HALKBANK a.d. Belgrade

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

and

Independent Auditor's Report

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

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER AND THE BOARD OF DIRECTORS OF HALKBANK AD BELGRADE

Opinion

We have audited the financial statements of HALKBANK 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 Matters

The financial statements of the Bank as of and for the year ended 31 December 2021 were audited by another auditor who expressed an unqualified opinion on those financial statements on 25 March 2022.

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.

INDEPENDENT AUDITOR'S REPORT

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

Other Information (Continued)

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

INDEPENDENT AUDITOR'S REPORT

**TO THE SHAREHOLDER AND THE BOARD OF DIRECTORS
OF HALKBANK 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, 23 March 2023

Danijela Krtinic
Certified Auditor

Društvo za reviziju BDO d.o.o. Beograd

INCOME STATEMENT
For the period from 1 January to 31 December 2022
(In RSD thousand)

	Note	2022	2021
Interest income	3.1, 4a	3,846,270	3,105,259
Interest expenses	3.1, 4b	(887,485)	(615,413)
Net interest income		**2,958,785**	**2,489,846**
Fee and commission income	3.2, 5a	2,147,386	1,512,865
Fee and commission expenses	3.2, 5b	(571,923)	(339,157)
Net fee and commission income		**1,575,463**	**1,173,708**
Net (gains)/losses from changes in the fair value of financial instruments	6	9,642	5,258
Net gains /(losses) on derecognition of the financial assets measured at fair value	7	(80)	120,362
Net foreign exchange gains and positive currency clause effects	3.3, 8	2,237	15,071
Net losses from impairment of financial assets not measured at fair value through profit or loss (FVTPL)	9a	(154,391)	(165,781)
Net gains on derecognition of financial instruments measured at amortized cost	10	1,159	-
Other operating income	11	11,704	13,899
TOTAL OPERATING INCOME, NET		**4,404,519**	**3,652,363**
Salaries, compensations and other personnel expenses	12	(1,478,613)	(1,125,268)
Depreciation and amortization expenses	3.4, 3.5, 3.6, 20	(522,341)	(464,110)
Other income	13	63,154	24,980
Other expenses	13	(1,053,804)	(1,141,501)
PROFIT BEFORE TAX		**1,412,915**	**946,464**
Current income tax expense	3.10, 14	(131,142)	(58,589)
Deferred tax gains/(losses)	3.10, 14	2,748	1,519
PROFIT FOR THE YEAR	26	**1,284,521**	**889,394**

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

These financial statements were adopted by the Executive Board of **HALKBANK a.d. Belgrade** on 23 March 2023.

Aleksandar Mijailovic	Dusica Eric	Aziz Arslan
Head of the Financial Management and Planning Division	Member of the Executive Board	Chairman of the Executive Board

AKCIONARSKO DRUŠTVO HALKBANK BEOGRAD

STATEMENT OF OTHER COMPREHENSIVE INCOME
For the period from 1 January to 31 December 2022
(In RSD thousand)

	2022	2021
PROFIT FOR THE YEAR	**1,284,521**	**889,394**
Items that will not be subsequently reclassified to profit or loss:		
Increase/(decrease) in revaluation reserves arising from intangible assets and property, plant and equipment (Note 20b)	-	(12,096)
Actuarial gains/(losses) (Note 24b)	1,027	(6,060)
Items that will or may be subsequently reclassified to profit or loss:		
Positive effects of changes in fair value of debt instruments measured at fair value through other comprehensive income (FVTOCI) (Note 17)	313,295	11,673
Negative effects of changes in fair value of debt instruments measured at fair value through other comprehensive income (FVTOCI) (Note 17)	(1,961,651)	(770,928)
Total (negative)/positive other comprehensive income for the year	**(1,647,329)**	**(777,411)**
TOTAL POSITIVE /(NEGATIVE) COMPREHENSIVE INCOME FOR THE YEAR	**(362,808)**	**111,983**

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AKCIONARSKO DRUŠTVO HALKBANK BEOGRAD

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

	Note	2022	2021
ASSETS			
Cash and balances held with the central bank	3.8, 15	21,728,051	12,689,315
Receivables under derivatives	16	11,752	901
Securities	3.7, 17	12,084,609	14,280,687
Loans and placements to banks and other financial institutions	3.9, 18	4,066,855	3,838,517
Loans and placements to customers	3.7, 19	71,193,873	66,140,381
Intangible assets	3.6, 20a	1,016,170	716,894
Property, plant and equipment	3.4, 20b, 20c, 20e	1,596,832	1,481,391
Investment property	3.5, 20d	132,687	126,688
Current tax assets	3.10, 14b	64,997	-
Deferred tax assets	3.10, 14b	51,106	48,224
Other assets	21	713,727	458,576
TOTAL ASSETS		**112,660,659**	**99,781,574**
LIABILITIES AND EQUITY			
Liabilities under derivatives	16	1,573	-
Deposits and other liabilities due to banks, other financial institutions and central bank	3.7, 22	8,212,864	7,644,590
Deposits and other liabilities due to other customers	3.7, 23	81,057,821	74,488,194
Provisions	2.6, 24	85,176	249,468
Current tax liabilities	14b	131,142	58,589
Other liabilities	25	1,543,751	1,213,216
TOTAL LIABILITIES		**91,032,327**	**83,654,057**
EQUITY			
Share capital	3.11, 26	18,362,669	12,499,049
Profit	26	1,285,063	889,936
Reserves	3.11, 26	1,980,600	2,738,532
TOTAL EQUITY	26	**21,628,332**	**16,127,517**
TOTAL LIABILITIES AND EQUITY		**112,660,659**	**99,781,574**

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HALKBANK

STATEMENT OF CHANGES IN EQUITY
In the period from 1 January to 31 December 2022
(In RSD thousand)

	Share and other capital	Share premium	Reserves from profit and other reserves	Revaluation reserves	Retained earnings	Total equity
Balance as of 1 January 2021	**6,260,280**	**2,712,323**	**1,726,527**	**577,380**	**1,212,036**	**12,488,546**
Capital increase	1,679,260	-	-	-	-	1,679,260
Share issue premium increase	-	1,847,186	-	-	-	1,847,186
Actuarial losses, net	-	-	-	(6,060)	-	(6,060)
Profit for the year	-	-	-	-	889,394	889,394
Gains on the changes in the fair value of property, plant and equipment	-	-	-	3,304	-	3,304
Previous year's profit distribution	-	-	1,212,036	-	(1,212,036)	-
Transfer from reserves to retained earnings due to reversal of reserves	-	-	-	(15,400)	542	(14,858)
Other comprehensive income:						
Negative effects of changes in fair value of debt instruments measured at fair value through other comprehensive income (FVTOCI)	-	-	-	(759,255)	-	**(759,255)**
Balance as of 31 December 2021	**7,939,540**	**4,559,509**	**2,938,563**	**(200,031)**	**889,936**	**16,127,517**
Opening balance as of 1 January 2022	**7,939,540**	**4,559,509**	**2,938,563**	**(200,031)**	**889,936**	**16,127,517**
Capital increase	2,549,400	-	-	-	-	2,549,400
Share issue premium increase	-	3,314,220	-	-	-	3,314,220
Actuarial gains, net	-	-	-	1,027	-	1,027
Profit for the year	-	-	-	-	1,284,521	1,284,521
Previous year's profit distribution	-	-	889,394	-	(889,394)	-
Other comprehensive income:						
Negative effects of changes in fair value of debt instruments measured at fair value through other comprehensive income (FVTOCI)	-	-	-	(1,648,356)	-	(1,648,356)
Other	-	-	1	2	-	3
Balance as of 31 December 2022	**10,488,940**	**7,873,729**	**3,827,958**	**(1,847,358)**	**1,285,063**	**21,628,332**

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STATEMENT OF CASH FLOWS
In the period from 1 January to 31 December 2022
(In RSD thousand)

	2022	2021
Cash inflows from operating activities	**6,112,981**	**4,832,014**
Interest receipts	3,947,637	3,307,350
Fee and commission receipts	2,153,924	1,510,907
Receipts of other operating income	10,901	13,135
Dividend receipts and profit sharing	519	622
Cash outflows from operating activities	**(3,810,345)**	**(3,076,435)**
Interest payments	(794,632)	(587,498)
Fee and commission payments	(570,108)	(336,113)
Payments to, and on behalf of employees	(1,376,237)	(1,044,406)
Taxes, contributions and other duties paid	(56,204)	(215,398)
Payments for other operating expenses	(1,013,164)	(893,020)
Net cash generated by operating activities prior to increases/decreases in financial assets and financial liabilities	**2,302,636**	**1,755,579**
Decrease in financial assets and increase in financial liabilities	**5,960,314**	**10,517,294**
Decrease in receivables per securities and other financial assets not intended for investment	4,322	1,524
Increase in deposits and other liabilities due to banks, other financial institutions, the central bank and customers	5,955,992	10,515,770
Increase in financial assets and decrease in financial liabilities	**(14,254,806)**	**(6,999,509)**
Increase in loans and placements to banks, other financial institutions, the central bank and customers	(14,254,806)	(6,999,509)
Net cash inflow/(outflow) from operating activities before tax	**(5,991,856)**	**5,273,364**
Income tax paid	(123,586)	(7,682)
Net cash from/(used in) operating activities	**(6,115,442)**	**5,265,682**
Cash inflows from investing activities	**557,424**	**1,510,809**
Proceeds from sales of investment securities	400,000	1,426,020
Proceeds from sales of intangible assets, property, plant and equipment	68,613	82,555
Proceeds from the sale of investment property	88,811	2,234
Cash outflows from investing activities	**(804,342)**	**(6,013,810)**
Cash used for investing in investments securities	-	(5,343,070)
Cash used for the purchases of intangible assets, property, plant and equipment	(804,342)	(670,740)
Net cash used in investing activities	**(246,918)**	**(4,503,001)**
Cash inflows from financing activities	**6,693,348**	**4,787,670**
Inflows based on capital increase	5,863,620	3,526,446
Inflows from borrowings	829,728	1,261,224
Cash outflows from financing activities	**(1,683,303)**	**(2,717,923)**
Cash used in the repayment of borrowings	(1,479,433)	(2,530,977)
Other outflows from financing activities	(203,870)	(186,946)
Net cash from/(used in) financing activities	**5,010,045**	**2,069,747**
TOTAL CASH INFLOWS	**19,324,067**	**21,647,787**
TOTAL CASH OUTFLOWS	**(20,676,382)**	**(18,815,359)**
NET CASH INCREASE /(DECREASE)	**(1,352,315)**	**2,832,428**
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	**10,069,676**	**7,161,621**
FOREIGN EXCHANGE GAINS/(LOSSES), NET	**20,511**	**75,627**
CASH AND CASH EQUIVALENTS, END OF YEAR	**8,737,872**	**10,069,676**

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

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AKCIONARSKO DRUŠTVO HALKBANK BEOGRAD

1. CORPORATE INFORMATION

1.1. Establishment

HALKBANK a.d. Belgrade, formerly known as Čačanska banka, has been operating since 1 July 1956, and during its operations and development it has changed its legally registered name and organizational form several times.

In May 2015, Turkiye Halk Bankasi AS, Istanbul/Turkey became the majority owner of Čačanska banka. The change of ownership caused the change to the Bank's name and headquarters. The new name of the Bank is HALKBANK a.d. Belgrade (hereinafter: the "Bank"). During 2018, Turkiye Halkbankasi AS, Istanbul/Turkey became its sole (100%) owner after purchase of the remaining shares held by the minority (non-controlling) shareholders.

The Bank was registered with the Serbian Business Registers Agency under number BD 54244 on 13 September 2005.

1.2. Activities

The Bank is registered in the Republic of Serbia for payment, credit and deposit activities in the country and abroad and it operates in accordance with the effective Law on Banks.

The Bank's head office is in Belgrade, at the address of no. 9e, Milutina Milankovica Street, as registered with the Business Registers Agency under number BD 82129/2016 on 19 October 2016.

As of 31 December 2022, the Bank's network consisted of 30 branches (2021: 28 branches as follows: Belgrade (nine branches), Cacak (three branches), Jagodina, Gornji Milanovac, Kraljevo, Uzice, Kragujevac, Krusevac, Arandjelovac, Valjevo, Sabac, Nis, Leskovac, Novi Sad, Pancevo, Novi Pazar, Subotica, Smederevo, Sremska Mitrovica and Vranje, as well as 9 sub-branches (2021: 8 sub-branches) in Paracin, Pozega, Topola, Ivanjica, Vrnjačka Banja, Zrenjanin, Tutin, Pirot, Presevo, as well as one cash desk.

In 2022, the Bank opened two new branches in Sremska Mitrovica and Vranje, as well as a sub-branch in Presevo.

As of 31 December 2022, the Bank had 657 employees, and as of 31 December 2021 - 589 employees. The Bank's tax identification number is 100895809.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION

2.1. Basis of Preparation and Presentation of the Financial Statements

The financial statements of the Bank (hereinafter "the financial statements") for 2022 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the regulations of the National Bank of Serbia governing the financial reporting of banks.

In accordance with the Law on Accounting ("Official Gazette of RS", nos. 73/2019 and 44/2021 – the other law), the Bank, as a large legal entity, is obligated to apply the International Financial Reporting Standards ("IFRS"). In addition, in accordance with the Amendments to the Law on Banks ("Official Gazette of RS", No. 14/2015), banks in the Republic of Serbia are obliged to apply International Financial Reporting Standards, as well as subsequent amendments to standards and related interpretations, from the date determined by the 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 International Financial Reporting Interpretations Committee (IFRIC).

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 accompanying financial statements are stand-alone financial statements of the Bank. The Bank is not a parent entity, i.e., it has no subsidiaries or associates so that it does not prepare consolidated financial statements. The Bank's sole shareholder is Turkiye Halkbankasi AS, Istanbul/Turkey.

The accompanying financial statements pertain to the reporting period ended 31 December 2022. These financial statements were adopted by the Bank's Executive Board on 23 March 2023.

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

2.1. Basis of Preparation and Presentation of the Financial Statements (Continued)

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 market and/or revalued value,
- financial instruments measured at fair value through other comprehensive income (FVTOCI);
- derivative financial instruments stated at fair value.

Historical cost is generally based on the fair value of consideration paid in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between the market participants at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Upon estimating the fair value of assets or liabilities, the Bank takes into account characteristics of assets or liabilities that other market participants would also consider upon determining the price of assets or liabilities at the measurement date. Fair value for measurement and/or disclosure purposes in the accompanying financial statements was determined in the aforesaid manner, except for leasing transactions, which are in the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as the net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

In the preparation of the accompanying financial statements, the Bank adhered to the accounting policies described in Note 3.

Published standards and interpretations that have become effective in the current period are disclosed in Note 2.2, while new standards and amendments to existing standards that have been issued but are not yet in force are disclosed in Note 2.3.

The Bank’s financial statements are stated in thousands of dinars unless it is otherwise stated. Dinar (RSD) is the official presentation currency in the Republic of Serbia.

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

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

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

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

- 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.

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

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

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

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

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

- Amendments to IFRS 16 "Leases" - Lease Liability in a Sale and Leaseback (effective for annual reporting periods beginning on or after 1 January 2024).
- Amendments to IAS 1 "Presentation of Financial Statements" - Classification of Liabilities as Current or Non-current (effective for annual reporting periods beginning on or after 1 January 2024).
- Amendments to IAS 1 "Presentation of Financial Statements" - Non-current Liabilities with Covenants (effective for annual reporting periods beginning on or after 1 January 2024).

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

2.4. Comparative Information

Comparative information in the accompanying financial statements comprise the data from the Bank's financial statements for 2021. The Bank's accounting policies and estimates relating to the recognition and measurement of assets and liabilities used upon preparation of the accompanying financial statements are consistent with the accounting policies and estimates used in the preparation of the Bank's financial statements for FY 2022.

2.5. Statement of Compliance

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

2.6. Key Accounting Estimates and Judgments

Preparation and presentation of the financial statements requires the Bank's management to make the best estimates and reasonable assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, as well as income and expenses for the reporting period. The actual values of the assets and liabilities may vary from these estimates.

These estimations and underlying assumptions are subject to regular review. The revised accounting estimates are presented for the period in which they are revised as well as for the ensuing periods.

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

a) Impairment of Financial Assets

The Bank recognizes ECL provisions for financial assets measured at AC or for debt instruments measured at FVTOCI and for credit commitments and guarantees issued.

Assumptions and estimates used by the Bank as inputs to the model for ECL measurement and assessment of a significant increase in credit risk are disclosed in Note 29.1.

The evidence could include available data indicating adverse changes in respect of the customer's ability to settle its liabilities toward the Bank in a timely manner.

The Bank's management makes estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those of the portfolio, at the time of projecting its future cash flows. The methodology and assumptions used for estimating both the amount and timing of the future cash flows are reviewed on a regular basis in order to reduce any differences between the estimated and actual losses (Notes 9b, 18 and 19).

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

2.6. Key Accounting Estimates and Judgments (Continued)

b) Useful Lives of Intangible Assets, Property, Plant and Equipment

The determination of the useful lives of intangible assets, property and equipment is based on historical experience with similar assets as well as on any anticipated technological development and changes influenced by wide range of economic or industry factors. Adequacy of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions (Note 20).

c) Impairment of Non-Financial Assets

As of the reporting date, the Bank's management reviews the carrying amounts of the Bank's intangible assets and property, plant and equipment presented in the financial statements. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount (Note 20).

d) Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. In order to be maintained, the best possible estimates are considered, determined and, if necessary, adjusted at each reporting date.

When the outflow of the economic benefits is no longer probable in order to settle legal or constructive liabilities, provisions are reversed through profit and loss. Provisions are monitored per type and they can be used only for the expenses they were initially recognized for. Provisions are not recognized for future operating losses.

Contingent liabilities are not recognized in the financial statements. Contingent liabilities are disclosed in the notes to the financial statements, unless the probability of an outflow of resources containing economic benefits is very remote (Note 24).

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

e) Provisions for Litigations

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

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

A provision represents a liability with an uncertain maturity date or an uncertain amount. A provision is an amount of monetary funds the Bank sets aside in order to provide for the outflows for expected and possible yet at the moment of provisioning uncertain liabilities which may arise in the future as a result of pre-defined past events. Provisions are estimated on a quarterly basis. The required provision may change in the future due to occurrence of new events or obtaining additional information.

f) Deferred Tax Assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that expected future taxable profit will be available, against which the unused tax losses can be utilized. The Bank's management necessarily makes significant estimates in order to determine the amount of deferred tax assets that can be recognized, based on the period of occurrence and the amount of future taxable profit. Additional information in this respect is disclosed in Note 3.10.

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

2.6. Key Accounting Estimates and Judgments (Continued)

g) Retirement and Other Post-Employment Benefits

The costs of defined employee benefits payable upon termination of employment, i.e., retirement in accordance with the fulfilled legal requirements, are determined based on the actuarial valuation. The actuarial valuation includes the average salary paid in the Republic of Serbia, an assessment of the discount rate, future movements in salaries, mortality rates and employee turnover. As these plans are long-term, significant uncertainties influence the outcome of the estimations. Additional information in this respect is disclosed in Note3.12.

h) Fair Value of Financial Instruments

Fair value of the financial instruments traded in an active market is based on quoted market prices at the reporting date. Fair value of the financial instruments that are not quoted in an active market is determined using certain valuation techniques, which entail using judgement in fair value assessment. Valuation models reflect the current market conditions at the fair value measurement date and need not represent the market conditions prevailing before or after the measurement date. Therefore, valuation techniques are periodically reviewed so as to adequately reflect the market conditions.

Those entail the use of the present value method and other methods and models based on the observable and, to a less extent, unobservable inputs.

Valuation models are primarily used for measurement of derivatives in the stock exchange market and government bonds and debt securities not traded in active markets. These models take into account the credit risk impact if it is material. All valuation models are validated before they are used as the basis for financial reporting and they are subject to periodic review by qualified staff members, independent of those that created the model.

Wherever possible, the Bank compares the measurement resulting from the model applied to the quoted prices of the similar financial instruments and the actual prices achieved in actual transactions in order to validate calibrate its models. Various factors are incorporated into the Bank's models, including the actual and estimated market values and rates, as well as the time factor and changes in the market depth, liquidity and changes in the credit risk of financial liabilities.

The Bank applies models consistently from one period to another, thus ensuring comparability and continuity of valuation during time. However, fair value assessment inevitably entails significant extent of judgement. Therefore, the management sets up valuation adjustments to cover the differences relating to the estimates of unobservable parameters and assumptions within the models.

Although in some instances substantial judgement is required for fair value assessment, the management believes that the fair values presented in the statement of financial position and changes in the fair values reported in the income statement are prudent and reflect the actual economic conditions, based on the executed controls and protection procedures.

