditions. The Bank is obliged to maintain the liquidity coverage ratio aggregately for all currencies at a level not below 100%. As of 31 December 2022, the liquidity coverage ratio (LCV) stood at 256%.

The Bank's exposure to liquidity risk is described in detail in Note 6.3. to the Bank's financial statements for the year ended 31 December 2022.

/iii/ Interest Rate Risk

The Bank is exposed to changes in the market interest rates, which have an effect on its financial position and its cash flows. As a result of these changes the interest margin may either increase or decrease. Interest rates are based on market interest rates and are regularly adjusted by the Bank.

Interest rate risk management is an activity whose goal is to optimise net interest income, while maintaining market interest rates at a constant level in accordance with the Bank's corporate strategy.

The Assets and Liabilities Management Committee manages maturity match of assets and liabilities based on: macroeconomic analysis and forecasting, forecasting conditions for achieving liquidity, as well as by analysis and forecasting interest rate trends on the market for various segments of assets and liabilities.

9. *Financial Risk Management and Protection (Continued)*

/iii/ Interest Rate Risk (Continued)

The share of interest-bearing assets in the total assets of the Bank as of 31 December 2022 was 85%, while the share of interest-bearing liabilities in the total liabilities and equity was 69%.

The Bank’s exposure to interest rate risk is described in detail in Note 6.2.1. to the Bank’s financial statements for the year ended 31 December 2022.

/iv/ Foreign Exchange Risk

Foreign exchange risk arises from the potential adverse effects of changes in the foreign exchange rates on the Bank’s financial results and its capital.

The Bank manages foreign exchange risk through careful planning and evaluation of the open foreign exchange position, and its compliance with the limits prescribed by the National Bank of Serbia. It also manages this risk by observing the limits prescribed by the National Bank of Serbia, as well as limitations set up by the internal policies prescribed by the Board of Directors and the Assets and Liabilities Management Committee.

The Bank actively manages foreign currency risk by adjusting the foreign currency structure of its assets and liabilities. Furthermore, the Bank maintains its foreign exchange position by approving loans with foreign currency clauses (loans indexed in EUR) and concluding agreements on foreign exchange swaps.

The share of the foreign currency sub-balance (including assets and liabilities indexed in EUR) amounted to 68% of the total assets, i.e. 67% of the total liabilities and equity of the Bank as of 31 December 2022.

The Bank's foreign exchange risk indicator was in compliance throughout 2022 and well below the prescribed maximum.

The Bank’s exposure to foreign exchange risk is described in detail in Note 6.2.2. to the Bank’s financial statements for the year ended 31 December 2022.

/v/ Counterparty Risk

Counterparty risk is the risk of default in payment of the counterparty in transactions prior to the final settlement of cash flow transactions, i.e. settlement of cash liabilities per this transaction.

Depending on the source of risk exposures, counterparty risk and issuers risk may also be separated into the following types of risk:

- Default risk;
- Migration risk;
- Concentration risk; and
- Derivative risk.

The Bank manages counterparty risk by defining limits in accordance with the Bank’s policies and local regulations and constantly monitors exposures in line with defined limits.

9. Financial Risk Management and Protection (Continued)

/vi/ Exposure Risks

The Bank's exposure risks are monitored at the individual entity level, as well as at the group level of related entities in accordance with the Bank's procedures and regulations of the National Bank of Serbia (NBS).

The credit risk management policy defines the assessment of the Bank's exposure to a single entity or a group of related parties and to a person related to the Bank.

The Bank controls its exposure risks by establishing exposure limits that enable it to diversify its loan portfolio, as well as by using material and non-material credit protection instruments, in accordance with the NBS Decision on Capital Adequacy of Banks.

As of 31 December 2022, the Bank's maximum exposure to a single entity or the group of related parties was 15.74%, while the sum of all large exposures was 26.27%, thus significantly below the prescribed maximum.

/vii/ Capital Adequacy

The Bank's objectives with regard to capital management can be summarized as follows:

- Compliance with the capital requirements prescribed by the National Bank of Serbia;
- Compliance with the capital requirements of international financial institutions on the basis of long-term loan agreements; and
- Adequate capital management on behalf of the Bank's management should provide for the expected stable growth and development of the Bank, as well as a strong foundation for the development of the Bank's business opportunities.

Capital adequacy is planned in detail during the preparation of the business plan. The National Bank of Serbia is reported to on a quarterly basis regarding the achieved capital ratios. The National Bank of Serbia requires that all banks maintain a minimum of EUR 10 million in Tier 1 capital.

The Bank's regulatory capital as of 31 December 2022 amounted to EUR 145 million (31 December 2021: EUR 139 million).

In addition, the Bank is obliged to maintain capital adequacy ratios above the following limits:

- 4.5% for the common equity Tier 1 capital ratio;
- 6% for the Tier 1 capital ratio; and
- 8% for the total capital adequacy ratio.

In addition to the minimal capital adequacy ratios defined by the National Bank of Serbia, in its regular operations, the Bank implements significant buffers in terms of the aforementioned ratios, which are above those prescribed by regulations, within the framework of its risk appetite defined in the Bank's Risk Management Strategy.

The capital consists of Tier 1 capital, where a bank's Tier 1 capital is the sum of the common equity Tier 1 capital and additional Tier 1 capital. The Bank does not have additional T1 capital and its T1 capital fully comprises of common equity Tier 1 capital.