Valuation methods, assumptions and techniques used in fair value assessment are explained in greater detail in Note 29.

i) The Bank's Related Parties

In accordance with the Law on Banks and in accordance with the internal Exposure Risk Management Procedure, the persons related to the Bank are:

1) members of the banking group in which the Bank is, HALKBANK;
2) members of the Management and Executive Board of the Bank, members of the Board of the Bank determined by the Law on Banks, members of the management and governing body of a member of the banking group in which the Bank is, as well as family members of these persons;
3) persons with participation in the bank and in persons who are members of the banking group in which the Bank is, as well as family members of these persons;
4) legal entities in which the persons referred to in item 2) and 3) of this paragraph have a controlling interest.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Interest Income and Expenses

The Bank presents within the income statement income (revenues) and expenses grouped according to their nature and discloses the amounts of the major types of income and expenses.

Presentation in the income statement and disclosures in the notes to the financial statements cover all the income and expense items in accordance with the prescribed content and forms for preparation of the financial statements.

For all interest-bearing financial instruments, interest income and expenses are recognized within the income statement using the effective interest rate method.

The Bank ceases to recognize income from accrued regular interest in the following cases:

- when a decision has been made on instigation of a bankruptcy procedure over the borrower;
- when a decision on instigation of court proceedings for collection of receivables from the borrower has been made;
- when decision on derecognition of income from accrued interest has been made by the Bank's competent board or when other circumstances, which aggravate the collection of receivables, have been identified;
- when the borrower, a legal entity or an entrepreneur, is over 150 days past due in liability settlement.

When the Bank ceases to recognize income from accrued regular interest, a suspended interest calculation is performed in order to reconcile receivables and liabilities with the debtor and the accrued interest is recorded by the Bank within the other off-balance sheet assets. After identifying objective evidence of impairment and recognizing an impairment loss, interest income on Level 3 placements is calculated and recognized in the income statement using the effective interest rate on a net basis (Unwinding).

Loan origination fees per loans with pre-defined repayment schedules are recognized within the interest income in the profit or loss statement and are amortized using the effective interest method. Loan origination fees per loans without pre-defined repayment schedules (framework loans, current account overdrafts, credit cards and the like), guarantees and other types of sureties are amortized on a straight-line basis and presented within the fee and commission income.

3.2. Fee and Commission Income and Expenses

All fees and commissions that are not an integral part of the effective interest rate of the financial instrument are calculated in accordance with IFRS 15.

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

The Bank recognizes as contract liabilities consideration received for unfulfilled performance obligations and presents them as other liabilities in the statement for financial position. Similarly, if the Bank fulfils a performance obligation before it receives the consideration it recognizes in the statement of financial position either a contract asset or receivable depending on whether or not something other than a certain time to obtain the consideration is required.

Fees and commissions consist mainly of fees for payment operations, fees for guarantees, fees from FX changes, fees per payment cards and these revenues are related to both the corporate and retail segment of customers, as disclosed in Note 5.

In all cases the total transaction price for a certain contract is allocated between the various performance obligations based on the relatively separate sales prices of the separate products and services. The consideration that the Bank receives is determined in the various Bank's tariffs and does not include a variable component. The transaction price under the contract excludes all amounts collected on behalf and at the expense of third parties. Fee and commission income is recognized over time. Significant part of the fee and commissions income is recognized after the service is provided and the consideration is collected from the customer.

Commissions arising from foreign currency transactions are reported in the statement of profit or loss and other comprehensive income upon their receipt. Loan origination and processing fees and commissions when considered to be part of the effective income are amortized during the loan term and are recognized as current finance income during the period by applying the effective interest method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Foreign Exchange Translation

Transactions denominated in foreign currencies are translated into dinars at the official middle exchange rate of the National Bank of Serbia effective as at the transaction date.

Assets and liabilities denominated in foreign currencies at the reporting date are translated into dinars at the official middle exchange rate of the National Bank of Serbia effective as at the reporting date.

Net foreign exchange effects arising upon performance of transactions in foreign currencies and upon translation of the assets and liabilities denominated in foreign currencies are recognized as foreign exchange gains or losses, in accordance with IAS 21 – "The Effects of Changes in Foreign Exchange Rates". Gains and losses arising in instances of annuities (instalments) linked to an RSD/ foreign currency exchange rate are calculated at the reporting date and presented as positive or negative currency clause effects.

Commitments and contingent liabilities denominated in foreign currencies are translated into dinars at the official middle exchange rate of the National Bank of Serbia effective as at the reporting date.

3.4. Property, Plant and Equipment

Buildings are initially measured at cost. Cost includes expenditure that is directly attributable to the acquisition of assets.

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

Valuation of buildings after the initial recognition is performed using the revaluation model stipulated by IAS 16 – "Property, Plant and Equipment", buildings are stated at revalued amounts less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Assessment of revalued amounts and useful life of buildings is carried out at least once every three years by an independent certified appraiser (expert valuer in civil engineering).

Assessment of the Bank's building property market value/impairment was performed by an independent certified appraiser as of 30 November 2022 for repossessed assets and internal estimate of the competent departments for the Bank's buildings.

Plant and equipment are initially measured at cost, less accumulated depreciation and subsequently at cost less accumulated depreciation and impairment losses, if any.

Depreciation is calculated on a straight-line basis to the cost or revalued amount of each part of an item of property, plant and equipment and investment property in order to fully write off the cost of assets over their estimated useful lives in accordance with the Bank's Rulebook on Amortization of Intangible Assets and Depreciation of Property, Equipment and Investment Property.

At each year-end, the Bank internally reviews the carrying amounts of its buildings in order to determine if there are indications that there have been any impairment losses. If there are such indications, the Bank assesses the recoverable amounts of such assets in order to determine impairment loss amounts, if any.

The following depreciation rates were used in 2022 and were not changed compared to the rates used in 2021:

Buildings	2.50%
Investment property	2.50%
Leasehold improvements	16.67% - 20.00%
Computer equipment	14.29% - 20.00%
Furniture and other equipment	16.67% - 20.00%

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Investment Property

Investment property is property held by the Bank for the purpose of lease and it is accounted for in accordance with IAS 40 – "Investment Property". Investment property is initially measured at cost or purchase price.

After initial recognition, the Bank measures its investment property at cost less the accumulated depreciation.

Depreciation of investment property is calculated using the straight-line method over an estimated life of investment property, in accordance with the Bank's internal bylaws.

Depreciation of investment property is carried out over the period of 40 years, using a depreciation rate of 2.5%.

At each year-end, the Bank internally reviews the carrying amounts of its investment properties in order to determine if there are indications that there have been any impairment losses. If there are such indications, the Bank assesses the recoverable amounts of such assets in order to determine impairment loss amounts, if any.

3.6. Intangible Assets

Intangible assets are measured at cost or purchase price, while after initial recognition, intangible assets are carried at cost less accumulated amortization and subsequent accumulated impairment losses. Intangible assets comprise licenses, patents and software.

Amortization is calculated using the straight-line method to the cost of intangible assets over the agreed period of use of such assets or their estimated useful lives unless a period of use is agreed. Most commonly, those are periods from 3 to 5 years, except for investments into the Bank's core system whose useful life is estimated at 10 years.

Intangible assets also include intangibles in progress that are not depreciated, since they are not yet in use. Investments in the bank's CORE system are recorded as part of these investments.

Intangible assets created through development (development project) can be recognized if the following conditions are met:

- Technical feasibility of the project
- The intention to complete the project and to use or sell the intangible asset
- Intangible assets will generate probable future economic benefits
- Availability of all resources to complete the project
- Ability to evaluate and measure Intangible assets.

During the duration of the intangible assets development project, the Bank capitalizes, i.e. increases the value of intangible assets for the value of the costs incurred due to development activities (project planning and business analysis, solution testing, project control).

Some typical examples of costs and activities during project development that are capitalized are:

- Creation of detailed functional specifications
- Software coding
- System testing
- Data conversion costs
- Fees paid to third parties for services provided for software development
- Salary costs and costs related to salaries during the development phase

Capitalization will cease when the development project is substantially complete and ready for intended use (typically the launch date).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Financial Instruments

A financial instrument is each contract based on which a financial asset of one entity and a financial liability or an equity instrument of another entity arise.

The Bank recognizes its financial assets and financial liabilities in the statement of financial position in accordance with IFRS 7 "Financial Instruments: Disclosures" and IFRS 9 "Financial Instruments'.

The Bank recognizes a financial asset or a financial liability from the moment it becomes a party to the contractual terms of an instrument.

Financial instruments are classified into:

a) Financial assets
- Equity instruments
- Debt instruments
- Derivatives

b) Financial liabilities

3.7.1. Financial Assets

3.7.1.1 Equity Instruments

Financial equity instruments relate to equity investments (interests) represent long-term financial investments in equity of other entities (banks, insurance companies, shareholding and limited liability companies) that have not been acquired for sale in the near term, as well as securities, i.e., shares of other entities acquired for sale in the near term.

The accounting treatment of the equity investments depends on the influence the investor has over the investee. The following three cases are possible:

- The investor has control over the investee (investments in subsidiaries) and the parent-subsidiary relationship is formed if the equity investment exceeds 50% or other criteria are met as defined by IAS 27;
- The investor exercises a significant influence over the investee (investments in associates) and the parent-associate relationship is formed if the equity investment exceeds 20% or other criteria are met as defined by IAS 28; and
- The investor exercises no significant influence over the investee (other investments) if the equity investment is below 20%.

The Bank is not a parent entity, i.e., it has neither subsidiaries nor associates and does not prepare consolidated financial statements. Equity investments the Bank holds in other entities and shares are stated at fair value and the changes in fair value thereof are recorded in the profit or loss statement (FVTPL) under IFRS 9.

3.7.1.2 Debt Instruments

The Bank classifies debt instruments as financial assets subsequently measured at amortized cost (AC), at fair value through other comprehensive income (FVTOCI) and fair value through profit or loss (FVTPL) based on:

- the business model for management of the financial assets, and
- characteristics of the contractual cash flows of the financial assets.

Debt instruments are classified upon initial recognition, i.e., when the Bank becomes a party to the contractual terms of the instrument.

Debt instruments are initially measured at fair value increased by transaction costs directly attributable to the acquisition or issuance of the financial asset, except for the financial assets at FVTPL.

The transaction cost or fair value of the consideration given or received in exchange for a financial instrument is usually the best evidence of the fair value of the financial instrument upon initial recognition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Financial Instruments (Continued)

3.7.1. Financial Assets (Continued)

3.7.1.2 Debt Instruments (Continued)

Debt instruments measured at amortized cost (AC)

Debt instruments are measured at AC if the following two criteria are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows (HTC model); and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The Bank's business model for classification and measurement of the Bank's loans and receivables and letters of credit and guarantees except for debt securities is AC measurement model (the hold-to-collect model and cash flows that are solely payments of principal and interest – HTC and SPPI). Only if the SPPI test reveals that contractual terms exist due to which the assets have failed the SPPI test and cannot therefore be measured at AC, does the Bank use the fair value through profit or loss measurement model (FVTPL). Debt securities may be measured and held within the amortized cost model, FVTOCI model and FVTPL model, depending on each individual case and intention of the management.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Amortized cost is the amount at which a financial asset is measured upon initial recognitions increased or decreased by accumulated amortization using the effective interest method on all the differences between the initial amount and amount upon maturity, less any payments and adjustments for expected credit losses. All loans and receivables originated by the Bank are recognized in the statement of financial position in the amount of gross amortized cost less the individual allowances for impairment. Gross amortized costs represent total receivables from the Bank's customers (including principal outstanding, nominal interest, penalty interest, receivables for fees and other receivables) adjusted by the amount of unamortized fees.

The initial effective interest rate for IFRS 9 purposes represents the rate that precisely discounts the estimated future cash inflows or outflows during the expected life of a financial asset or a liability to the gross carrying value thereof. For IFRS 9 purposes, the effective interest rate is calculated so that it can he used in the process of determining the amortized cost and interest income during the life of a financial instrument. In using the effective interest method, the Bank identifies fees that are part of the effective interest rate of the financial asset in accordance with its Impairment Allowance Methodology under IFRS 9

The Bank calculates and recognizes impairment allowance in accordance with its Impairment Allowance Methodology under IFRS 9 for all financial instruments measured at AC and at FVTOCI.

IFRS 9 introduces a concept of expected credit losses (ECL), entailing probability-weighted estimates of the lifetime ECL if the credit risk of the financial instruments has significantly increased since initial recognition or there is objective evidence of its impairment identified (Stage 2 and Stage 3 assets) or of the 12-month ECL the Bank is to identify and recognize for all financial for all financial instruments where the credit risk has not s significantly increased since initial recognition (Stage 1 assets).

In its internal bylaws the Bank has defined parameters the identification of which is indicative of the significant increase in credit risk of Stage 2 customers and the default status for Stage 3 customers.

Debt instruments measured at fair value through other comprehensive income (FVTOCI)

Financial assets are measured at FVTOCI if the following two criteria are met:

- the objective of the business model within which the Bank holds the assets is achieved by collection of the contractual cash flows and by sale of the assets; and
- the contractual terms of the assets give rise to the cash flows at specific future dates that represent solely payments of the principal and interest on the principal amount outstanding.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Financial Instruments (Continued)

3.7.1. Financial Assets (Continued)

3.7.1.2 Debt Instruments (Continued)

Debt instruments measured at FVTOCI are assets that the Bank intends to hold for an indefinite period yet they may be sold for liquidity maintenance purposes or due to changes in the interest rates, foreign exchange rates or market prices.

Upon initial recognition of such assets, the Bank measures them at fair value increased by transaction costs.

Following their initial recognition, these financial assets are measured at fair value with gains or losses on the changes in their fair value and impairment losses (impairment allowances) recognized under revaluation reserves within equity. Impairment allowance of the financial assets measured at FVTOCI is calculated in the same manner as the impairment allowance of financial assets measured at AC, However, the accumulated impairment allowance in the financial statements is not deducted from the fair value of assets but from the cumulative change in the fair value recorded within the other comprehensive income. Foreign exchange gains or losses, i.e., gains or losses on the changes in the value of the financial asset arising from the movements in the foreign exchange rates (if the asset is denominated in a foreign currency or linked to a currency clause) are not recognized within equity.

Pledged financial assets are measured under the same principle. These are financial assets that are allocated separately for accounting purposes because they are pledged with the NBS for REPO transactions with the National Bank of Serbia (they are stated separately at nominal value).

At the sale date, the carrying amount of the asset and revaluation reserves from the asset will be derecognized and the excess or shortage of the sale proceeds will be recognized as the gain or loss on the sale of the asset.

Debt instruments measured at fair value through profit or loss (FVTPL)

The Bank measures debt instruments at FVTPL if they are not measured at AC or at FVTOCI.

A financial asset at FVTPL is an asset acquired primarily for sale or repurchase in the near future, with the aim to earn a profit from short-term price fluctuations and/or dealer's margin, or such an asset is a derivative instrument.

A derivative is a financial instrument or another contract whose value is changing (as a result of changes in the defined/agreed interest rate or the price of the financial instrument or its stock exchange price or foreign exchange rate or price growth index or another variable), which requires no initial net investment or an initial net investment which is lower than that for other agreement types that are expected to show similar responses to the changes in market conditions, and which will be settled at a future date.

The initial positive or negative difference in the fair value of a derivative is recorded on-balance sheet as an asset or a liability. Effects of the changes in the fair value of a derivative are subsequently recorded within the income statement. The positive fair value of the derivative is recognized as an asset and the negative fair value of the derivative as a liability.
The derivative is derecognized at the moment when the contractual rights and obligations (exchange of cash flows) arising from the derivative expire, i.e., at the termination date.

As of the termination date the carrying amount of an asset is derecognized and all the gains or losses (within the income or expenses) on the changes in the fair value of the asset are cancelled, with the ultimate effects of gain or loss from the derivative recorded within realized exchange gains or losses. In the event that there is an active market for derivatives in the country of the Bank's domicile, the ultimate effect of the sale of a derivative instrument is recorded in the profit or loss statement as a gain or loss on the sale of derivatives. The only derivative transactions the Bank performs are currency swaps.

Fair value option

Even if a financial asset meets the criteria for classification and measurement at AC or FVTOCI, it may be measured at FVTPL if doing so would eliminate or significantly reduce a measurement or recognition inconsistency ('accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Bank did not use the FVTPL option.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Financial Instruments (Continued)

3.7.1. Financial Assets (Continued)

3.7.1.2 Debt instruments measured at fair value through profit or loss (FVTPL (Continued)

Financial assets – derecognition and reclassification

The Bank derecognizes a financial asset when the Bank has transferred the asset to another party and determined that it has transferred all the risks and rewards associated with the asset. If so, the asset will be derecognized from the Bank's books. If the Bank has retained substantially all the risks and rewards of ownership over the asset, the asset cannot be derecognized.

3.7.2. Financial liabilities

Financial liabilities – measurement and derecognition

A financial liability is any contractual obligation of the Bank to give cash or another financial asset to the counterparty. Upon initial recognition, a financial liability is measured at cost, representing the fair value of the consideration received.

Financial liabilities held for trading are measured at FVTPL, while all other financial liabilities are measured at AC unless the fair value option is elected. The Bank does not use the fair value measurement option.

A financial liability is derecognized when the contractual obligation underlying the liability is discharged or cancelled or has expired.

A gain or loss on cancellation/derecognition of the financial liability is recognized within the profit or loss statement.

If the Bank has not substantially retained or transferred all the risks and rewards of the asset, then the bank must assess whether it has relinquished control of the asset or not. If the bank does not control the asset, then it may cease recognition of that asset, otherwise, if the Bank not transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset.

Borrowings

Liabilities arising from borrowings are initially recognized at fair value less directly attributable transaction costs. Subsequent to initial recognition, borrowings are measured at amortized cost. Borrowings are classified as current liabilities unless the Bank has an unconditional right to settle the liability within no less than 12 months after the reporting date.

3.8. Cash and Balances Held with the Central Bank

Cash and balances held with the central bank are comprised of cash in RSD and in foreign currencies, i.e., cash held on the Bank's gyro and current accounts, cash on hand and other cash in RSD and foreign currencies, gold and other precious metals and liquid surpluses deposited with the National Bank of Serbia.

For purposes of the cash flow statement, cash includes cash on hand in local and foreign currencies, balances on accounts held with other banks, as well as available funds held with the National Bank of Serbia,

3.9. Managed Funds

The funds that the Bank manages on behalf of and for the account of third parties for fees are disclosed within off-balance sheet items.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10. Taxes and Contributions

Current Income Taxes

Income tax is recognized and calculated in accordance with IAS 12 – "Income Taxes" and the effective Law on Corporate Income Tax.

Income tax represents the amount calculated by applying the statutory income tax rate of 15% to the profit before taxes, after deducting the effects of permanent differences that adjust the prescribed tax rate to the effective tax rate.

The final amount of income tax liability is calculated by applying the prescribed tax rate to the taxable income determined in the tax statement and reported in the annual tax return.

The Law on Corporate Income Tax of the Republic of Serbia does not allow any tax losses of the current period to be used to recover taxes paid in previous periods. However, any current year losses disclosed in the tax statements up to 2009 may be used to reduce the taxable profits for future periods, but only for a period of up to ten years. The losses in the tax statements for 2010 and thereafter may be used for reduction of the taxable profits for the ensuing periods, yet no longer than five years. In addition, the Bank may recognize the loss incurred on the negative opening balance adjustment as of January 1, 2018 due to IFRS 9 first-time adoption as expenses within the tax statement in equal amounts over 5 tax periods form the period in which the adjustment was made. Such tax losses, up to the amount of anticipated future taxable profit against which the tax losses can be offset, are recognized in the statement of the financial position as deferred tax assets.

Deferred Taxes

Deferred taxes are provided for using the balance sheet liability method on all temporary differences at the reporting date between the taxation-purpose amounts of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rate enacted at the reporting date is used to determine the deferred tax amount.

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

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or portion of the deferred tax assets to be utilized.

Indirect Taxes and Contributions

Indirect taxes and contributions include property tax, value added tax, payroll taxes and contributions charged to the employer, as well as other taxes and contributions payable in accordance with the tax regulations of the Republic of Serbia and local municipal tax regulations. These taxes and contributions are presented within other operating expenses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10. Taxes and Contributions (Continued)

Deferred Taxes (Continued)

Transfer Prices

The Bank’s tax statement for 2022 was not submitted to the Tax Administration until the preparation date of the Bank’s Separate financial statements given that the tax return is submitted to the tax authorities within 180 days after expiry date of the financial year, i.e., until June 29 of the following year. The Bank has calculated tax effects based on the Corporate Income Tax Law of the Republic of Serbia but has not yet prepared the final report (study) of the transfer prices. However, the Bank’s management believes that there will be no material effects on its financial statements for 2022 in this respect since so far there had been no adjustments in respect of the related party transactions and in 2022 the Bank had no significant changes in types of services exchanged with its related parties in comparison with the previous year.

3.11. Equity and Reserves

Equity represents the Bank's assets in excess of all its liabilities. Equity is not assessed and measured separately. Equity consists of the Bank’s issued (share) capital, reserves and retained earnings. The Bank is required to maintain at all times its regulatory capital in the amount sufficient to cover all the risks that may arise in the course of the Bank’s business (capital requirements), as explained in greater detail in Note 29.2.

3.12. Employee Benefits

The Bank does not have its own pension funds or share-based payment options and consequently had no liabilities recognized in this respect as of 31 December 2022.

As of 31 December 2022, the Bank made provisions for retirement benefits and unused annual leaves based on the assessment carried out by a certified actuary.

Provisions were made based of the following assumptions:

Average salary for September 2022 paid in Republic of Serbia)	103,476.00 RSD
Discount rate	5.00%
Salary growth rate	10.00%
Employee turnover rate	7.00%

Short-Term Employee Benefits – Taxes and Contributions for Social Security

Pursuant to the regulations effective in the Republic of Serbia, the Bank has an obligation to pay personal income tax contributions to various state social security funds. This obligation involves the payment of the tax and contributions on behalf of the employee, by the employer, in amounts calculated by applying the specific, legally prescribed rates. The Bank is also legally obligated to withhold the tax amount and contributions from gross salaries to employees, and to transfer the withheld portions on their behalf directly to the appropriate government funds. These taxes and contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

Short-Term Compensated Absences

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

3.13. Going Concern

During 2022, the Bank realized a profit in the amount of RSD 1,284,521 thousand (2021: profit in the amount of RSD 889,390 thousand). The Bank achieved significant business results in the previous period, so the Bank's management expects stable revenues in the forthcoming period, as well as that the increase in costs will be less than the increase in revenues. In accordance with all the foregoing, the Bank's financial statements have been prepared on a going concern basis, assuming that the Bank will continue to operate in the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Going Concern (Continued)

3.13.1. The impact of the Russia-Ukraine conflict on HALKBANK a.d. Belgrade

From the onset of the conflict, i.e., from the beginning of military operations on 24 February 2022, throughout 2022 and until today, the entire European and world economy and society globally have definitely been under the influence of new circumstances. In order to preserve stability, the Bank monitors and assesses possible impacts in all business segments. One year after the start of the conflict, our assumption that the conflict will not territorially go beyond the borders of the countries where it is currently taking place, as well as that there was no impact on the Bank's operations, was confirmed.

The Bank is closely monitoring the situation regarding sanctions and restrictions imposed by the EU countries, the United States and the United Kingdom, particularly restrictions on Russian banks, their branches and related parties, in order to minimize the possible risk, all in cooperation and with enhanced communication with the Association of Serbian Banks and the NBS.

The risk of individual payment transactions to Russia and Belarus is reduced to a minimum, i.e. clients sign a statement before the transaction, releasing the Bank from any responsibility related to stopping the transaction or freezing the funds. In addition, before the start of the implementation of the transaction with the correspondent banks, it is checked whether there are any restrictions related to the participants in the transaction.

As for the direct impact on the Bank's liquidity and liquidity indicators, no negative effects have been recorded and we do not expect them in the future. There has been a certain higher demand for foreign money associated with the beginning of the war, as well as a higher demand for foreign currencies in general, but the Bank has successfully responded to all customer requests. Liquidity ratios are far above average, which indicates a highly liquid position of the Bank without expectations that significant changes may occur.

As the diversification of the Bank's portfolio is good and as no clients have been identified whose structure of liabilities and receivables is highly dependent on Ukraine and/or Russia, i.e. clients who in their business have a high dependency on goods or services from the markets of countries affected by the conflict, there have been no material negative effects arising from credit risk, the Bank's assessment is that they are not expected in the future either. Regarding the impact of negative trends in certain activities and prices of goods, it is possible to expect negative impacts in the case of clients engaged in energy trade, international transport and export of agricultural products. The Bank closely monitors the operations of clients from the aforementioned groups, as well as the measures and decisions taken by the Government of the Republic of Serbia, the Ministry of Economy, the Chamber of Commerce and the NBS, in order to preserve the stability of the system and the operations of companies, which we are sure will not be absent.

With regard to Serbia, the planned GDP growth rate in 2022 is between 2.3% and 2.5%. The forecast of the Ministry of Finance predicts that next year the real GDP growth rate will remain at the same level, while in 2024 a recovery and an increased GDP growth rate are expected (the projected GDP growth rate for 2024 is 3.5%).

In December 2022, the year-on-year increase in consumer prices amounted to 15.1%, the monthly increase in consumer prices in December was 0.5%. The causes of such high inflation are increased geopolitical tensions, a bad agricultural season and problems in the energy sector, which together led to an increase in the price of energy and food. Inflation in the Eurozone also exceeds the target framework and at the end of the year the annual inflation rate is 9.2%. In response to high inflation rates, central banks implement a restrictive monetary policy, which leads to a significant increase in interest rates on the financial market. Expectations are that interest rates will remain at a high level throughout the next year, while at the end of 2023 and during 2024 we can expect a drop in interest rates as a result of the gradual reduction of inflationary pressures.

The rise in energy prices on the world market has indirectly affected the growth of inflation in European countries, the cause of the drastic jump in prices on the stock exchanges is the mismatch between supply and demand due to the situation in Ukraine, sanctions against Russia and the expectation that the world economy is entering a recession. The European energy market has become very unpredictable with large price fluctuations. The world prices of oil, gas and electricity reached record levels in 2022, while the expectations for the following year are that there will be a stabilization of the market and a consequent reduction in prices, which will still remain at a higher level compared to the prices of energy products before the energy crisis.

As for the increase in the price of energy and the impact on the business of clients, for now there has been absolutely no negative impact on the quality of our portfolio and it is estimated that it will remain so in the coming period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Going Concern (Continued)

3.13.1. The impact of the Russia-Ukraine conflict on HALKBANK a.d. Belgrade (Continued)

Finally, although the uncertainty in the environment is great and the possibility of recession in large economies still exists, our expectations are that Serbia and Halkbank's operations will not be affected to a significant extent, and as far as the global market is concerned (European and world), there are more and more positive signals, i.e. it seems that the restrictive monetary policy measures will begin to produce results.

With regard to the impact of the crisis in general, with increased monitoring and risk assessment as well as with the safe intervention of the Government of the Republic of Serbia in the market segments of prices, exchange rate stability and foreign trade exchange, as well as with the support of the NBS to the financial sector, we ascertain that we have not felt any effects on OPERATIONS, and our estimates are that it will remain so in the coming period. In the future, the Bank will continue to closely monitor the situation and developments and undertake timely activities in order to preserve the optimal level of liquidity, the quality of the loan portfolio and the Bank's target values and profitability.

3.14. Leases

As from 1 January 2019, the Bank applies International Financial Reporting Standard 16 (IFRS 16) for the coverage of leasing contracts.

A lease is a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

For each lease contract, the Bank assesses whether the contract contains elements of a lease. The Bank assesses whether the contract identifies the asset and whether the Bank has the right to control the use of identifiable assets for a specified period of time.

Incremental borrowing rate is the rate of interest that the Bank (a lessee) would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

The Bank does not apply the requirements of IFRS 16:
- -to the lease contracts with terms shorter than 12 months and those not containing the purchase option, and/or
- -lease contracts with low-value assets (RSD equivalent of USD 5,000 or less).

3.15. Repossessed Assets

Under assets acquired through collection of receivables, the Bank presents tangible assets received in lieu of debt collection (collection of receivables) until the moment of their sale or use for the Bank’s own needs.

Repossessed property is recognized after the acquisition at the lower of their estimated market value and the cost of acquisition. Until the moment of sale or change of purpose of the repossessed property, the Bank provides once a year a revaluation of each individual repossessed property and if the revalued amount is lower than the carrying value, it performs impairment in accordance with IAS 2.

3.16. Financial Guarantees

In the ordinary course of business, the Bank issues financial guarantees, consisting of payment guarantees and performance bonds, letters of credit, acceptances and other warranties. Financial guarantees are contracts which obligate the issuer of a guarantee to perform the payment or compensate the loss to the holder of a guarantee, incurred if a certain client fails to settle its liabilities in due time as required under the terms of the contract.

Financial guarantees are initially recognized in the financial statements at fair value as at the date the guarantee is issued. Subsequent to initial recognition, the Bank’s liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligations arising as a result of the guarantee.

Any increase in the liability relating to the financial guarantees is recognized in the income statement. The premium received is recognized in the income statement within the fee and commission income on a straight-line basis over the life of the guarantee.

Financial guarantees are presented under contingent liabilities, within the Bank’s off-balance sheet items (Note 27).

4. INTEREST INCOME AND EXPENSES

a) INTEREST INCOME

Interest income includes:

		In RSD thousand For the year ended 31 December
	2022	2021
RSD loans measured at AC, to:		
Banks	1,598	205
Public companies	8,813	2,161
Corporate customers	1,388,505	991,513
Entrepreneurs	192,507	170,468
Public sector	31,188	36,743
Individuals	1,144,454	1,016,502
Other customers	139,030	138,504
	2,906,095	**2,356,096**
Foreign currency loans measured at AC, to:		
Corporate customers	26,372	16,635
Entrepreneurs	1	-
Public sector	1,469	1
Individuals	71	56
Other customers	326,296	254,203
	354,209	**270,895**
RSD deposits measured at AC, to:		
Banks	87,984	7,464
	87,984	**7,464**
FX deposits measured at AC, to:		
Banks	1,478	15
Individuals	-	20
Other customers	286	23
	1,764	**58**
Securities measured at FVTOCI:		
In RSD	495,877	470,002
	495,877	**470,002**
Other placements measured at AC:		
In RSD	-	1
In foreign currencies	341	743
	341	**744**
TOTAL:	**3,846,270**	**3,105,259**

Total interest income recognised on impaired loans for the year ended 31 December 2022 amounted to RSD 34,372 thousand (2021: RSD 46,827 thousand).

4. INTEREST INCOME AND EXPENSES (Continued)

b) INTEREST EXPENSES

	In RSD thousand For the year ended 31 December 2022	2021
RSD borrowings measured at AC, due to:		
Banks	609	77
Corporate customers	-	15
	609	**92**
Foreign currency borrowings measured at AC, due to		
Public sector	37,396	15,227
Banks	24,681	14,494
Other customers	14,122	21,555
	76,199	**51,276**
RSD deposits measured at AC, due to		
Banks	89,462	57,204
Public companies	52,742	8,034
Corporate customers	148,106	128,032
Entrepreneurs	1,469	783
Public sector	19,930	20,756
Individuals	116,808	70,598
Other customers	28,926	46,314
	457,443	**331,721**
Foreign currency deposits measured AC, due to		
Banks	96,109	41,272
Corporate customers	60,532	55,482
Entrepreneurs	154	-
Public sector	4,297	-
Individuals	165,324	110,389
Other customers	7,357	9,399
	333,773	**216,542**
Interest expense on other liabilities measured at amortized cost:		
In RSD	6,555	2,753
In foreign currency	12,906	13,029
	19,461	**15,782**
TOTAL:	**887,485**	**615,413**

Interest expenses that relate to the lease of business premises for the year ended 31 December 2022 amounted to RSD 13,185 thousand (2021: RSD 13,306 thousand), while interest expenses on vehicle leasing for the year ended 31 December 2022 amounted to RSD 1,215 thousand (2021: RSD 1,251 thousand).

5. FEE AND COMMISSION INCOME AND EXPENSES

a) FEE AND COMMISSION INCOME

		In RSD thousand For the year ended 31 December
	2022	2021
Fee and commission income in RSD:		
Banks and other financial institutions	97,307	54,975
Public companies	10,080	3,538
Corporate customers	1,224,921	939,221
Entrepreneurs	300,937	153,381
Public sector	2,632	1,556
Individuals	344,831	272,516
Non-residents	12,472	3,827
Other customers	32,272	22,452
TOTAL	**2,025,452**	**1,451,466**
Fee and commission income in foreign currencies		
Banks and other financial institutions	68,270	40,084
Western Union	238	350
MasterCard / VISA	46,615	15,212
Individuals	5,469	4,600
Corporate customers	10	67
Entrepreneurs	-	-
Non-residents	1,332	1,086
	121,934	**61,399**
TOTAL:	**2,147,386**	**1,512,865**

b) FEE AND COMMISSION EXPENSES

		In RSD thousand For the year ended 31 December
	2022	2021
Fee and commission expenses in RSD:		
Banks and other financial institutions	97,476	60,411
Corporate customers	74,092	65,820
Entrepreneurs	31	22
Public sector	596	512
Other customers	22,756	16,449
	194,951	**143,214**
Fee and commission expenses in foreign currencies:		
Banks and other financial institutions	98,636	16,343
Corporate customers	-	8
Public sector	17	17
Entrepreneurs	-	5
Non-residents	278,319	179,570
	376,972	**195,943**
TOTAL:	**571,923**	**339,157**

6. NET GAINS/(LOSSES) FROM CHANGES IN FAIR VALUE OF FINANCIAL INSTRUMENTS

	In RSD thousand For the year ended 31 December 2022	2021
Gains/(Losses) from the changes in the fair value of financial assets measured at FVTPL	(792)	941
Gains/(Losses) from the changes in the fair value of financial liabilities measured at FVTPL	1,156	2,150
Gains/(Losses) from the changes in the fair value of other derivatives	9,278	2,167
TOTAL:	**9,642**	**5,258**

7. NET GAINS/(LOSSES) ON DERECOGNITION OF THE FINANCIAL ASSETS MEASURED AT FAIR VALUE

	In RSD thousand For the year ended 31 December 2022	2021
Gains from derecognition of financial assets measured at FVTOCI	-	120,415
Losses from derecognition of financial assets measured at fair value through profit or loss	(80)	(53)
TOTAL:	**(80)**	**120,362**

Losses from derecognition of financial instruments measured at fair value through other comprehensive income in the amount of RSD 80 thousand relate to losses on the sale of shares of ALFAPLAM AD in 2022.

8. NET FOREIGN EXCHANGE GAINS AND POSITIVE CURRENCY CLAUSE EFFECTS

	In RSD thousand For the year ended 31 December 2022	2021
Foreign exchange gains	2,610,715	973,174
Positive currency clause effects	169,717	50,382
TOTAL:	**2,780,432**	**1,023,556**
Foreign exchange losses	(2,536,859)	(959,810)
Negative currency clause effects	(241,336)	(48,675)
TOTAL:	**(2,778,195)**	**(1,008,485)**
Net foreign exchange gains:	**2,237**	**15,071**

The share of foreign currency items in the total Bank's balance sheet assets was 50.24% (2021: 45.36%), while the share of foreign currency items in the total balance sheet liabilities was 56.91% (2021: 52.72%).

9. NET LOSSES ON IMPAIRMENT OF FINANCIAL ASSETS AND CREDIT RISK-WEIGHTED OFF-BALANCE ITEMS

a) Credited/(Charged) to the Profit or Loss

	In RSD thousand For the year ended 31 December 2022	2021
Impairment allowance of financial assets measured at AC	(566,281)	(462,903)
Reversal of impairment allowance of financial assets measured at AC (Note 9b)	293,810	238,766
Net losses	**(272,471)**	**(224,137)**
Provisions for off-balance sheet items (Note 24a)	(2,138)	(40,841)
Reversal of provisions for off-balance sheet items (Note 24a)	40,822	16,399
Net gains/(losses)	**38,684**	**(24,442)**
Impairment allowance of financial assets measured at FVTOCI	(7,031)	(11,673)
Reversal of impairment allowance of financial assets measured at FVTOCI	4,686	11,305
Net losses	**(2,345)**	**(368)**
Write-off of irrecoverable receivables	(1,447)	(2,157)
Recovery of receivables previously written off	71,319	63,524
Net gains	**69,872**	**61,367**
Gains on the modification of financial instruments	13,255	23,126
Losses on the modification of financial instruments	(1,386)	(1,327)
Net gains/(losses)	**11,869**	**21,799**
TOTAL:	**(154,391)**	**(165,781)**

For the year ended 31 December 2022, the Bank recognized interest income on impaired loans using the effective interest rate on the amortized cost of loans, i.e., their net values along with adjustment of the income recorded in the income statement and with the calculated impairment allowance of receivables in this respect, and recorded losses on impairment of financial assets measured at amortized cost within the line item of the net gains/losses from impairment of financial assets not measured at fair value through profit or loss.

The impairment allowance made in this respect was recorded in the amount of RSD 34,372 thousand (2021: RSD 46,827 thousand).

Due to the foregoing, losses on impairment assets recorded in the income statement (Note 9a) exceeded by the same amount losses on impairment presented in the table of movements on impairment allowance accounts (Note 9b).

9. NET LOSSES ON IMPAIRMENT OF FINANCIAL ASSETS AND CREDIT RISK-WEIGHTED OFF-BALANCE ITEMS (Continued)

b) Movements on impairment allowance accounts

In RSD thousand - 2022

	Cash and balances with the central bank (Note 15)	Loans and placements to banks (Note 18)	Loans and placements to customers (Note 19)	Financial assets at FVTOCI (Note 17)	Other financial assets (Note 21)	Total
Balance as of 1 January 2022	**840**	**2,430**	**1,029,832**	**-**	**30,727**	**1,063,829**
Impairment losses on balance sheet items	1,686	6,855	489,135	-	34,233	531,909
Reversal of impairment of balance sheet items (Note 9a)	(28)	(7,213)	(284,272)	-	(2,297)	(293,810)
Foreign exchange effects	-	-	(30)	-	6	(24)
Impairment allowance translation due to currency clause	-	-	(1,706)	-	-	(1,706)
Assignment of receivables	-	-	(60,332)	-	(3,044)	(63,376)
Accounting write-off, aligned with NBS	-	-	(408,767)	-	(2,157)	(410,924)
Definite write-off	-	-	(261)	-	(516)	(777)
Other	-	-	35	-	-	35
Balance as of 31 December 2022	**2,498**	**2,072**	**763,634**	**-**	**56,952**	**825,156**

9. NET LOSSES ON IMPAIRMENT OF FINANCIAL ASSETS AND CREDIT RISK-WEIGHTED OFF-BALANCE ITEMS (Continued)

b) Movements on impairment allowance accounts (Continued)

In RSD thousand - 2021

	Cash and balances with the central bank (Note 15)	Loans and placements to banks (Note 18)	Loans and placements to customers (Note 19)	Financial assets at FVTOCI (Note 17)	Other financial assets (Note 21)	Total
Balance as of 1 January 2021	**1,858**	**1,889**	**1,107,285**	**-**	**26,024**	**1,137,056**
Impairment losses on balance sheet items	2,617	4,330	395,772	-	13,357	**416,076**
Reversal of impairment of balance sheet items (Note 9a)	(3,635)	(3,789)	(228,357)	-	(2,985)	**(238,766)**
Foreign exchange effects		-	-	-	3	**3**
Impairment allowance translation due to currency clause	-	-	(1,270)	-	-	**(1,270)**
Accounting write-off, aligned with NBS	-	-	(97,665)	-	(4,820)	**(102,485)**
Definite write-off	-	-	(147,285)	-	(786)	**(148,071)**
Other	-	-	1,352		(66)	**1,286**
Balance as of 31 December 2021	**840**	**2,430**	**1,029,832**	**-**	**30,727**	**1,063,829**

Total impairment allowance of other assets presented in Note 21 totalling RSD 60,680 thousand (2021: 55,542 thousand) includes impairment allowance of both financial and non-financial other assets, while in Note 9b) only impairment allowance of other financial assets in the amount of RSD 56,952 thousand (2021: RSD 30,727 thousand).

10. NET GAINS ON DERECOGNITION OF FINANCIAL INSTRUMENTS MEASURED AT AMORTIZED COST

		In RSD thousand For the year ended 31 December
	2022	2021
Net gains/(losses) on recognition of financial instruments measured at amortised cost	1,159	-
TOTAL:	**1,159**	**-**

11. OTHER OPERATING INCOME

		In RSD thousand For the year ended 31 December
	2022	2021
Other income from operations	11,185	13,277
Dividend income and profit sharing	519	622
TOTAL:	**11,704**	**13,899**

12. SALARIES, COMPENSATIONS AND OTHER PERSONNEL EXPENSES

		In RSD thousand For the year ended 31 December
	2022	2021
Salaries and compensations	807,112	737,972
Taxes on salaries and salary compensations	98,276	90,345
Contributions on salaries and salary compensation	376,436	192,190
Other personal expenses	13,959	20,573
Provisions for retirement and other employee benefits (Note 24b)	182,144	82,294
Considerations payable to temporary and seasonal staff members	686	1,894
TOTAL:	**1,478,613**	**1,125,268**

Contributions on salaries and salary compensation have increased because in 2022 the Bank reclassified the contributions on salaries and salary compensation in the amount of RSD 169,749 thousand, which refer to the costs of contributions for pensions charged to the employer, the costs of contributions for health insurance charged to the employer and contribution costs to the Chamber of Serbia, which in 2021 were reported as contribution costs stated in Note 13 in the total amount of RSD 162,862 thousand.

Within the line item of salaries and salary compensations, the amount of RSD 49,416 thousand (2021: RSD 36,673 thousand) relates to the remunerations to the Executive Board members remunerations, while the Board of Directors members' remunerations are presented within the line item of other personal expenses in the amount RSD 11,655 thousand (2021: 11,666 thousand).