In line with the National Bank of Serbia's Decision on Capital Adequacy of Banks, under the Bank's share capital deductible items are intangible assets.

9. *Financial Risk Management and Protection (Continued)*

/vii/ Capital Adequacy (Continued)

The Decision on Capital Adequacy of Banks prescribes in more details the manner of calculating regulatory capital, total risks weighted assets for credit, market and operational risks, as well as capital requirements for credit, market and operational risks.

The capital adequacy of the Bank as of 31 December 2022 was:

- Common equity Tier 1 capital ratio – 19.06%;
- Tier 1 capital ratio – 19.06%; and
- Total capital adequacy ratio of the Bank – 19.06%.

The amount and structure of the Bank's equity always need to provide coverage of the minimum capital requirements and internal capital requirements regarding the risks that the Bank is exposed to in its operations.

The Bank's equity structure is presented in Note 38, while the capital adequacy ratios and other performance indicators of the Bank are presented in Note 42 to the Bank's financial statements for the year ended 31 December 2022.

/viii/ Operational Risks

The Operational Risk Management Policy is fully compliant with local regulations and the Operational Risk Management Policy of ProCredit Holding and the Fraud Prevention Policy.

In order to reduce the risk of operational risks and prevent fraud, all processes are precisely documented and control mechanisms are in place. The Bank bases its operations on a culture of transparency and risk awareness. The Bank organizes two-year trainings on operational risks and fraud prevention in order to maintain a high level of staff awareness.

The risk monitoring database (RED) established at the Bank level allows for continued and systemic monitoring of all operational risks, and defining corrective and preventative activities in order to avoid or mitigate the possibility of these events arising in future, or the effects on the Bank. Analyses of these events are presented to the Operational Risk Management Committee, which is the competent body that oversees operational risk management in the Bank.

Additionally, the competent department of the Bank is also notified of any/all significant operational risk events. In 2022, 64 operational risk events were recorded in the total amount of EUR 28,225.94 (gross amount).

The Bank conducts a risk self-assessment using the defined self-assessment questionnaire applied at the Bank's level on an annual basis. This assessment allows the Bank to consider the impact of each individual scenario on the Bank' losses, and the level of control implementation and the manner in which controls mitigate risk exposure.

The annual self-assessment is conducted separately for operational risk and fraud prevention. Furthermore, since 2013, the Bank has been conducting a scenario analysis of extreme risks.

The Bank particularly focuses on the analysis of implementing new products (activities), which includes new products, services, business processes, financial instruments, IT systems and organisational structures. Significantly adjusted material products (activities) also fall under the definition of a 'new product/activity'.

9. Financial Risk Management and Protection (Continued)

/viii/ Operational Risks (Continued)

Management approves the introduction of new products (activities), whereby the relevant departments/units of the Bank that participate in the process and risk analysis are informed.

In the event that the Bank makes a decision to engage a third party to perform a certain activity on behalf of the Bank, prior to passing such a decision, it is assessed whether or not the supplier has the financial, technical and staffing capabilities to perform the given activity for the Bank. Moreover, the Bank analyses potential exist strategies, should any issue arise in realising the agreement with the supplier, in order to protect the Bank's interests.

The Bank notifies the National Bank of Serbia and ProCredit Holding of its outsourcing activities, in line with local regulations, policies of the Bank and ProCredit Holding, and its internal procedures.

The objectives and policies for managing the Bank's significant financial risks and capital are disclosed in detail in Note 6 to the Bank's financial statements for the year ended 31 December 2022.

10. Impact of the Global Crisis caused by the War in Ukraine on the Bank's Operations

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

The Bank conducted an analysis of its loan portfolio in order to assess the possibility of an adverse impact of the war in Ukraine and sanctions against Russia and Belarus on the quality of its loan portfolio and business operations.

Clients that have material business relationships with these countries were initially identified. For the most part, they were able to adapt to the changing situation and adjust their business relationships accordingly, as well as to mitigate potential risks. Neither the sanctions nor indirect war effects resulted in any significant changes in the quality of the loan portfolio.

The Bank additionally evaluated clients with poor financial indicators belonging to economic sectors that the Bank classified as vulnerable. As a result, out of 39 client groups, two clients migrated to a default cluster (non-performing loan portfolio). The volume of these clients that have migrated to the default cluster is EUR 2.1 million (the exposure as of 31 December 2022). The remaining 37 client groups did not show a considerable deterioration (the volume of EUR 39.3 million).

In addition to the previously mentioned crisis, the Bank has been estimating the potential impact of the energy crisis on its loan portfolio since the third quarter of 2022, by having identified clients from energy-intensive industries along with weaker financial indicators.

It can be concluded that the Bank neither had clients that migrated to a worse cluster nor the energy crisis had significant adverse effects on the loan portfolio by the end of 2022.

Certainly, the Bank will continue to carefully monitor the trends and respond in a timely manner to any additional market disruptions, and if necessary, carry out further analyses of the loan portfolio.

11. Events after the Reporting Period

There have been no significant events after the reporting date that would require adjustments or disclosures in the notes to the financial statements of the Bank as of and for the year ended 31 December 2022.

In Belgrade, 9 March 2023

Ivan Smiljkovic Member of the Executive Board	Igor Anic Chairman of the Executive Board

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