13. OTHER INCOME AND EXPENSES

	In RSD thousand For the year ended 31 December 2022	2021
Gains on the sale of property, plant, equipment and intangible assets	9,161	1,147
Surpluses	1,100	293
Other income	43,849	22,950
Income from the reversal of unused provisions for liabilities	9,044	590
TOTAL:	**63,154**	**24,980**
Operating expenses		
Cost of materials	100,903	79,023
Costs of production services	327,023	235,157
Non-material expenses	589,175	561,859
Taxes payable	14,122	9,102
Contributions payable (Note 12)	1,066	163,957
Other expenses	1,572	1,801
Provisions for liabilities (Note 24c)	6,965	81,690
	1,040,826	**1,132,589**
Other expenses		
Losses on the retirement and disposal of property, equipment and intangible assets	102	1,041
Other expenses	7,954	4,346
Losses from the sale of fixed assets and intangible assets	-	3,331
Losses on the change in value of fixed assets, investment property and intangible assets	4,802	-
Deficiencies and damages	120	194
	12,978	**8,912**
TOTAL:	**1,053,804**	**1,141,501**

Within the line item non-material expenses, the most significant amount relates to paid insurance premiums of RSD 262,269 thousand (2021: RSD 209,565 thousand), of which the largest portion is the insurance premium paid for retail deposits in the amount of RSD 196,112 thousand (2021: 160,237 thousand) and insurance premium paid for cash loans for pensioners in the amount of RSD 42,048 thousand (2021: RSD 38,153 thousand). In addition, non-material expenses relate to the costs of securing facilities and transporting money in the amount of RSD 56,313 thousand (2021: RSD 51,386 thousand), costs of renting software in the amount of RSD 48,903 thousand (2021: RSD 69,445 thousand) and costs of telecommunication services in the amount of RSD 40,372 thousand (2021: RSD 45,018 thousand).

Within the line item of costs of production services, the largest amount relates to rental costs of RSD 85,820 thousand (2021: RSD 77,175 thousand).

The expenses of real estate lease covered by IFRS 16 amount to RSD 67,643 thousand, of which the largest part is value added tax for all real estate leased from legal entities, personal income tax for individuals, as well as service costs of the Central Bank lease.

Vehicle rental costs covered by IFRS 16 relate to value added tax borne by the lessee (bank) and amount to RSD 8,292 thousand.

The costs of property leases, which due to their low value are not covered by the IFRS 16 standard, amounted to RSD 9,885 thousand in 2022 (real estate RSD 544 thousand and ATMs RSD 9,341 thousand). ATM lease agreements do not meet the requirements for posting under IFRS 16, due to the low value of the contract and the indefinite validity period.

13. OTHER INCOME AND EXPENSES (Continued)

In 2022, the reclassification of the costs of payroll contributions from account group 645-Costs of contributions to 633-Costs of contributions on salaries and salary compensations was carried out and is presented within notes 12 and 13.

The reclassification in question led to a change in the cost structure, so that in 2022, other expenses were reduced, and salary expenses, salary compensation and other personal expenses were increased.

14. INCOME TAXES

a) Components of income tax are as follows:

In RSD thousand	2022	2021
Current tax expense for the period	(131,142)	(58,589)
Increase in deferred tax assets and decrease in deferred tax liabilities	2,748	1,519
Total	**(128,394)**	**(57,070)**

b) Income tax reconciliation with prescribed tax rates

	2022	In RSD thousand For the year ended 31 December 2021
Profit before taxes	1,412,915	946,464
Income tax at the statutory rate of 15%	211,937	141,970
Tax effects of expenses not recognized for tax purposes and other expense adjustments	329	13,265
Tax effects of income from debt securities and other income adjustments	(80,678)	(78,853)
Other	(446)	(1,026)
Utilization of tax loss carry forwards	-	(16,767)
Income tax stated in the tax statement	**131,142**	**58,589**
Effective tax rate	9.28%	6.19%
Profit arising from deferred taxes	(2,748)	(1,519)
Total tax expense of the period	**128,394**	**57,070**
Effective tax rate	**9.09%**	**6.03%**

14. INCOME TAXES (Continued)

c) Components of deferred tax assets and liabilities

The Bank recognized deferred tax assets in accordance with its projected results as per the adopted five-year business strategy. Given that as of 31 December 2022, there were changes in the amount of deferred tax assets compared to the 2021 year-end, The Bank recorded an increase in deferred tax assets compared to the previous year, in the amount of RSD 2,748 thousand.

Deferred tax assets and liabilities relate to:

	2022			2021		
In RSD thousand	**Assets**	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Deferred tax assets per temporary differences on property, plant and equipment	46,173	-	46,173	36,850	-	36,850
Deferred tax assets per tax losses carried forward	-	-	-	4,268	-	4,268
Deferred tax assets per securities	7,616	-	7,616	7,967	-	7,967
Deferred tax assets per litigation provisions	9,553	-	9,553	12,137	-	12,137
Deferred tax assets per provisions for employee retirement benefits	2,599		2,599	2,691		2,691
Deferred tax liabilities per changes in the value of property, plant and equipment	-	(14,858)	(14,858)	-	(14,858)	(14,858)
Deferred tax liabilities arising from actuarial losses	-	(697)	(697)	-	(831)	(831)
Deferred tax assets per impairment of assets	720		720	-	-	-
Total	**66,661**	**(15,555)**	**51,106**	**63,913**	**(15,689)**	**48,224**

Movements of temporary differences during 2022 are shown in the following table:

In RSD thousand	**Balance as of 1 January**	**Reported in the income statement**	**Reported in other comprehe-nsive income**	**Balance as of 31 December**
Deferred tax assets per temporary differences on property, plant and equipment	36,850	9,323	-	46,173
Deferred tax assets per tax losses carried forward	4,268	(4,268)	-	-
Deferred tax assets per securities	7,967	(351)	-	7,616
Deferred tax assets per litigation provisions	12,137	(2,584)	-	9,553
Deferred tax assets per provisions for employee retirement benefits	2,691	(92)		2,599
Deferred tax liabilities per changes in the value of property, plant and equipment	(14,858)	-	-	(14,858)
Deferred tax liabilities arising from actuarial losses	(831)	-	134	(697)
Deferred tax assets per impairment of assets	-	720	-	720
Total	**48,224**	**2,748**	**134**	**51,106**

15. CASH AND BALANCES HELD WITH THE CENTRAL BANK

	31 December 2022	In RSD thousand 31 December 2021
Gyro account balance	4,050,776	6,051,515
Cash in hand in RSD	1,190,581	853,767
Liquidity surpluses	10,000,000	-
Receivables for accrued interest, fees and commissions related to cash and balances held with the central bank	-	-
Cash in hand in foreign currencies	1,359,795	856,805
Mandatory foreign currency reserve held with NBS	5,128,687	4,927,357
Other cash and cash equivalents	710	711
Less: Impairment allowance of the cash and balances held with the central bank	(2,498)	(840)
Balance as of	**21,728,051**	**12,689,315**

Mandatory RSD reserve represents the minimum average balance of RSD funds that the Bank has to allocate to its gyro account in accordance with the National Bank of Serbia's Decision on Banks' Required Reserves with the National Bank of Serbia (Official Gazette of the Republic of Serbia nos. 76/2018).

In accordance with Article 6 of this Decision, the Bank is obliged to calculate and allocate the RSD mandatory reserve at the rate of 5% on the average daily balance of RSD deposits, borrowings and other liabilities with a maturity of up to two years, during one calendar month, while for deposits, borrowings and other liabilities with a maturity of over two years, the allocation rate is 0%. Mandatory reserve is calculated once a month. In 2022, the NBS calculated and paid interest at the interest rate of 0.10% per annum from 1 January to 18 April 2022, at the rate of 0.25% per annum from 18 April to 18 May 2022, from 18 May to 18 June 2022 at the rate of 0.50% per annum, while from 18 June 2022 until the end of 2022 at the rate of 0.75 per annum, on the amount of the realized average daily balance of RSD mandatory required reserve for the accounting period not exceeding the amount of the calculated RSD mandatory reserve. Exceptionally, in order to mitigate the economic consequences of the COVID-19 pandemic, the NBS pays a portion of these funds, if the prescribed conditions are met, and calculates interest at an interest rate of 0.50% per annum.

As of 31 December 2022, the mandatory RSD reserve was calculated in the amount of RSD 4,819,138 thousand (2021: RSD 4,062,215 thousand). The stated amount is included within the gyro account balance line item.

The portion of the calculated foreign currency mandatory reserve allocated in dinars amounts to 38% and relates to deposits, borrowings and other liabilities with contractual maturity of up to two years and 30% relates to deposits, borrowings and other liabilities with contractual maturity of over two years, so that the total RSD mandatory reserve consists of the sum of the calculated RSD reserve in dinars and the stated part of the calculated foreign currency reserve.

The mandatory foreign currency reserve represents the minimum average balance of foreign currency assets which the Bank is obligated to allocate to its account held with NBS, in accordance with the Decision on Banks' Required Reserves with the National Bank of Serbia (Official Gazette of the Republic of Serbia nos. 76/2018). The Bank is obliged to calculate and allocate the foreign currency reserve to the amount of the average daily balance of foreign currency deposits, borrowings and other liabilities during one calendar month at a rate of 20% for those with contractual maturity of up to two years, 13% for those with contractual maturity of over two years and 100% for the average balance of the foreign currency clause-indexed RSD liabilities. NBS does not pay any interest on the mandatory foreign currency reserve funds on the Bank's account held with NBS.

The line item "reserve requirement with the NBS in foreign currency" represents the current balance on the foreign currency account with the NBS where the required reserve is allocated. The obligation of the Bank is that the average monthly balance of allocated funds be at the level of calculated required reserves in foreign currency. As this account is used for other purposes, individual days have a different balance. The table shows the balance on that account as of 31 December 2022.

As of 31 December 2022, the Bank's mandatory foreign currency reserve amounted to RSD 5,283,431 thousand (2021: RSD 4,276,647 thousand).

15. CASH AND BALANCES HELD WITH THE CENTRAL BANK (Continued)

The Bank's mandatory foreign currency reserve was comprised of 62% of the foreign currency reserve calculated per the Bank's liabilities with maturities of up to two years and 70% of the foreign currency reserve calculated per the Bank's liabilities with maturities of over two years.

For the purposes of preparation of the cash flow statement, the Bank includes in the cash and cash equivalents cash funds held on the gyro account, cash in hand in both RSD and foreign currencies, and cash funds on the accounts held with foreign banks. The item of cash and balances held with the central bank was reconciled with the items of the statement of cash flows at the end of the reporting period as follows:

In RSD thousand

	31 December 2022	31 December 2021
Cash and balances held with the central bank	21,728,051	12,689,315
Mandatory foreign currency reserve held with NBS	(5,128,687)	(4,927,357)
Foreign currency accounts held with foreign banks	2,136,010	2,306,878
Liquidity surpluses	(10,000,000)	-
Receivables for accrued interest, fees and commissions related to the cash and balances held with the central bank	-	-
Impairment allowance of the cash and balances held with the central bank	2,498	840
Balance as of	**8,737,872**	**10,069,676**

16. RECEIVABLES/(PAYABLES) UNDER DERIVATIVE FINANCIAL INSTRUMENTS

In RSD thousand

	31 December 2022	31 December 2021
Receivables from financial derivatives	11,752	901
Liabilities under derivative financial instruments	(1,573)	-
Balance as of	**10,179**	**901**

The reported receivables in the amount of RSD 11,752 thousand relate to the positive effects of adjusting the value of a currency swap in RSD with the National Bank of Serbia to its fair value (RSD 3,529,907,000).

The liabilities under derivative financial instruments in the amount of RSD 1,573 thousand relate to the negative effects of reducing the value of the currency SWAP (USD SWAP) to the fair value (USD 14,278.73 at the middle exchange rate on the day of the fair value calculation). The maturity dates of all the above mentioned SWAPs are in the period January-March 2023.

17. SECURITIES

In RSD thousand

	31 December 2022	31 December 2021
a) Securities measured at FVTPL		
Corporate shares	13,522	18,636
	13,522	**18,636**
b) Securities measured at FVTOCI		
Bonds issued by the Republic of Serbia in RSD	12,071,087	14,262,051
	12,071,087	**14,262,051**
Balance as of	**12,084,609**	**14,280,687**

17. SECURITIES (Continued)

In 2022, a net negative effect in the amount of RSD 1,648,356 thousand was realized based on changes in the value of securities that are measured at fair value through other comprehensive income (the statement of other comprehensive income shows the negative effect of changes in the value of debt instruments in the amount of RSD 1,961,651 thousand, while the positive effect amounted to RSD 313,295 thousand). The statement of changes in equity also presents the negative effects of changes in the value of debt instruments that are measured at fair value through other comprehensive income within revaluation reserves in the amount of RSD 1,648,356 thousand.

In 2021, a net negative effect in the amount of RSD 759,254 thousand was realized based on changes in the value of securities that are measured at fair value through other comprehensive income (the statement of other comprehensive income shows the negative effect of changes in the value of debt instruments in the amount of RSD 770,928 thousand, while the positive effect amounted to RSD 11,673 thousand). The statement of changes in equity also presents the negative effects of changes in the value of debt instruments that are measured at fair value through other results within revaluation reserves in the amount of RSD 759,254 thousand.

As of 31 December 2022, the securities and investments traded by the Bank in the Belgrade Stock Exchange comprised corporate shares.

The rates of return on the government securities in RSD purchased during 2022 ranged from 2.50% to 5.98%.

18. LOANS AND PLACEMENTS TO BANKS AND OTHER FINANCIAL INSTITUTIONS

In RSD thousand

	31 December 2022	31 December 2021
Foreign currency accounts	2,136,010	2,306,878
Loans in RSD	32,612	16,165
Other investments:		
- In RSD	1,056,060	587,990
- In foreign currencies	747,970	840,142
Deposits:		
- In RSD	-	-
- In foreign currencies	96,198	89,731
Receivables for accrued interest on loans, deposits and other investments:		
- In RSD	122	48
- In foreign currencies	-	-
Deferred income from receivables carried at amortized cost using the effective interest rate	(45)	(7)
Gross loans and placements to banks and other financial institutions	**4,068,927**	**3,840,947**
Less: Impairment allowance (Note 9b)	(2,072)	(2,430)
Balance as of	**4,066,855**	**3,838,517**

As of 31 December 2022, the Bank had no liquidity loans per repo transactions.

Foreign currency assets with the Central Securities Depository and foreign currency assets on transaction accounts held with domestic and foreign banks as of 31 December 2022 amounted to RSD 2,136,010 thousand (2021: RSD 2,306,878 thousand) and are presented within the line item of foreign currency accounts.

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

The item of other investments in foreign currencies mostly relates to receivables for contracted purchase and sale of foreign currency monetary assets:

- from domestic banks – National Bank of Serbia in the amount of RSD 1,056,060 thousand, Unicredit Bank Srbija a.d. Belgrade in the amount of RSD 586,612 thousand, Banka Intesa a.d. Belgrade in the amount of RSD 117,322 thousand (2021: National Bank of Serbia - in the amount of RSD 588,002 thousand, Unicredit Bank Srbija a.d. Belgrade in the amount of RSD 470,328 thousand, Erste Bank a.d. Novi Sad in the amount of RSD 235,164 thousand, OTP Banka Srbija a.d. Novi Sad in the amount of RSD 117,570 thousand, NLB Komercijalna banka a.d. Belgrade in the amount of RSD 12 thousand),
- From foreign banks - Turkiye Halkbankasi AS in the amount of RSD 44,023 thousand (2021: Commerzbank AG, Frankfurt in the amount of RSD 17,056 thousand).

19. LOANS AND PLACEMENTS TO CUSTOMERS

		In RSD thousand
	31 December 2022	**31 December 2021**
Loans in RSD and loans indexed to EUR	64,417,629	60,200,848
Loans and placements in foreign currencies	7,225,730	6,665,652
Other placements in RSD	11,729	6,500
Receivables for accrued interest on loans, deposits and other placements:		
- in RSD	227,472	134,327
- in foreign currency	595	92
Accrued receivables for interest on loans, deposits and other investments in RSD		
- in RSD	191,807	271,317
- in foreign currency	56,721	50,615
Receivables for fee and commission income, deposits and other placements	354	427
Deferred income for receivables carried at amortized cost using the effective interest rate		
- in RSD	(152,831)	(139,750)
- in foreign currency	(21,699)	(19,815)
Gross loans and placements to customers	**71,957,507**	**67,170,213**
Less: Impairment allowance (Note 9b)	(763,634)	(1,029,832)
Balance as of	**71,193,873**	**66,140,381**

Short-term loans were placed to corporate customers, entrepreneurs and agribusiness clients for the improvement of production, trade of goods, provision of services, import, export, maintenance of current liquidity and other purposes. Short-term loans were approved with repayment periods of up to 12 months, in RSD, f/x loans and in foreign currencies.

Loans from the Bank's potential in dinars were approved during 2022 with interest rates on an annual level ranging from 6m BELIBOR + from 0.75% p.a to 9.00% p.a with a variable interest rate and from 3.35% to 15.9% with a fixed interest rate. Short-term RSD loans with an agreed currency clause are approved at annual interest rates ranging from 6m EURIBOR + 2.15% to 9.00%, and long-term loans in dinars with an agreed currency clause and loans in foreign currency are approved at annual interest rates. in the range of 6m EURIBOR + from 2.45% to 9.00%. Loans in foreign currency are approved with annual interest rates in the range of 6m EURIBOR + from 2.75% to 9.00%.

19. LOANS AND PLACEMENTS TO CUSTOMERS (Continued)

The largest part of long-term loans placed during 2022 related to:

- loans extended in the amount EUR 260.7 million in Corporate, SME and agribusiness segments, through loans granted from the Bank's resources, as well as certain programs and actions. The focus was on loans granted from the Bank's resources, and credit lines in cooperation with the SEF foundation, Micro credits campaign, FRK campaigns of investment loans in cooperation with the National Bank of Serbia, as well as placements in the agribusiness customers.

- In the first half of 2022, the Bank signed an agreement with the Ministry of Agriculture regarding subsidised loans for working capital and agricultural equipment. This is the fifth year of the Bank's participation in the program, through which significant results were achieved through marketing to the segment of Agro clients. In addition, the Bank, in cooperation with the Ministry of Agriculture, Forestry and Water Management, started implementing the Project for Competitive Agriculture financed by the World Bank, for the allocation of grants in agriculture. The target group are commercial and market-oriented farms that do not meet the conditions for using funds from the European Union funds.

- During the third quarter of 2022, the Bank completed all the necessary analyses and preparations for the introduction of the new loan product "Project Financing" into the Bank's offer for the business client segment. Project financing is considered financing of legal entities for special purposes (so-called SPV) for the purpose of development, construction or refinancing of previous investments in development and construction, and where the source of loan repayment is inflow based on the sale, lease and/or exploitation of the financed project.

  The expected positive effects on the Bank's operations in the event of the introduction of a new product into the Bank's offer are as follows:

  - offer in the corporate segment will become more competitive on the market,
  - diversification of the existing credit portfolio,
  - increasing the volume of housing placements,
  - increasing the bank's loan portfolio covered by solid collateral,
  - transformation from short-term to long-term exposures,
  - better risk control.

The complete documentation and the results of the conducted analyses were sent to the National Bank of Serbia and consent was obtained for the introduction of the new product.

Gross placements to corporate customers (including gross NPLs as of 31 December 2022), excluding interest, fees and accrued fees amount to RSD 51,700,249 thousand (2021: RSD 48,153,335 thousand) and are of the following structure:

In RSD thousand

Loan type	31 December 2022	31 December 2021	% of change
Loans from the Bank's resources	47,402,693	43,151,097	9.85%
Loans from credit lines obtained from the International Financial Institutions	4,297,556	5,002,238	(14.09%)
Balance as of	**51,700,249**	**48,153,335**	**7.37%**

19. LOANS AND PLACEMENTS TO CUSTOMERS (Continued)

As of 31 December 2022, the Bank's gross amount of loans and placements to retail customers without interest and fees yet including NPLs totalled RSD 19,954,264 thousand (2021: RSD 18,734,388 thousand) and are broken down as follows:

In RSD thousand

Loan Type	31 December 2022	31 December 2021	% of change
Cash loans	9,598,973	9,465,804	1.41%
Housing loans	9,285,051	8,189,349	13.38%
Consumer loans – other purposes	208,005	269,986	-22.96%
Consumer loans – energy efficiency	179,828	223,240	-19.45%
Matured loan receivables	268,771	198,786	35.21%
Consumer loans – purchase of vehicles	129,889	149,647	-13.20%
Authorized current account overdrafts	149,856	138,936	7.86%
Unauthorized current account overdrafts	23,580	18,437	27.89%
Receivables per credit cards	110,311	80,203	37.54%
Balance as of	**19,954,264**	**18,734,388**	**6.51%**

20. INTANGIBLE ASSETS, PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY

a) Intangible assets

In RSD thousand

	Intangible assets under construction	Patents, licenses and software	Total
Cost			
Balance as of 1 January 2021	14,394	609,311	623,705
Additions	472,857	-	472,857
Transfer (from)/to	(135,106)	135,106	-
Disposal	-	(34,245)	(34,245)
Balance as of 31 December 2021	**352,145**	**710,172**	**1,062,317**
Accumulated amortisation			
Balance as of 1 January 2021	-	302,524	302,524
Charge for the year	-	77,144	77,144
Disposal	-	(34,245)	(34,245)
Balance as of 31 December 2021	**-**	**345,423**	**345,423**
Carrying value as of 31 December 2021	**352,145**	**364,749**	**716,894**
Cost			
Balance as of 1 January 2022	352,145	710,172	1,062,317
Additions	411,386	-	411,386
Transfer (from)/to	(137,677)	137,677	-
Disposal	-	(66,105)	(66,105)
Balance as of 31 December 2022	**625,854**	**781,744**	**1,407,598**
Accumulated amortisation			
Balance as of 1 January 2022	-	345,423	345,423
Charge for the year	-	112,110	112,110
Disposal	-	(66,105)	(66,105)
Balance as of 31 December 2022	**-**	**391,428**	**391,428**
Carrying value as of 31 December 2022	**625,854**	**390,316**	**1,016,170**

20. INTANGIBLE ASSETS, PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY (Continued)

a) Intangible assets (Contined)

The Bank is in the process of introducing a new CORE system. The selection of vendor process was completed in 2020. During 2021, the Project preparation and Analysis phases were completed. The phases that started in 2021 and are still ongoing are the Technical Preparation and Development of the Environment, Migration and Testing. The full implementation of the new CORE system is expected in the first half of 2023.

The largest amount of increase in intangible assets in 2022 relates to the capitalisation of intangible assets in the new Bank's Core system:

- RSD 238,742 thousand for salaries of employees engaged on the new Core system
- RSD 37,441 thousand for payment to vendors in accordance with the Agreement on Implementation and Licensing of the new Bank's Core system.

In 2022, the Bank invested in the implementation and development of software for receiving and sending electronic invoices in the amount of RSD 8,516 thousand, the purchase and implementation of licenses for the PAM platform in the amount of RSD 10,611 thousand, the renewal of Microsoft Enrolment Enterprise software licenses in the amount of RSD 7,848 thousand, development and implementation of the Bank's website in the amount of RSD 3,296 thousand, testing and implementation of the VISA Apple Pay solution in the amount of RSD 3,321 thousand, as well as other application software required for work in the Bank's system in the amount of RSD 104,086 thousand.

Pursuant to the decision on the adoption of the report on the completed annual inventory of assets and liabilities with the balance as of 31 December 2022, software and licenses were disposed of in the total amount of RSD 66,105 thousand, which were fully amortized.

b) Property

In RSD thousand

	31 December 2022	31 December 2021
Cost		
Balance as of 1 January	356,921	352,324
Additions	345	1,989
Revaluation	-	5,755
Removal from inventory	-	(1,293)
Sale / disposal	-	(1,854)
Balance as of 31 December	**357,266**	**356,921**
Accumulated depreciation		
Balance as of 1 January	151,151	139,953
Charge for the year	9,512	9,353
Revaluation	-	2,451
Removal from inventory	-	(606)
Sale / disposal	-	-
Balance as of 31 December	**160,663**	**151,151**
Balance as of	**196,603**	**205,770**

The Bank has satisfactory evidence of ownership of all assets in its possession, except for three buildings with the total carrying value of RSD 637 thousand as of 31 December 2022 (2021: RSD 668 thousand). The Bank has no encumbrances registered on the property.

In accordance with the Bank's Accounting Policy, the Bank used internally comparable data for the review of the market value of the property owned as of 30 November 2022.

If the Bank applied the cost model less depreciation when calculating the value of buildings owned by the Bank, the carrying value of buildings as of 31 December 2022 would amount to RSD 187,090 thousand (2021: RSD 196,733 thousand).

20. INTANGIBLE ASSETS, PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY (Continued)

b) Property (Continued)

In accordance with the Bank's accounting policies, revaluation of buildings is performed every three years. The Bank engaged a certified appraiser to carry out the revaluation of all buildings owned by the Bank as of 30 November 2021. Upon valuation the comparative market method and income approach were used. In the appraisal report submitted to the Bank, the appraiser stated that the carrying amounts of buildings owned by the Bank did not depart significantly from their market values so that the total increase in their vale amounted to RSD 3,304 thousand. The effects of the revaluation performed were recognized in the amount of the certified appraiser's assessment within equity.

The following table presents valuation techniques as well as significant non-determinable parameters used in estimating the fair value of buildings.

Valuation technique	Significant unobservable inputs	Relation between the key unobservable inputs and the fair value
Market Approach - is based on the method of comparable transactions, i.e., on the comparison of assets that are valued with other comparable assets subject to buying/selling in the market	Real estate prices in the local market are observed. Comparable real estate was found for the bank's buildings. Comparable market prices in Belgrade as of 31 December 2022 ranged from 1400 to 3,800 EUR/m^2 in Belgrade, and in Cacak, Gornji Milanovac and Jagodina from 650 to 1900 EUR/m^2, in Kraljevo from 500 to 800 EUR/m^2, in Krusevac from 1,000 to 1400 EUR/m^2.	The assessed fair value would increase/(decrease) if the prices of comparable properties in the local real estate market increased/(decreased)

The property revaluation process

The property revaluation is performed once every three years based on the appraisal reports prepared by qualified independent appraisers hired by the Bank, while the Bank internally reviews and reassess the market values of the building properties on an annual basis. The most recent appraisal performed by independent appraisers was made in November 30, 2021.

The appraisal reports are prepared based on:

- the information obtained from the Bank on the current rent amounts, lease of similar properties, utility service prices, amounts of capital expenditures made by the Bank, etc.; such information is taken from the Bank's systems for finance management, property and collateral management and is subject to the general controls within the control environment;
- the assumptions and models used by the appraisers for revaluation of the Bank's property are usually market-bases, such as comparable prices, and depend on the professional estimates and judgments made by the appraisers, as well as on their observation of the market;

Information and data the Bank provides to the independent appraisers as well as the assumptions and models applied by the appraisers are subject to review of the Collateral Management Department and the Director of the Finance Management and Planning Division. Such a review entails analyses of changes in the fair values of the property items over the year. If the Director of the Finance Management and Planning Division finds the appraisal report adequate, the report is submitted to the Bank's Executive Board. The Executive Board considers and discusses the appraisal report as part of its regular activities.

20. INTANGIBLE ASSETS, PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY (Continued)

b) Equipment and other fixed assets
c)

In RSD thousand

	31 December 2022	31 December 2021
Cost		
Balance as of 1 January	1,475,963	1,371,664
Additions	313,297	225,125
Sales	-	(81,000)
Disposals and write-offs	(74,728)	(39,826)
Balance as of 31 December	**1,714,532**	**1,475,963**
Accumulated depreciation		
Balance as of 1 January	841,862	790,367
Charge for the year	178,750	168,236
Sales	-	(77,247)
Disposals and write-offs	(74,639)	(39,494)
Balance as of 31 December	**945,973**	**841,862**
Carrying value as of 31 December	**768,559**	**634,101**

The largest amount of investments in 2022 relates to the purchase of POS terminals in the amount of RSD 25,158 thousand, branch adaptation and refurbishment in the amount RSD 42,957 thousand, purchase of computer equipment and supporting IT equipment in the amount of RSD 73,612 thousand, computer equipment for the new Core system in the amount of RSD 22,030 thousand, and purchase of furniture for furnishing business premises in the amount of RSD 11,737 thousand.

d) Investment property

In RSD thousand

	31 December 2022	31 December 2021
Cost		
Balance as of 1 January	168,213	170,785
Increases	84,069	-
Decreases	(100,736)	(2,572)
Balance as of 31 December	**151,546**	**168,213**
Accumulated depreciation		
Balance as of 1 January	41,525	37,479
Charge for the year	2,692	4,508
Sale / disposal	(25,358)	(462)
Balance as of 31 December	**18,859**	**41,525**
Balance as of	**132,687**	**126,688**

Revenues from the lease of facilities/premises in 2022 amounted to RSD 2,696 thousand (2021: RSD 4,656 thousand). Receivables based on re-invoiced lease costs in 2022 amounted to RSD 1,623 thousand (2021: RSD 1,327 thousand).

After initial recognition, the Bank's investment property is stated at cost less accumulated depreciation.

During 2022, the Bank sold two properties in Belgrade in Prote Mateje Street 60-62, classified as investment property, namely: two apartments of 179.34 m2 and 198.35 m2.

20. INTANGIBLE ASSETS, PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY (Continued)

d) Investment property (Continued)

In 2022, the Bank took over the "Hladnjača - Skupljen" business complex in the municipality of Vladimirci with the associated equipment at its cost amounting to RSD 80,400,000 under the Agreement on the Purchase and Sale of Movable and Immovable Assets in bankruptcy proceedings. The Bank registered the business complex "Hladnjača - Skupljen" as an investment property for the purposes of leasing. As of 31 December 2022, the Bank carried out the impairment of the property in the amount of RSD 4.8 million (Note 13) in accordance with the market value assessment report.

Valuation technique	Significant unobservable inputs	Relation between the key unobservable inputs and the fair value
Market Approach - is based on the method of comparable transactions, i.e., on the comparison of assets that are valued with other comparable assets subject to buying / selling in the market.	Real estate prices in the local market are observed. Comparable real estate was found for the bank's buildings. Comparable market prices in Belgrade as of 31 December 2022 ranged from 1400 to 3,800 EUR/m^2 in Belgrade, and in Cacak and Uzice from 530 to 1500 EUR/m^2	The assessed fair value would increase/(decrease) if the prices of comparable properties in the local real estate market increased/(decreased)

The Bank has satisfactory evidence of ownership of all assets in its possession.

e) Leases

In accordance with IFRS 16 – “Leases" effective as from January 1, 2019, after the reporting date, the Bank amended its accounting policies to regulate the accounting treatment of leases.

A lease is an agreement whereby the lessor (the legal owner of an asset) conveys to the lessee (the user of the asset) the right to use an asset for an agreed period of time in return for a payment or series of payments.

For each lease contract, the Bank assesses whether the contract contains elements of a lease. The Bank assesses whether the contract identifies the asset and whether the Bank has the right to control the use of identifiable assets for a specified period of time.

Within this standard, the Bank includes:

- Business premises and
- Vehicles.

The rate at which the Bank calculates the right of use is the incremental borrowing rate. Incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

For calculation of the incremental borrowing rate for business premises the Bank uses the average cost of funding sources (term deposits and credit lines).

In order to ensure inclusion of the market factors, the projected price takes into account the rates of return on the secondary market of securities of the Republic of Serbia. In this way, the calculation covers both the country-specific risk and Bank-specific risk.

The Bank leases vehicles under leases with maturities of up to four years. Accordingly, and taking into account that these are permanent working capital, the total amount of the right-of-use assets for all vehicles, which is significantly less than the right-of-use assets for business premises, these assets would not be financed from credit lines.

Additionally, since these are extremely easily marketable assets, the Bank evaluates these contracts by calculating the average cost price on total demand deposits and term deposits plus the insurance premium, i.e., the Bank uses the average rate on deposits (term deposits and demand deposits), which is adjusted (increased) for the cost of deposit insurance.

20. NTANGIBLE ASSETS, PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY (Continued)

e) Leases(Continued)

As of 31 December 2022, the standard was applied to the lease of:
- 35 properties
- 75 vehicles.

In RSD thousand

Right-of-use assets	31 December 2022	31 December 2021
Properties		
Balance as of 1 January	552,461	483,757
Increase during the year	176,168	237,257
Charge for the year	(180,822)	(168,553)
Balance as of	**547,807**	**552,461**

	31 December 2022	31 December 2021
Vehicles		
Balance as of 1 January	89,059	90,243
Increase during the year	33,259	35,132
Charge for the year	(38,455)	(36,316)
Balance as of	**83,863**	**89,059**

21. OTHER ASSETS

	31 December 2022	31 December 2021
Receivables for calculated fees and commissions related to other assets	30,387	24,520
Trade receivables	1,465	1,738
Other receivables from regular operating activities	26,377	26,233
Receivables for accrued interest related to other assets	2	10
Other receivables in RSD	524,522	205,910
Other receivables in foreign currencies	84,875	128,065
Other investments	3,349	3,349
Other deferred expenses	19,504	6,974
Deferred interest expenses in foreign currencies	18,326	16,921
Other prepayments in foreign currencies	-	940
Inventories of materials, tools, spare parts and other inventories	-	21,085
Tangible assets acquired through collection of receivables (Note 29.3)	65,600	78,373
Deferred interest expenses in foreign currencies	774,407	514,118
Less: Impairment allowance of other assets (Note	(60,680)	(55,542)
Balance as of	**713,727**	**458,576**

The line item of other receivables in RSD relates mostly to receivables in the calculation based on cards (Visa, Dina, MasterCard) in the amount of RSD 325,118 thousand (2020: Visa, Dina, MasterCard in the amount of RSD 51,094 thousand) and to the balance on the transitional account for cards in the amount of RSD 114,975 thousand.

The line item of other receivables in foreign currencies mostly relates to receivables in card settlement (Visa, Dina, MasterCard)) in the amount of RSD 34,317 thousand, advances given to landlords as collateral on the basis of contracts in the amount of RSD 45,136 thousand.

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

In RSD thousand

	31 December 2022	31 December 2021
Deposits due to banks		
Transaction deposits	163,875	74,296
Special-purpose deposits	18,022	11,761
Other deposits	4,765,812	4,018,128
Other financial liabilities	1,909,557	1,435,339
Interests and fees payable	516	834
Accrued liabilities for accrued interest on deposits and other financial liabilities due to banks	75,244	21,073
	6,933,026	**5,561,431**
Borrowings due to banks and financial institutions		
Borrowings due to banks and other financial institutions	1,266,323	2,082,419
Liabilities for accrued interest on borrowings due to banks	16,255	5,260
Deferred expenses for liabilities measured at amortized cost using the effective interest rate	(2,740)	(4,520)
	1,279,838	**2,083,159**
Balance as of	**8,212,864**	**7,644,590**

The line Other deposits relates to short-term deposits of insurance and other financial institutions in RSD in the amount of RSD 1,082,252 thousand (2021: RSD 1,670,933 thousand) and to deposits from other financial institutions in foreign currency in the amount of RSD 2,803,642 thousand (2021: RSD 477,640 thousands), deposits of domestic banks in foreign currency in the amount of RSD 645,273 thousand (in 2021: RSD 223,406 thousand), as well as from foreign banks, namely Universal Capital Bank AD Podgorica in the amount of RSD 234,645 thousand (in 2021: Turkiye Halk Bankasi AS Head Office in the amount of RSD 1,646,149 thousand).

Short-term deposits due to banks and other financial institutions in dinars were deposited during 2022 at rates ranging from 0.60% to 1.64% per year for maturities of up to 7 days, while deposits with maturities of up to 1 year were deposited during 2022 at rates ranging from 2.00% to 6.10% per year.

Long-term deposits due banks and other financial institutions were deposited in the course of 2022 at a rate of 2.60% per annum. Deposits due to domestic banks and other financial institutions in foreign currency were deposited in 2022 at rates ranging from 0.03% per year to 1.80% per year for maturities of up to 7 days, while deposits with maturities of up to 1 year in foreign currency were deposited in 2022 at rates ranging from 0.80% to 3.50% per year, while during 2022 there were no new long-term deposits due to banks and other financial institutions in foreign currency. Deposits of the parent bank were deposited for up to 7 days, with an annual interest rate ranging from 1.75% per annum to 3.75% per annum, while deposits of the parent bank were deposited for a period of 2 and 3 months, with an annual interest rate ranging from 1.50 % per annum to 4.00% per annum.

The line item of other financial liabilities due to banks mostly relates to:

- RSD financial liabilities due to domestic banks: UniCredit Bank Srbija AD for contracted purchase and sale of foreign currency cash in the amount of RSD 586,470 thousand and Banka Intesa a.d. Belgrade in the amount of RSD 117,310 thousand;
- Foreign currency financial liabilities relate to liabilities for contracted purchase and sale of foreign currency cash to National Bank of Serbia in the amount of RSD 1,055,902 thousand and Turkiye Halk Bankasi AS in the amount of RSD 44,061 thousand.

The item of borrowings due to banks in the amount of RSD 1,166,323 thousand in 2022 (2021: RSD 1,582,419 thousand) relates to the following credit lines: Demir-Halk Bank (Netherlands) NV in the amount of RSD 821,257 thousand and Green for Growth Fund (GGF) credit line in the amount of RSD 345,066 thousand. The borrowings were obtained at interest rates ranging from 2.40% to 2.70% + 6M EURIBOR.

In accordance with the defined limits in the contract concluded with the International Financial Institutions, Green for Growth Fund (GGF), the Bank is obliged to fulfill certain financial indicators until the final repayment of the borrowings.

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

As of 31 December 2022, the Bank was in compliance with all agreed financial indicators.

In addition, a loan of RSD 100,000 thousand was taken from Milenijum osiguranje with a maturity of one day.

Changes in borrowings due to banks during 2022 are shown in the following table:

Creditors	Balance as of 01 January 2022 in 000 EUR	Balance as of 01 January 2022 in 000 RSD	Repay-ments in 2022 in 000 EUR	Repay-ments in 2022 in 000 RSD	Net exchange difference in 2022 in 000 RSD	New borrowings in 2022 in 000 EUR	New borrowings in 2022 in 000 RSD	Balance as of 31 December 2022 in 000 EUR	Balance as of 31 December 2022 in 000 RSD	Due in 2023 in 000 EUR	Due after 2023 in 000 EUR	Maturity date
Demir-Halk Bank (Nederland)	8,500	999,448	1,500	(176,510)	(1,681)	-	-	7,000	821,257	4,500	2,500	19.1.2024
Green for Growth Fund (GGF)	3,529	414,996	588	(69,114)	(816)	-	-	2,941	345,066	588	2,353	15.9.2027
European Fund for Southeast Europe (EFSE)	1,429	167,975	1,429	(167,752)	(223)	-	-	-	-	-	-	-
	13,458	**1,582,419**	**3,517**	**(413,376)**	**(2,720)**	-	-	**9,941**	**1,166,323**	**5,088**	**4,853**	
Borrowings for daily liquidity	4,252	500,000	4,252	(500,000)	-	852	100,000	852	100,000	852	-	4.1.2023
Balance as of	**17,710**	**2,082,419**	**7,769**	**(913,376)**	**(2,720)**	**852**	**100,000**	**10,793**	**1,266,323**	**5,940**	**4,853**	

23. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

In RSD thousand

	31 December 2022	31 December 2021
Deposits due to customers		
Transaction deposits	35,378,567	32,501,479
Savings deposits	20,983,174	18,500,691
Deposits securitizing loans	4,149,178	3,257,003
Special-purpose deposits	1,255,156	548,018
Other deposits	10,546,368	13,110,183
Deposits and loans maturing within one day	3,340,684	996,699
Other financial liabilities due to customers	126,231	75,892
Interest and fee liabilities due to customers	10,852	4,175
Accrued liabilities for interest payable on deposits and other financial liabilities due to customers	190,839	186,466
	75,981,049	**69,180,606**
Borrowings due to customers		
Borrowings due to customers	5,059,553	5,307,185
Liabilities for accrued interest on borrowings	17,222	406
Deferred expenses for liabilities measured at amortized cost using the effective interest rate	(3)	(3)
	5,076,772	**5,307,588**
Balance as of	**81,057,821**	**74,488,194**

RSD and foreign currency demand deposits and current accounts of retail customers are non-interest bearing, i.e., they were deposited at the annual interest rate of 0.00%. Short-term retail deposits were deposited at annual interest rates ranging from 2.00% to 4% for RSD funds, and from 0.10% to 0.10% to 2.00% for foreign currency funds. Long-term retail deposits in foreign currencies were deposited at annual interest rates ranging from 2.00% to 3.50%.

By ongoing monitoring of market trends, individual and proactive approach to the customers, the Bank increased the amount of corporate customer deposits by 9.90%. With its offer of several types of deposit products, the Bank provided its clients with adequate funds management, resulting in an increase of deposits of individuals by 15.2% with the Bank's market share of total customer deposits reaching 2.52%.

Deposits of corporate clients denominated in RSD were placed at interest rates ranging from 1.50% to 6.00% p.a., while deposits denominated in foreign currency were placed at interest rates ranging from 0.10% to 3.50% p.a.

Borrowings relate to long-term loans approved to the Bank by the European Investment Bank with the mediation of NBS in the amount of EUR 32.1 million, and the European Agency for Reconstruction in the amount of EUR 11 million.

Maturities of borrowings due to customers in accordance with contracts

Creditors	Balance as of 31 December 2022 in 000 EUR	Balance as of 31 December 2022 in 000 RSD	Due in 2023	Due in 2024	Due in 2025	Due after 2025
EIB	32,113	3,767,574	3,916	4,094	4,273	19,830
FRK	11,012	1,291,979	3,919	3,330	2,327	1,436
Balance as of	**43,125**	**5,059,553**	**7,835**	**7,424**	**6,600**	**21,266**

Borrowings due to customers were approved to the Bank at the following annual interest rates:
- from 0.32% to 0.75% + 3M EURIBOR;
- from 0.36% to 0.72% + 6M EURIBOR.

23. DEPOSITS AND OTHER LIABILITIES DUE TO customers (Continued)

Changes in borrowings due to customers during 2022 are shown in the following table:

Creditors	Balance as of 01 January 2022 in 000 EUR	Balance as of 01 January 2022 in 000 RSD	Repayments in 2022 in 000 EUR	Repayments in 2022 in 000 RSD	Net exchange difference in 2022 in 000 RSD	New borrowings in 2022 in 000 EUR	New borrowing s in 2022 in 000 RSD	Balance as of 31 December 2022 in 000 EUR	Balance as of 31 December 2022 in 000 RSD
EIB	37,731	4,436,439	(5,618)	(659,858)	(9,007)			32,113	3,767,574
FRK	7,272	855,461	(3,327)	(390,925)	(2,285)	7,064	829,728	11,012	1,291,979
Government of the Republic of Italy	130	15,285	(130)	(15,274)	(11)		-	-	-
Balance as of	**45,136**	**5,307,185**	**(9,075)**	**(1,066,057)**	**(11,303)**	**7,064**	**829,728**	**43,125**	**5,059,553**

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24. PROVISIONS

In RSD thousand

	31 December 2022	31 December 2021
a) Movements on provisions for potential losses on off-balance sheet items		
Balance as of 1 January	42,845	18,411
Charge for the year (Note 9a)	2,138	40,841
Reversal of provisions (Note 9a)	(40,822)	(16,399)
Other	-	(8)
Balance as of	**4,161**	**42,845**
b) Movements on provisions for retirement benefits		
Balance as of 1 January	125,707	38,312
New provisions (Note 12)	182,144	82,294
Transfer to short-term liabilities to employees (Note 25)	(209,863)	-
Release of provisions	(79,768)	(128)
Actuarial (gains)/losses	(893)	5,229
Balance as of	**17,327**	**125,707**
c) Movements on the provisions for litigations:		
Balance as of 1 January	80,916	20,823
New provisions (Note 13)	6,965	81,690
Release of provisions	(24,193)	(21,597)
Balance as of	**63,688**	**80,916**
Balance as of	**85,176**	**249,468**

Provisions for potential losses in the amount of RSD 4,161 thousand (2021: RSD 42,845 thousand) were created per guarantees and other off-balance sheet items.

The bank has reclassified short-term provisions for employees, which refer to provisions for unused vacations, provisions for bonuses and other short-term provisions for employees in the total amount of RSD 209,863 thousand, to liabilities to employees.

In respect of the lawsuits filed against the Bank and the relating claims, according to the status of the cases as of 31 December 2022, the Bank made a provision of RSD 63,688 thousand (2021: RSD 80,916 thousand).

As of 31 December 2022, there were 2,445 lawsuits pending against the Bank (2021: 3,250 lawsuits) with claims in the total amount of RSD 146,077 thousand (2021: RSD 102,896 thousand). The Bank has adopted the Methodology for the Calculation of Litigation Loss Provisions, so in accordance with this Methodology, it calculates the amounts of provisions required on a quarterly basis.

25. OTHER LIABILITIES

	31 December 2022	In RSD thousand 31 December 2021
Trade payables	48,259	14,334
Advances received	296,458	222,262
Lease liabilities (Note 20e)	609,314	608,981
Liabilities from consignment operations	167	167
Other operating liabilities	48,053	105,363
Liabilities in settlement	165,680	121,614
Temporary and suspense accounts	12,009	6,985
VAT liabilities	10,854	4,097
Liabilities for other taxes and contributions payable	2,875	2,156
Accrued liabilities	44,717	34,463
Deferred other income	71,352	58,622
Other accruals – subsidized interest	23,185	33,059
Liabilities to employees (Note 24)	210,828	1,113
Balance as of	**1,543,751**	**1,213,216**

Trade payables in the amount of RSD 48,259 thousand relate to the Bank's regular business activities, which were paid in early 2023.

Liabilities arising from received advances refer to customer payments of undue loan repayments in the amount of RSD 296,458 thousand.

Lease liabilities are related to Bank’s liabilities to its lessors based on the discounted lease payments for property and cars.

Lease Liabilities

In RSD thousand

	31 December 2022	31 December 2021
Maturity period		
0-1 year	16,040	12,881
1-3 years	225,518	284,703
3-5 years	226,763	167,341
5-10 years	140,993	144,056
Balance as of	**609,314**	**608,981**

Liabilities for lease of property

	31 December 2022	In RSD thousand 31 December 2021
Maturity period		
0-1 year	16,040	11,457
1-3 years	168,837	226,953
3-5 years	199,532	137,432
5-10 years	140,993	144,056
Balance as of	**525,402**	**519,898**

25. OTHER LIABILITIES (Continued)

Liabilities for lease of vehicles

In RSD thousand

	31 December 2022	31 December 2021
Maturity period		
0-1 year	-	1,424
1-3 years	56,681	57,750
3-5 years	27,231	29,909
Balance as of	**83,912**	**89,083**

An overview of the incremental borrowing rates used for vehicle leases

Type of leased vehicle	Leasing liabilities due – contract maturity (per years)	Incremental borrowing rate	In RSD thousand
Automobile	0-1 year	-	-
Automobile	1-3 years	1.23%-1.30%	56,681
Automobile	3-5 years	1.20%-1.25%	27,231
Balance as of			**83,912**

An overview of the incremental borrowing rates used for property leases

Maturity of lease liabilities by years	Incremental borrowing rate	In RSD thousand
0-1 year	1.33%-2.47%	16,040
1-3 years	1.41%-2.60%	168,837
3-5 years	1.82%-3.71%	199,532
5-10 years	2.02%-5.03%	140,993
Total		**525,402**

Total lease outflows in 2022 amounted to RSD 203,870 thousand.

The Bank regularly settles its liabilities arising from leased assets.

Other operating liabilities mainly include licence liabilities in the amount of RSD 44,183 thousand.

Increase in the line item of liabilities in settlement relates to card-based liabilities (liabilities to retailers based on card acceptance, liabilities for received funds based on VISA and MasterCard cards).

Accrued liabilities refer to costs incurred in the current reporting period for which the Bank did not obtain documentation for recording by the reporting date, so it made a provision for them.

26. EQUITY

Equity and Bank's Share Capital Structure

Pursuant to the Contract on Incorporation and the Articles of Association, the Bank's equity consists of:

- share capital
- share premium
- profit and
- reserves.

The Bank is managed by its founders commensurately with their funds invested in Bank's ordinary shares, in accordance with the Contract on Incorporation and the Articles of Association.

A breakdown of the Bank's equity as of 31 December 2022 and 2021 is provided in the following table:

		In RSD thousand
	31 December 2022	**31 December 2021**
Share capital – ordinary shares	9,887,600	7,338,200
Share capital – preference shares	601,340	601,340
Share premium	7,873,729	4,559,509
Revaluation reserves	(1,847,358)	(200,031)
Reserves from profit	3,827,958	2,938,563
Prior years' profit	542	542
Current year's profit	1,284,521	889,394
Balance as of	**21,628,332**	**16,127,517**

The Bank's share capital consists of 988,760 ordinary shares and 60,134 preference shares whose nominal value is RSD 10,000. Total Bank's equity consists of share capital in the amount of RSD 10,488,940 thousand (2021: RSD 7,939,540 thousand), share premium in the amount of RSD 7,873,729 thousand (2021: RSD 4,559,509 thousand), reserves from profit in the amount of RSD 3,827,958 thousand (2021: RSD 2,938,563 thousand) and negative revaluation reserves in the amount of RSD 1,847,358 thousand (2021: RSD 200,031 thousand). In 2022 the Bank reported profit in the amount of RSD 1,284,521 thousand (2021: RSD 889,394 thousand).

The Bank is required to maintain a minimum capital adequacy ratio of 8% as prescribed by the National Bank of Serbia. The Bank's capital adequacy ratio as of 31 December 2022 was 29.99% (2021: 23.64%), which is higher than the minimum prescribed by the National Bank of Serbia.

Breakdown of reserves

		In RSD thousand
	31 December 2022	**31 December 2021**
Revaluation reserves:		
Reserves from value changes of property, plant and equipment	84,196	84,196
Reserves from value changes of RSD debt instruments	(1,926,210)	(277,856)
Actuarial gains/(losses)	(5,344)	(6,371)
Revaluation reserves	(1,847,358)	(200,031)
Reserves from profit	3,827,958	2,938,563
Balance as of	**1,980,600**	**2,738,532**

Reserves from value changes of property, plant and equipment are related to the effects of an appraisal of Bank's buildings from previous years and 2022. Reserves from value changes of debt instruments refer to adjustment effects with the fair value of securities through other comprehensive income as of 31 December 2022. Actuarial losses are related to the effects of changes in provisions for employees' retirement benefits on the basis of an actuarial assessment. Profit reserves refer to cumulative effects of profit distribution.

26. EQUITY (Continued)

Bank's shareholder structure as of 31 December 2022:

		In RSD thousand				Interest (%)			
No.	Shareholder	Ordinary shares	Cumulative preference shares	Other preference shares	TOTAL	Ordinary shares	Cumulative preference shares	Other preference shares	TOTAL
1.	TURKIYE HALK BANKASI A.S.	9,887,600	1,340	600,000	10,488,940	100,00	100,00	100,00	100,00
	TOTAL:	**9,887,600**	**1,340**	**600,000**	**10,488,940**	**100,00**	**100,00**	**100,00**	**100,00**

Bank's shareholder structure as of 31 December 2021:

		In RSD thousand				Interest (%)			
No.	Shareholder	Ordinary shares	Cumulative preference shares	Other preference shares	TOTAL	Ordinary shares	Cumulative preference shares	Other preference shares	TOTAL
1.	TURKIYE HALK BANKASI A.S.	7,338,200	1,340	600,000	7,939,540	100,00	100,00	100,00	100,00
	TOTAL:	**7,338,200**	**1,340**	**600,000**	**7,939,540**	**100,00**	**100,00**	**100,00**	**100,00**

Turkiye Halk Bankasi AS is the owner of 100% of Bank's shares.

	31 December 2022			31 December 2021		
	Total	Turkiye Halkbankasi	% Turkiye Halkbankasi	Total	Turkiye Halkbankasi	% Turkiye Halkbankasi
Ordinary shares	988,760	988,760	100,00%	733,820	733,820	100,00%
Preference shares	60,134	60,134	100,00%	60,134	60,134	100,00%
Balance as of	**1,048,894**	**1,048,894**	**100,00%**	**793,954**	**793,954**	**100,00%**

On 7 November 2022, the Bank increased its capital by issuing new shares (XXXIV) in the amount of 254,940 ordinary shares whose nominal value is RSD 10,000 per share. The share capital was thereby increased from RSD 7,338,200 thousand to RSD 9,887,600 thousand. Pursuant to the Decision of the Shareholders' Assembly, the Bank issued shares at a price of RSD 23,000 RSD per share. As a result, the difference between the issue price and the par value in the amount of RSD 3,314,220 thousand was recorded as a share premium.

27. OFF-BALANCE SHEET RECORDS

In RSD thousand

	31 December 2022	31 December 2021
a) Managed funds	**234,678**	**245,181**
b) Guarantees, sureties and irrevocable commitments		
RSD guarantees	19,306,942	16,939,661
Guarantees in foreign currencies	2,885,878	1,669,864
Total guarantees:	**22,192,820**	**18,609,525**
c) Irrevocable commitments for undrawn loans and placements	**2,131,883**	**1,834,620**
Total guarantees, sureties and irrevocable commitments	**24,324,703**	**20,444,145**
d) Derivatives held for trading at the agreed value	**4,097,585**	**471,365**
e) Other off-balance sheet items		
Calculated suspended interest	5,231,256	5,280,990
Commitments for framework loans and facilities	13,369,033	11,306,284
Other off-balance sheet records and written-off financial assets	98,039,626	123,825,015
Total other off-balance sheet items	**116,639,915**	**140,412,289**
Balance as of	**145,296,881**	**161,572,980**

Other off-balance sheet records include all tangible and intangible assets the Bank obtained as collateral securitizing repayment of loans totalling RSD 91,661,608 thousand as of 31 December 2022 (2021: RSD 117,846,789 thousand).

In addition, an amount of RSD 4,076,496 thousand within other off-balance sheet records as of 31 December 2022 (2021: RSD 3,734,224 thousand) refers to write-offs of receivables according to relevant decisions of the Board of Directors and to the accounting write-off in line with the Decision on the Accounting Write-Off of Bank's Balance Sheet Assets of the National Bank of Serbia, effective from 30 September 2017. Within the meaning of this Decision, the accounting write-off is a write-off of a non-performing loan when the amount of the impairment of that loan calculated by the bank and credited to allowance for impairment equals 100% of its gross carrying amount. The Bank does not give up on the recovery of its receivables subject to the accounting write-off but simply transfers such receivables to the off-balance sheet items.

28. RELATED PARTY DISCLOSURES

The Bank conducts transactions with its related parties. All balances of receivables and payables at the reporting date, as well as income and expenses realized/ incurred during the year, are the result of the ordinary course of business. The Bank charges and pays interest on its receivables and payables, calculated by applying usual interest rates.

The following table provides the total exposure to related parties that may have an impact on the Bank's performance:

In RSD thousand

	31 December 2022	31 December 2021
a) Granted loans, deposits, other placements and receivables		
Parent company and companies under the joint control of the parent		
Turkiye Halk Bankasi AS	938,801	1,210,370
Halkleasing	352,846	-
Halk Faktoring	352,608	-
Halkbank a.d. Skopje	46,564	15,524
Other related parties		
Company TGK d.o.o. Cacak	-	36,181
RVM d.o.o.	32,601	18,277
Agrohemija d.o.o. Cacak	5,026	13,510
Profesional 2000 d.o.o. Gornji Milanovac	4,437	1,336
Inceptus d.o.o. Cacak	4,183	5,410
Animalis d.o.o. Arandjelovac	1,106	1,330
Other corporate customers	10,229	10,656
Retail customers	401,811	424,830
Balance as of	**2,150,212**	**1,737,424**
b) Received loans, deposits and other liabilities		
Parent company and companies under the joint control of the parent		
Turkiye Halk Bankasi AS	44,061	1,176,262
Demir Halkbank Netherlands	833,125	1,001,386
Other related parties		
Company Interprogres Cacak	-	36,458
Nova Yutkl doo Nis	14,103	-
Duomos doo Novi Pazar	2,957	-
"Radulović“ STR	312	462
Animalis doo Arandjelovac	217	547
RVM d.o.o	5	25,041
Other corporate customers	6,815	14,950
Retail customers	356,921	409,902
Balance as of	**1,258,516**	**2,665,008**
c) Off-balance sheet receivables and payables		
Parent company and companies under the joint control of the parent		
Turkiye Halk Bankasi AS	1,336,132	22,563
Halkbank a.d. Skopje	117,322	117,582
Other related parties		
RVM d.o.o.	304,904	106,914
Ninex d.o.o. Cacak – undergone bankruptcy	65,145	65,873
Agrohemija d.o.o. Cacak	10,000	7,500
Company TGK d.o.o. Cacak	-	5,027
Animalis d.o.o. Arandjelovac	1,900	3,000
Company Interprogres Cacak	-	2,000
Company Silver d.o.o. Cacak	-	350
Other corporate customers	1,300	2,502
Retail customers	24,628	24,668
Balance as of	**1,861,331**	**357,979**

28. RELATED PARTY DISCLOSURES (Continued)

Loans and deposits approved and received from the parent company and companies under the joint control and significant influence of the parent company were granted and obtained at the prevailing market interest rates disclosed in Notes 18, 19, 22 and 23 to the accompanying financial statements.

In RSD thousand

	31 December 2022	31 December 2021
d) Interest, fee and commission income		
Parent company and companies under the joint control of the parent		
Turkiye Halk Bankasi AS	4,732	787
Halkleasing	7,104	-
Halkfaktoring	7,068	-
Other related parties		
RVM d.o.o.	1,361	1,342
Agrohemija d.o.o. Cacak	510	352
Inceptus d.o.o. Cacak	331	321
Animals d.o.o. Arandjelovac	285	274
Jelena Mijailovic PR	219	215
“Radulović“ STR	147	114
Ena Ugljanin PR	144	160
“TIVA-TEX” PR Gornji Milanovac	103	76
Ivex Drink d.o.o. Ivanjica	91	72
Profesional 2000 d.o.o. Gornji Milanovac	85	86
Bdnn-Glišić doo export-import Brdjani	65	69
DOO Duomos Novi Pazar	48	44
Company TGK d.o.o. Cacak	-	1,086
Company Interprogres Cacak	-	78
TIBO Kompanija doo Beograd, Mladenovac	40	29
ST-KR Dekoratex	29	-
Nitravel Doo Nis	-	81
Vaga szr Marinovic	21	8
Nova Yutkl doo Nis	12	-
Company Silver doo Cacak	-	29
Other corporate customers	236	219
Retail customers	20,944	19,462
TOTAL:	**43,575**	**24,904**
e) Interest, fee and commission expenses		
Parent company and companies under the joint control of the parent		
Turkiye Halk Bankasi AS	91,552	30,136
Entities under the significant influence of the parent		
Demir Halkbank, the Netherlands	24,916	14,494
Other related parties	6	440
Retail customers	2,102	1,031
TOTAL:	**118,576**	**46,101**

Gross remunerations to the Chairmen and members of the Bank’s Board of Directors and Executive Board in 2022 amounted to RSD 63,278 thousand (2021: RSD 61,527 thousand). Net remunerations to the Chairmen and members of the Bank’s Board of Directors and Executive Board in 2022 amounted to RSD 50,358 thousand (2021: RSD 48,338 thousand).

29. RISK MANAGEMENT

Introduction

Pursuant to the Law on Banks ("Official Gazette of RS", no. 107/2005, 91/2010 and 14/2015), the National Bank of Serbia's Decision on Risk Management ("Official Gazette of RS", no. 45/2011, 94/2011, 119/2012, 123/2012, 23/2013 – other decision, 43/2013, 92/2013, 33/2015, 61/2015, 61/2016, 103/2016, 119/2017, 76/2018,57/2019, 88/2019, 27/2020 I 67/2020 – other decision and 89/2022-123), the Decision on Banks' Liquidity Risk Management ("Official Gazette of RS", no. 103/2016), as well as Bank's corporate policies, methodologies and procedures, the following risks that the Bank is exposed to when doing business have been identified:

- Liquidity risk;
- Credit risk, which includes the residual risk, downgrade risk, settlement/free delivery risk, counterparty risk, credit-interest rate risk, credit-foreign exchange risk, risk of the portfolio currency structure, and concentration risk;
- Risk of incurring losses due to the external factors;
- Interest rate risk;
- Market risks, which include foreign exchange risk, price risk and commodity risk;
- Outsourcing risk;
- Risk of money laundering and terrorism financing;
- Risk of introducing new products/services;
- Risks of investing in other corporate customers and fixed assets;
- Country risks related to the counterparty the Bank is exposed to;
- Operational risk, including legal risk;
- Reputation risk;
- Strategic risk;
- Compliance risk, including the risk of sanctions by regulatory bodies, risk of financial losses and reputational risk;
- Environmental and social risks.

The Bank's objectives in risk management, defined within the risk management system, are minimization of the adverse effects of the Bank's exposure to the above listed risks on the Bank's financial performance and capital with simultaneous adherence to the defined risk appetite frameworks and maintenance of the required capital adequacy ratio. In 2022, the Bank did not change its risk management objectives, but it significantly improved the risk management framework and adequate articulation of the overall risk management objectives by introducing new strategies, policies, procedures, methodologies and instructions.

In 2022, the Bank improved risk management processes by adjusting and improving existing strategies, policies, procedures, methodologies and instructions relating to the risk identification, measurement, assessment, mitigation and management and capital management.

The Bank's risk management system in place consists of:

- Risk management strategies and policies as well as the procedures and instructions for risk identification, measurement, assessment and management;
- Risk appetite – the Bank's intention to assume risks in order to implement its strategies and policies (the risk structure) and definition of the acceptable levels of the assumed risks (risk tolerance).
- An optimum and acceptable risk level that the Bank is willing to accept is qualified through risk appetite;
- Risk profile – a Bank's estimate of the structure and levels of all the risks it is or may be exposed to in the course of its operations;
- Risk appetite framework (RAF) – the overall approach, including strategies, policies, procedures, processes, controls and systems for establishing, communicating and reviewing the roles and responsibilities of the Bank's organizational units in charge of supervising RAF implementation and monitoring. RAF considers risks material to the Bank, as well as to the high esteem and reputation of the Bank among its customers, depositors, creditors and in the market in general. RAF is aligned with the Bank's business strategy.
- Risk appetite statement (RAS) – represents an aggregate risk level the Bank is ready and willing to accept, or avoid, in order to achieve its business goals; it includes qualitative descriptions, and quantitative measures expressed as relative to the income, capital, risk measurement, liquidity and other relevant indicators;
- Internal organization, i.e., organizational structure that ensures functional and organizational separation of the risk management activities from the risk assumption activities, with clearly defined segregation of duties for employees, which prevents conflict of interest;

29. RISK MANAGEMENT (Continued)

Introduction (Continued)

- Effective and efficient risk management process entailing mitigation, monitoring and control of the risks the Bank is or may be exposed to;
- An internal control system as a set of processes and procedures in place intended to ensure adequate risk control, operational effectiveness and efficiency monitoring, financial and other data reliability and compliance with the effective legislation and the Bank's internal bylaws with a view to achieve safe and stable banking operations;
- Adequate information system.

The Bank's Board of Directors is responsible for establishment of a uniform risk management system throughout the Bank and for supervision of that system. The Board of Directors has to ensure that the Bank's Executive Board will identify the risks the Bank is exposed to and control such risks in accordance with the bank's adopted policies and procedures.

The Bank's Executive Board implements the risk management strategies and polices adopted by the Board of Directors, defines procedures, instructions and guidelines for risk identification, measurement, assessment and management, analyses their efficiency and reports back to the Board of Directors on these activities.

The Audit Committee is in charge of an ongoing oversight of implementation of the risk management policies and procedures and performance of the internal control system.

The Asset and Liability Management Committee ("ALCO") is in charge of monitoring the Bank's exposure to the risks arising from the structure of the Bank's receivables and liabilities and off-balance sheet items and proposes measures for risk management. The Audit Committee assists the Board of Directors o in overseeing the work of the Executive Board and the Bank's employees.

The Competent Credit Committee decides on loan approval and origination of other receivables as well as on the amendments to the contracted terms of such loans and receivables. It decides in the loan recovery matters, including rescheduling and restructuring of loans and on all other issues related to the potentially non-performing, non-performing loans and receivable and bad and doubtful exposures.

29.1. Credit Risk

Credit Risk Management

Credit risk is a risk of possible adverse effects on Bank's financial performance and capital arising from the customers failing to meet their obligations toward the Bank. The effects of this risk are measured by the amount of the Bank's expenses incurred due to the customer default.

The following organizational units of the Bank are responsible for credit risk management:

- The Board of Directors, which has defined the risk management strategy and credit risk management policy;
- The Executive Board, which implements the adopted strategy and policy and defines procedures and instructions for risk management;
- ALCO, which monitors the Bank's exposure to the credit risk and proposes adequate measures for credit risk management;
- The Bank's Credit Committee, which approves loans and make decision on all the matters of collection of potential NPLs, NPLs and doubtful receivables;
- Credit Monitoring Department, which assess the customer credit risk; and
- Risk Management Department, which monitors the loan portfolio quality.

Assessment of the credit risk exposure is carried out within the Lending Division and Risk Management Department.

At the Lending Division a credit risk exposure is assessed during an analysis of customer requests. Credit risk is identified, controlled and monitored in the same division at a borrower level, by assessing borrower's creditworthiness and collateral quality.

Credit risk identification, control and monitoring on portfolio basis are performed by the Risk Management Department through preparation and analysis of the Bank's portfolio, control over classification of the balance sheet assets and off-balance sheet items, calculation of impairment allowances and provisions and control of the quality of the balance sheet assets and off-balance sheet items.

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

29.1.2 Analysis of Financial Assets, Financial Liabilities and Off-Balance Sheet Items

Bank's financial assets and financial liabilities as of 31 December 2022 and 31 December 2021 are presented below by:

- Net credit risk exposure,
- Gross credit risk exposure,
- Gross and net impairment,
- Internal categories in accordance with IFRS 9 on gross and net bases,
- Fair value of collaterals and other security instruments on a gross basis,
- LTV ratio for financial assets securitized with mortgages,
- Past-due intervals on gross and net bases,
- Industry on gross and net bases,
- Geographic region on a net basis,
- Fair value,
- Repossessed property following the foreclosure,
- Write-off of receivables,
- Breakdown of restructured financial assets.

Structure of Net Financial Assets, Financial Liabilities and Off-Balance Sheet Items

Bank's financial assets, financial liabilities and off-balance sheet items are presented in the following tables in net amounts. Loans and receivables due from banks and other financial institutions as well as loans and receivables due from customers are presented net of the collected, but not credited to income loan processing fees, which are included in the effective interest rate calculation during the loan approval, and are subsequently recognized within interest income using the effective interest rate, and net of impairment allowances. As for off-balance sheet items, the Bank has no deferred fees for processing costs (the effective interest method), but fees and commissions are deferred on a straight-line basis. Therefore, off-balance sheet items are also presented in net amounts, i.e. their gross amounts are decreased by the provisions for losses.

As of 31 December 2022, Bank's cash, cash equivalents and balances held with the central bank are higher by RSD 9,038,736 thousand than as of 31 December 2021, and they account for 19.82% in total financial assets. Securities are lower by RSD 2,196,078 thousand. Loans and receivables due from customers increased by RSD 5,053,492 thousand and account for 64.93% in total financial assets.

As of 31 December 2022, deposits and other liabilities due to customers are higher by RSD 6,569,627 thousand than as of 31 December 2021, and they account for 89.90% in total financial liabilities.

As of 31 December 2022, net off-balance sheet items increased by RSD 5,978,462 thousand in comparison to 31 December 2021. Guarantees and letters of credit increased by RSD 3,590,780 thousand and account for 58.88% in total off-balance sheet items. Unused liabilities are higher by RSD 2,387,682 thousand and account for 41.12% in total net off-balance sheet items.

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

Structure of Net Financial Assets, Financial Liabilities and Off-Balance Sheet Items (Continued)

Financial assets and liabilities in net amounts are presented below by categories in accordance with IFRS 9.

	31 December 2022	In RSD thousand 31 December 2021
Financial assets		
Cash and balances held with the central bank	21,728,051	12,689,315
Pledged financial assets	-	-
Receivables for financial derivatives	11,752	901
Securities	12,084,609	14,280,687
Loans and receivables due from banks and other financial institutions	4,066,855	3,838,517
Loans and receivables due from customers	71,193,873	66,140,381
Other assets	557,713	296,754
Balance as of	**109,642,853**	**97,246,555**
Financial liabilities		
Liabilities from derivatives	1,573	-
Deposits and other liabilities due to banks, other financial institutions and the central bank	8,212,864	7,644,590
Deposits and other financial liabilities due to customers	81,057,821	74,488,194
Other liabilities	891,494	668,716
Balance as of	**90,163,752**	**82,801,500**

	31 December 2022	In RSD thousand 31 December 2021
Guarantees and letters of credit		
Public sector	799,588	176,022
Large corporate customers	5,924,262	5,417,919
SMEs, micro enterprises and entrepreneurs	12,537,207	12,002,894
Retail customers	-	-
Other customers	2,931,088	1,004,530
	22,192,145	**18,601,365**
Commitments per undrawn loans		
Public sector	315,893	149,873
Large corporate customers	3,078,005	2,972,806
SMEs, micro enterprises and entrepreneurs	11,667,495	9,589,444
Retail customers	435,870	396,971
Other customers	167	654
	15,497,430	**13,109,748**
Off-balance sheet items (net)	**37,689,575**	**31,711,113**

Gross Credit Risk Exposure

Gross credit risk exposure resulting from loans and receivables due from customers as of 31 December 2022 is higher by RSD 4,787,294 thousand than as of 31 December 2021. The exposure to large corporate customers increased by RSD 4,370,855 thousand, the exposure to retail customers is higher by RSD 1,199,756 thousand and to the public sector by RSD 143,268 thousand. The exposure to SMEs, micro enterprises and entrepreneurs decreased by RSD 892,234 thousand, whereas the exposure to other customers was reduced by RSD 34,351 thousand.

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

Gross Credit Risk Exposure (*Continued*)

Credit risk – gross exposure (in RSD thousand)

	31 December 2022	In RSD thousand 31 December 2021
Financial assets		
Cash and balances held with the central bank	21,730,549	12,690,155
Pledged financial assets	-	-
Receivables for derivatives	11,752	901
Securities	12,084,609	14,280,687
Loans and receivables from banks and other financial institutions	4,068,927	3,840,947
Loans and receivables due from customers	71,957,507	67,170,213
Out of which:		
Public sector	283,651	140,383
Large corporate customers	7,322,865	2,952,010
SMEs, micro enterprises and entrepreneurs	44,296,067	45,188,301
Retail customers	20,040,193	18,840,437
Other customers	14,731	49,082
Other assets	614,665	327,481
Balance as of	**110,468,009**	**98,310,384**

Gross credit risk exposure by off-balance sheet items as of 31 December 2022 is higher by RSD 5,939,778 thousand, i.e. 18.71%, than as of 31 December 2021. Gross credit risk exposure based on guarantees and letters of credit to other customers increased by RSD 1,923,717 thousand, to the public sector by RSD 623,573 thousand, to SMEs, micro enterprises and entrepreneurs by RSD 531,840 thousand and to large corporate customers by RSD 504,164 thousand.

Commitments per undrawn loans increased by RSD 2,356,484 thousand, or 17.93%, as of 31 December 2022 in comparison to 31 December 2021. Gross exposure under commitments per undrawn loans to large corporate customers increased by RSD 105,148 thousand, to the public sector increased by 166,262 thousand, to retail customers increased by RSD 39,167 thousand, to SMEs, micro enterprises and entrepreneurs by RSD 2,046,395 thousand, whereas it decreased by RSD 488 thousand to other customers.

Gross exposure by off-balance sheet items (in RSD thousand)	31 December 2022	In RSD thousand 31 December 2021
Off-balance sheet items		
Guarantees and letters of credit		
Public sector	799,595	176,022
Large corporate customers	5,924,306	5,420,142
SMEs, micro enterprises and entrepreneurs	12,537,394	12,005,554
Retail customers	-	-
Other customers	2,931,525	1,007,808
	22,192,820	**18,609,526**
Commitments per undrawn loans		
Public sector	316,137	149,875
Large corporate customers	3,078,071	2,972,923
SMEs, micro enterprises and entrepreneurs	11,670,222	9,623,827
Retail customers	436,319	397,152
Other customers	167	655
	15,500,916	**13,144,432**
Balance as of	**37,693,736**	**31,753,958**

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

Impairment of Financial Assets

In accordance with the requirements of IFRS 9, the Bank adopted a methodology for assessing the impairment allowance of financial assets (Methodology for Calculation of Impairment Allowance under IFRS 9). The methodology is applied to all financial instruments measured at amortized cost and at fair value through other comprehensive income (FVTOCI), except for:

- Equity investments in subsidiaries, associates and joint ventures that are accounted for in accordance with IFRS 10 “Consolidated Financial Statements”, IAS 27 “Separate Financial Statements” or IAS 28 “Investments in Associates and Joint Ventures” (save for the instances when IFRS 10, IAS 10, IAS 27 or IAS 28 request or allow a reporting entity to account for investments in subsidiaries, associates or joint ventures in accordance with some or all requirements of IFRS 9);
- Employer’s rights and obligations according to the employee benefit plans, within the scope of IAS 19 “Employee Benefits”;
- Rights and obligations within the scope of IFRS 15 “Revenue from Contracts with Customers” that are financial instruments other than those to be accounted for under this standard.

Financial instruments are defined under IAS 32 as contracts that give rise to a financial asset of one entity and a financial liability or an equity instrument of another entity. Therefore, financial assets for the purposes of impairment calculation requirements are as follows:

- Cash and cash equivalents, and
- Contractual rights entailing cash receipts or other financial assets from another entity or an exchange of financial assets or financial liabilities with another entity under potentially favourable conditions.

Recognition and Modification of Financial Assets

The Bank recognizes a financial asset in its financial statements when it has become a party to the contractual terms of the instrument. Upon initial recognition, the Bank measures a financial asset at fair value increased or decreased by transaction costs that can be directly attributable to the acquisition or issuance of the financial asset.

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

In such instances, the Bank performs both qualitative and quantitative assessments to determine whether there is a significant difference between the cash flows of the original financial asset and the cash flows of the modified asset. If there is a significant difference, the contractual rights to the original financial assets will be deemed expired and the new asset, issued under new terms is to be recognized. A significant difference between the cash flows of the two assets means a change in the present value of the cash flows of above 10% (the so-called quantitative test).

A financial asset may be modified or replaced as part of a transaction with the same counterparty. For example, when the Bank’s customer (borrower) is experiencing financial difficulties, restructuring of some or all of the borrower’s liabilities may be negotiated in order to enable adequate debt repayment capacity, in part or in full. Such circumstances are commonly referred to as “forbearance” in the banking practice.

Modifications resulting in derecognition of the existing assets and initial recognition of the new assets, driven by deteriorated credit rating and repayment capacity of the borrowers and if at the same time the following two conditions are met:

- that it is a significant modification (the difference in cash flows is greater than 10%) and
- exposure exceeds EUR 200,000,

All leading to the initial recognition of financial assets defined under IFRS 9 as purchased or originated credit-impaired assets (“POCI”), i.e. assets impaired on the initial recognition.

In instances of significant modification of a financial instrument, IFRS 9 prescribes derecognition of the original financial asset and recognition of the new asset at fair value as of the recognition date. Derecognition of the gives rise to a permanent gain or loss, which must be recognized within profit or loss, in the amount equal to the difference between the amortized cost of the original financial asset and the fair value of the new financial asset net of expected credit losses recognized as the impairment allowance of the new financial asset.

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

Expected Credit Losses

IFRS 9 introduces a concept of expected credit losses (ECL) that the Bank should identify and recognize for all financial assets within the scope of the standard. The Bank calculates and recognizes an impairment allowance in accordance with its methodology for financial instruments recognized at amortised cost and financial assets measured at FVTOCI.

Allowance for impairment of financial assets at FVTOCI and financial assets carried at amortised cost is recorded as an expense under the income statement. However, the accumulated impairment allowance in the financial statements is not deducted from the fair value of assets but from the aggregate change in the fair value recorded under other comprehensive income.

Calculated expected credit losses represent probability-weighted estimates of credit losses (the present value of all the differences between the contractual cash flows and the cash flows the Bank expects to receive) during the expected life of a financial instrument. Therefore, for financial assets, the credit loss is the present value of the difference between:

- the contractual cash flows belonging to the Bank under the relevant contract, and
- the cash flows the Bank expects to receive,

As for undrawn commitments arising from the granted framework loan, a credit loss is the present value of the difference between:

- the contractual cash flows belonging to the Bank if the borrower draws down the loan funds and
- The cash flows the Bank expects to receive if the loan is drawn down.

As for exposures on documentary business, such as guarantees or letters of credit, a credit loss is the present value of the difference between:

- the contractual cash flows if the beneficiary demands the payment by the Bank and
- The cash flows the Bank expects to receive from the borrower after the payment.

The Bank classifies all financial assets measured at amortised cost into the following three stages depending on the risk level, i.e. the expected credit loss:

- Stage 1 includes all new financial assets upon initial recognition except for purchased or originated credit-impaired (POCI) assets, and instruments without a significant increase in credit risk since initial recognition and low-risk financial assets;
- Stage 2 includes financial assets with a significant increase in credit risk since initial recognition, but without objective evidence of credit loss impairment;
- Stage 3 includes financial assets with objective evidence of impairment at the reporting date or a customer default status; and
- POCI assets that include all purchased or originated credit impaired assets (POCI) as impaired upon initial recognition.

Modifications that cause derecognition of a financial asset and initial recognition of a new asset, motivated by a decline in creditworthiness and repayment capacity, lead to the initial recognition of financial assets that the standard defines as “POCI”, i.e. assets that were impaired during the initial recognition.

For analysis purposes, the Bank identified a number of criteria used for assessment and comparison with the balance during the initial recognition of financial instruments in accordance with IFRS 9. The identification of one or more of the listed indicators may indicate a significantly increased credit risk, which results in financial assets being classified under Stage 2, as follows:

- Corporate customers:

    1) Over 30 consecutive days past due as of the date
    2) Blockade of over 30 days as of the date
    3) FBE PE status
    4) Gearing ratio: total debt (long-term liabilities + short-term liabilities)/equity >1 and at the same time changes in the sales, i.e. decrease in revenue of over 30%
    5) Gearing ratio: total liabilities (long-term liabilities + short-term liabilities)/equity >1 and at the same maturity mismatch (current assets – current liabilities) < 1 and inadequate cash flows (cash flows from operating activities – short-term financial liabilities) <1.

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

Expected Credit Losses (Continued)

Criteria 4 and 5 are not taken into consideration for newly founded companies and financial institutions.

- Retail segment:
  1) Over 30 consecutive days past due as of the date
  2) FBE PE status
  3) Deceased clients – receivables in arrears up to 30 days

The FBE PE status is related to forborne performing loans/receivables where the contractual terms of the loan have been changed but not due to the deterioration of the borrower's financial situation.

For the purpose of classifying financial assets under Stage 3, the Bank identified a list of indicators that need to be monitored in order to identify the default status, which are based on general (regulatory) default indicators (days past due, blockade, bankruptcy, FBE NPE status) as well as on quantitative indicators within the borrower's financial statements, determined based on the history of the Bank's portfolio movements. Identified default indicators are as follows:

- Corporate customers:
  1) Over 90 consecutive days past due as of the date
  2) Blockade of over 90 days as of the date
  3) FBE NPE status
  4) Initiated bankruptcy or liquidation procedures or lawsuits filed against the client and interest suspension
  5) Loss in excess of net assets, and the same time inadequate cash flows (cash flows from operating activities – short-term financial liabilities) <1 and at the same time a decrease in revenues of over 50% according to the official annual financial statements for the past two years;
  6) POCI

Criterion 5 is not taken into consideration for newly founded companies and financial institutions.

- Retail segment:
  1) Over 90 consecutive days past due as of the date
  2) Lawsuit filed
  3) Instruments for which interest has been suspended
  4) FBE NPE status
  5) POCI
  6) Deceased clients – receivables in arrears up to 30 days

The FBE NPE status is related to forborne performing loans/receivables where the contractual terms of the loan have been changed but not due to the deterioration of the borrower's financial situation.

Past due criteria include a material delay that is defined as at least 1% of a single receivable, but not below RSD 1,000 for a retail customer and/or RSD 10,000 for a corporate customer.

Since the Bank does not have an adequate history of migrations and exposure at default to countries, central banks and financial institutions, it relies upon researches and data of renowned external rating agencies (Fitch, Moody's, S&P) when assessing an allowance for impairment and a risk of exposure at default arising from financial instruments of countries, its bodies and financial institutions with an external rating.

The Bank applies an external rating for countries, central banks and financial institutions that have been assigned a credit rating by the rating agency Moody's, whereas it uses the rating of the country of origin for those that are not assigned a credit rating by a rating agency. Countries, central banks, banks and financial institutions with a credit rating ranging from AAA to B3 will be classified under Stage 1, those whose rating is from CAA1 to CAA3 will be classified under Stage 2, and a rating from CA and C will be classified under Stage 3.

Accordingly, at each reporting date the Bank calculates impairment allowance in the amount that equals lifetime expected credit losses if the credit risk of the financial instrument has significantly increased since the initial recognition (financial assets under Stage 2) or there is identified objective evidence of impairment (financial assets under Stage 3), or in the amount equal to 12-month expected credit losses for all financial instruments without a significant increase in credit risk since the initial recognition (financial assets under Stage 1).

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

Expected Credit Losses (Continued)

Lifetime ECLs calculated in this manner represent losses recognized by the Bank for the purpose of calculating the impairment allowance under Stages 2 and 3, whereas the maximum 12-month period of such ECL represents an expected credit loss recognised for financial instruments under Stage 1.

The Bank calculates lifetime expected credit losses using the following formula:

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

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

The EAD component, i.e. exposure at default, is an estimate of the carrying amount of the Bank's receivables under IFRS 9 at the time of default, taking into account the profile of the contractual cash flows and possible additional drawdowns from the approved lines of credit before the time of default. For the financial instruments with no contractually defined cash flows or maturities, the Bank determines those based on the empirical experience.

Accordingly, the Bank uses credit conversion factors (CCF) separately for:

- Payment and performance guarantees and letters of credit,
- Undrawn limits on credit facilities (separately for revocable and irrevocable commitments),
- Credit cards,
- Segment overdrafts.

PD parameter

Probability of default (PD), i.e. the probability that a borrower will default on the loan repayment over the lifetime of the financial instrument, represents one of the basic parameters used in calculation of the impairment allowance under IFRS 9. As such, this parameter has undergone significant changes compared to the PD calculation previously used for impairment allowance calculation under IAS 39.

Migration matrices, as the basis for PD calculation, are calculated by the Bank separately for each sub-segment by observing monthly movements of annual migrations of customers, i.e. placements, form internal rating categories 1, 2, 3 and 4 to internal category 5 (default category) for a minimum period of 5 years.

In the context of multiannual PDs, it is important to distinguish among several types of PDs. Therefore, the Bank consistently applies the terminology defined under the Methodology. All of the below described PD types are available at both the individual financial instrument level and the internal rating level within each of the sub-segments:

- Marginal PD refers to the (unconditional) PD that will occur exactly at a t point in time.
- Forward PD (as well as the conditional PD) refers to PD that will occur during the period t assuming that was no default between the moment *t0* and the beginning of the period t.
- Cumulative PD refers to PD that will occur by the period *t* inclusive. The probability of default before or along with the T maturity approximates the lifetime PD, i.e. PD over the lifetime of the financial instrument.
- Forward lifetime PD refers to the conditional probability that default will occur within an interval (t,) taking into consideration there was no default between the t0 period and the beginning of the period t.

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

Expected Credit Losses (Continued)

When developing PD parameters used for the calculation of the impairment allowance in accordance with the Methodology, the Bank applies the following adjustments for compliance purposes with IFRS 9 requirements:

- the point-in-time (PiT) adjustment;
- Taking into consideration the forward-looking information on macroeconomic conditions, whereby the Bank examines the relations between realized default rates and the following macroeconomic factors identified as material: GDP movements, movements of industrial production index, CPI movements, monetary aggregate M3, RSD/EUR exchange rate trends, an average net salary in the Republic of Serbia indexed in EUR and index of income movements of corporate customers.

Forward-looking Information on Macroeconomic Conditions

The impact of the movements in macroeconomic variables on default rate movements is assessed separately for retail and corporate segments (aggregately for all sub-segments within these segments) in order to determine regularities and patterns and correlations that exist in the observed period between the realised quarterly default rate, as a dependent variable, and macroeconomic variables, as independent variables.

On that occasion, the Bank examines whether correlations between realised default rates (dependent variables) and trends in macroeconomic factors identified as having material effects on the default rates (as independent variables).

The Bank uses the linear regression model to assess the relation between the observed parameters at the beginning of the calendar year and updates the model components on an annual basis and reassesses the linear regression, so that the parameters used are also apply to the following reporting period observed. To this end, and for reliability validation, it is ensured that linear regression meets the statistical significance criteria.

LGD Parameter

Loss given default, i.e. LGD, is an estimate of loss with a financial instrument, assuming that the default status has occurred. LGD is one of the key components in the calculation of risk parameters for expected credit loss (ECL) calculation.

Namely, when assessing credit losses measured in accordance with its Methodology and IFRS 9, the Bank wishes to reflect the possibility of collection of receivables from both regular cash flows and collaterals and other security instruments directly related to the relevant financial instrument. To that end, the Bank generally applies the concept of LGD split to LGD secured and LGD unsecured components, depending on the securitization of each exposure.

For the purpose of calculating LGD secured, i.e. expected loss rate after collateral foreclosure, the Bank takes into account all internally available collaterals with an assessment of collectability. In the process, the Bank relies on the historical experience in collateral realization.

For the purpose of calculating LGD unsecured, the Bank monitors the collection of default cases and identifies its sources. For that purpose, each migration to the default status is observed separately, and all collections of payments in respect thereof are chronologically identified.

Approach to the segment of exposures to countries and financial institutions

In the absence of historical collection data, based on which the LGD component could be reliably modelled, the Bank uses LGD in accordance with Basel regulations in order to determine the allowance for impairment in line with its Methodology.

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

Expected Credit Losses (Continued)

Stage 3 and Expected Credit Losses

Introduction

The calculation of the allowance for impairment in accordance with the Methodology for Stage 3 exposures is estimated for all exposures that have an identified default status.

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

In case of POCI assets, the credit-risk-adjusted effective interest rate is calculated as the original or initial interest rate. Such an effective interest rate is the internal rate of return that discounts the present value of the expected cash flows of that asset to the fair value of the POCI asset during its initial recognition. It is believed that the effective interest rate arrived at in this manner already includes expected credit losses.

Individual Impairment Assessment

Since ECLs under IFRS 9 represent probability-weighted estimates of credit losses, the Bank considers several possible scenarios of collection in estimating the future cash flows. The scenarios considered are as follows:

- collateral foreclosure,
- rescheduling or restructuring,
- bankruptcy,
- sale of receivables,
- settlement, and
- Other scenarios deemed as relevant.

The Bank assesses collection sources from borrower's expected future operating cash flows (the borrower continues operating as a going concern), or expects to collect its receivables from the realisation of collaterals (the expectation that the borrower will cease to operate as a going concern and become gone concern) based on the following criteria:

1) Corporate customers – at the moment of being assigned FBE NPE status, all borrowers are automatically considered gone-concern borrowers and the assessment of impairment is made based on the expected collection from collateral foreclosure, while the defined period of monitoring and probation covers 6 months or 3 consecutive payments (of either both the principal and interest or interest), with no days past due identified of over 90 days. Following the defined monitoring and probation period, the borrower may return to the going-concern status and the impairment may be assessed based on the estimated collection from the borrower's future operating cash flows;

2) Retail customers – at the moment of being assigned FBE NPE status, all borrowers with proven credit repayment capacity (a. from the regular salary paid by the employer and/or b. other regular income that can be documented, such as rental income, fees received under service contracts, closed-end employment contract, income from farming business, services rendered or temporary and seasonal work), may be treated as going-concern borrowers and impairment allowance may be made based on the expected future operating cash flows. Otherwise, they are treated as gone-concern borrowers, up to the fulfilment of the aforesaid condition of credit repayment capacity, and the impairment allowance will be made based on the assessed collection form the collateral foreclosure.

Upon determining the probabilities of certain scenarios (expressed as percentages), the Bank relies on the historical collection of NPLs, but also considers the specificities of individual financial instruments as well, and assigns appropriate weights to the scenarios accordingly, which must add up to 100% in the sum of all the scenarios considered. If the borrower meets the going-concern criteria, the Bank may define at least one scenario of collection form the expected operating future cash flows. Otherwise, the scenarios are defined under the gone-concern assumption, with collection expected from collateral activation and foreclosure. In this manner, the ultimately calculated credit losses meet the standard definition – they represent probability-weighted estimates of credit losses.

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

Expected Credit Losses (Continued)

Individual Impairment Assessment (Continued)

The Bank applies collateral haircuts and realization periods as prescribed by the Collateral Management, Measurement and Insurance Procedure. In the above-described manner, the Bank estimates ECL for all financial instruments in Stage 3 that exceed the respective materiality levels of RSD 1.2 million at the retail loan facility level and RSD 3 million at the corporate borrower level. Upon defining the materiality levels, the Bank observed the materiality levels existing within its internal loan approval procedures, and the materiality level to the overall portfolio ratio, taking into account the operating capability to calculate an adequate number of facilities based on case-by-case assessments.

Collective Impairment Assessment

The Bank applies a group or collective approach to all other exposures, which entails grouping of the financial instruments remaining under Stage 3 into the sub-segments, as follows:

- retail customers,
- corporate customers (including banks and other financial institutions without an external credit rating)
- Exposures to governments and other government institutions (state and state authorities, banks and financial institutions).

The retail segment is further classified into sub-segments by product:

- housing loans,
- cash and consumer loans,
- loans to farmers/entrepreneurs,
- credit cards and overdrafts
- fee receivables for payment operations from farmers/entrepreneurs/corporate customers

The corporate segment is treated as a single unit.

Guarantees on behalf of private individuals are included in the corporate customers group.

The Bank further classifies borrowers from each sub-segment under the following internal categories by groups based on days past due:

Internal category	Days past due
1	0
2	1 to 30
3	31 to 60
4	61 to 90
5	Over 90

Borrowers in group 5 are borrowers with a default status.

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

Expected Credit Losses (Continued)

Collective Impairment Assessment (Continued)

The effects that affected the movements in the allowance for impairment in the period from 1 January 2022 to 31 December 2022 inclusive are presented below.

	Stage 1			Stage 2			Stage 3		
	Changes to the parameters (PD, LGD, EAD)	Change to methodology	FX effects and other changes	Changes to the parameters (PD, LGD, EAD)	Change to methodology	FX effects and other changes	Changes to the parameters (PD, LGD, EAD)	Change to methodology	FX effects and other changes
Cash and balances held with the central bank	1,658	-	-	-	-	-	-	-	-
Securities	-	-	-	-	-	-	-	-	-
Loans and receivables due from banks and other financial institutions	(359)	-	-	-	-	-	1	-	-
Loans and receivables due from customers	46,961	-	(26)	33,328	(113)	(52)	(347,533)	1,509	(272)
Other assets	109	-	-	15	-	-	26,116		(15)
Total	**48,369**	**-**	**(26)**	**33,343**	**(113)**	**(52)**	**(321,416)**	**1,509**	**(287)**

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

Expected Credit Losses (Continued)

Collective Impairment Assessment (Continued)

The effects that affected the movements in the allowance for impairment in the period from 1 January 2021 to 31 December 2021 inclusive are presented below.

	Stage 1			Stage 2			Stage 3		
	Changes to the parameters (PD, LGD, EAD)	**Change to methodology**	**FX effects and other changes**	**Changes to the parameters (PD, LGD, EAD)**	**Change to methodology**	**FX effects and other changes**	**Changes to the parameters (PD, LGD, EAD)**	**Change to methodology**	**FX effects and other changes**
Cash and balances held with the central bank	(1,018)	-	-	-	-	-	-	-	-
Securities	-	-	-	-	-	-	-	-	-
Loans and receivables due from banks and other financial institutions	541	-	-	-	-	-	-	-	-
Loans and receivables due from customers	(5,913)	-	-	(11,327)	-	1	(60,218)	-	4
Other assets	127	-	-	(17)	-	-	4,593		-
Total	**(6,263)**	**-**	**-**	**(11,344)**	**-**	**1**	**(55,625)**	**-**	**4**

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

Expected Credit Losses (Continued)

Collective Impairment Assessment (Continued)

Exposure movements according to impairment levels from 1 January 2022 to 31 December 2022 inclusive are presented below.

	Movements in the credit risk exposure from 1 January 2022 to 31 December 2022			
	Opening balan<ce as of 1 January 2022	**Stage 1**	**Stage 2**	**Stage 3**
Cash and balances held with the central bank	Opening balance as of 1/1/2022	12,690,155	-	-
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	9,040,394	-	-
	Repayment, write-off and transfer to off-balance sheet items			
	Closing balance as of 31/12/2022	**21,730,549**	-	-
Receivables under derivatives	**Opening balance as of 1/1/2022**	**901**	-	-
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	11,752	-	-
	Repayment, write-off and transfer to off-balance sheet items	(901)	-	-
	Closing balance as of 31/12/2022	11,752	-	-
Securities	**Opening balance as of 1/1/2022**	**14,279,463**	**1,224**	-
	Transfer to Stage 1	1,206	(1,206)	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	490	5	-
	Repayment, write-off and transfer to off-balance sheet items	(2,196,573)	-	-
	Closing balance as of 31/12/2022	**12,084,586**	**23**	-
Loans and receivables due from banks and other financial institutions	**Opening balance as of 1/1/2022**	**3,840,947**	**-**	-
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	242,715	-	1
	Repayment, write-off and transfer to off-balance sheet items	(14,736)	-	-
	Closing balance as of 31/12/2022	**4,068,926**	**-**	**1**
Loans and receivables due from customers	**Opening balance as of 1/1/2022**	**53,869,516**	**11,443,154**	**1,857,543**
	Transfer to Stage 1	3,423,334	(3,399,998)	(23,336)
	Transfer to Stage 2	(3,378,805)	3,427,071	(48,266)
	Transfer to Stage 3	(233,772)	(132,137)	365,909
	Increases through origination	26,561,793	3,051,134	15,487
	Repayment, write-off and transfer to off-balance sheet items	(19,891,250)	(3,913,981)	(1,035,889)
	Closing balance as of 31/12/2022	**60,350,816**	**10,475,243**	**1,131,448**
Other assets	**Opening balance as of 1/1/2022**	**262,667**	**2185**	**62,629**
	Transfer to Stage 1	1,238	(953)	(285)
	Transfer to Stage 2	(312)	313	(1)
	Transfer to Stage 3	(4,493)	(2,867)	7,360
	Increases through origination	301,155	3,914	10,240
	Repayment, write-off and transfer to off-balance sheet items	(18,168)	(969)	(8,988)
	Closing balance as of 31/12/2022	**542,087**	**1,623**	**70,955**
Total	**Closing balance as of 31/12/2022**	**98,788,716**	**10,476,889**	**1,202,404**

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

Expected Credit Losses (Continued)

Collective Impairment Assessment (Continued)

Exposure movements according to impairment levels from 1 January 2021 to 31 December 2021 inclusive are presented below.

	Movements in the credit risk exposure from 1 January 2021 to 31 December 2021			
	Opening balance as of 1 January 2021	**Stage 1**	**Stage 2**	**Stage 3**
Cash and balances held with the central bank	**Opening balance as of 1/1/2021**	**13,708,862**	**-**	**-**
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	-	-	-
	Repayment, write-off and transfer to off-balance sheet items	(1,018,707)	-	-
	Closing balance as of 31/12/2021	**12,690,155**	**-**	**-**
Receivables under derivatives	**Opening balance as of 1/1/2021**	**-**	**-**	**-**
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	901	-	-
	Repayment, write-off and transfer to off-balance sheet items	-	-	-
	Closing balance as of 31/12/2021	**901**	**-**	**-**
Securities	**Opening balance as of 1/1/2021**	**11,120,791**	**-**	**20**
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	(1,164)	1,224	(60)
	Transfer to Stage 3	-	-	-
	Increases through origination	4,634,720	-	40
	Repayment, write-off and transfer to off-balance sheet items	(1,474,884)	-	-
	Closing balance as of 31/12/2021	**14,279,463**	**1,224**	**-**
Loans and receivables due from banks and other financial institutions	**Opening balance as of 1/1/2021**	**2,400,559**	**-**	**-**
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	1,440,743	-	-
	Repayment, write-off and transfer to off-balance sheet items	(355)	-	-
	Closing balance as of 31/12/2021	**3,840,947**	**-**	**-**
Loans and receivables due from customers	**Opening balance as of 1/1/2021**	**45,745,266**	**9,106,455**	**1,775,895**
	Transfer to Stage 1	2,998,337	(2,993,094)	(5,243)
	Transfer to Stage 2	(2,530,820)	2,557,333	(26,513)
	Transfer to Stage 3	(350,438)	(173,681)	524,119
	Increases through origination	25,195,992	5,465,541	77,632
	Repayment, write-off and transfer to off-balance sheet items	(17,188,821)	(2,519,400)	(488,347)
	Closing balance as of 31/12/2021	**53,869,516**	**11,443,154**	**1,857,543**
Other assets	**Opening balance as of 1/1/2021**	**252,291**	**862**	**59,341**
	Transfer to Stage 1	1,221	(227)	(994)
	Transfer to Stage 2	(835)	840	(5)
	Transfer to Stage 3	(2,026)	(1,413)	3,439
	Increases through origination	70,558	2,440	6,383
	Repayment, write-off and transfer to off-balance sheet items	(58,542)	(317)	(5,535)
	Closing balance as of 31/12/2021	**262,667**	**2,185**	**62,629**
Total	**Closing balance as of 31/12/2021**	**84,943,649**	**11,446,563**	**1,920,172**

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

Expected Credit Losses (Continued)

Collective Impairment Assessment (Continued)

Movements in the impairment allowance according to impairment levels from 1 January 2022 to 31 December 2022 are presented below.

	Movements in the impairment allowance from 1 January 2022 to 31 December 2022			
	Opening balance as of 1 January 2022	**Stage 1**	**Stage 2**	**Stage 3**
Cash and balances held with the central bank	**Opening balance as of 1/1/2022**	**840**	**-**	**-**
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	1,686	-	-
	Repayment, write-off and transfer to off-balance sheet items	(28)	-	-
	Closing balance as of 31/12/2022	**2,498**	**-**	**-**
Securities	**Opening balance as of 1/1/2022**	**-**	**-**	**-**
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	-	-	-
	Repayment, write-off and transfer to off-balance sheet items	**-**	**-**	**-**
Loans and receivables due from banks and other financial institutions	**Opening balance as of 1/1/2022**	**2,430**	**-**	**-**
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	6,854	-	1
	Repayment, write-off and transfer to off-balance sheet items	(7,213)	-	-
	Closing balance as of 31/12/2022	**2,071**	**-**	**1**
Loans and receivables due from customers	**Opening balance as of 1/1/2022**	**79,233**	**95,498**	**855,101**
	Transfer to Stage 1	8,338	(8,185)	(153)
	Transfer to Stage 2	(79,365)	79,577	(212)
	Transfer to Stage 3	(99,048)	(55,753)	154,801
	Increases through origination	407,316	69,218	12,601
	Repayment, write-off and transfer to off-balance sheet items	(190,306)	(51,694)	(513,333)
	Closing balance as of 31/12/2022	**126,168**	**128,661**	**508,805**
Other assets	**Opening balance as of 1/1/2022**	**4,201**	**22**	**26,504**
	Transfer to Stage 1	62	(2)	(60)
	Transfer to Stage 2	(8)	8	-
	Transfer to Stage 3	(2,905)	(1,811)	4,716
	Increases through origination	6,504	1,835	25,894
	Repayment, write-off and transfer to off-balance sheet items	(3,544)	(15)	(4,449)
	Closing balance as of 31/12/2022	**4,310**	**37**	**52,605**
Total	**Closing balance as of 31/12/2022**	**135,047**	**128,698**	**561,411**

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

Expected Credit Losses (Continued)

Collective Impairment Assessment (Continued)

Expected credit losses are also calculated for securities that are measured at fair value through other comprehensive income. However, the expected credit losses in this case are not accounted for as the balance sheet asset impairment allowance but on the accounts of group 82 - Revaluation reserves and unrealized gains / losses. Therefore, the expected credit loss on securities is not shown in the table above, where impairment allowances of other financial assets are presented. The expected credit losses on securities that are measured at fair value through other comprehensive income amounted to RSD 29,715 thousand as of 31 December 2022 (31 December 2021: RSD 27,369 thousand).

Movements in the impairment allowance according to impairment levels from 1 January 2021 to 31 December 2021 are presented below:

	Movements in the impairment allowance from 1 January 2021 to 31 December 2021			
	Opening balance as of 1 January 2021	**Stage 1**	**Stage 2**	**Stage 3**
Cash and balances held with the central bank	**Opening balance as of 1/1/2021**	**1,858**	**-**	**-**
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	2,617	-	-
	Repayment, write-off and transfer to off-balance sheet items	(3,635)	-	-
	Closing balance as of 31/12/2021	**840**	**-**	**-**
Securities	Opening balance as of 1/1/2021	-	-	-
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Repayment, write-off and transfer to off-balance sheet items	-	-	-
	Closing balance as of 31/12/2021	-	-	-
Loans and receivables due from banks and other financial institutions	**Opening balance as of 1/1/2021**	**1,889**	**-**	**-**
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	4,330	-	-
	Repayment, write-off and transfer to off-balance sheet items	(3,789)	-	-
	Closing balance as of 31/12/2021	**2,430**	**-**	**-**
Loans and receivables due from customers	**Opening balance as of 1/1/2021**	**85,146**	**106,824**	**915,315**
	Transfer to Stage 1	3,052	(3,037)	(15)
	Transfer to Stage 2	(21,961)	22,425	(464)
	Transfer to Stage 3	(76,492)	(47,454)	123,946
	Increases through origination	237,146	82,304	76,322
	Repayment, write-off and transfer to off-balance sheet items	(147,658)	(65,564)	(260,003)
	Closing balance as of 31/12/2021	**79,233**	**95,498**	**855,101**
Other assets	**Opening balance as of 1/1/2021**	**4,074**	**39**	**21,911**
	Transfer to Stage 1	44	-	(44)
	Transfer to Stage 2	(6)	7	(1)
	Transfer to Stage 3	(1,483)	(870)	2,353
	Increases through origination	7,510	873	4,974
	Repayment, write-off and transfer to off-balance sheet items	(5,938)	(27)	(2,689)
	Closing balance as of 31/12/2021	**4,201**	**22**	**26,504**
Total	**Closing balance as of 31/12/2021**	**86,704**	**95,520**	**881,605**

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

Expected Credit Losses (Continued)

Collective Impairment Assessment (Continued)

Expected credit losses are also calculated for securities that are measured at fair value through other comprehensive income. However, the expected credit losses in this case are not accounted for as the balance sheet asset impairment allowance but on the accounts of group 82 - Revaluation reserves and unrealized gains / losses. Therefore, the expected credit loss on securities is not shown in the table above, where impairment allowances of other financial assets are presented. The expected credit losses on securities that are measured at fair value through other comprehensive income amounted to 27,369 thousand as of 31 December 2021 (31 December 2020: 27,000 thousand).

Financial Assets by Impairment

The total allowance for impairment of financial assets as of 31 December 2022 amounts to RSD 825,156 thousand (31 December 2021: RSD 1,063,829 thousand) and it decreased by RSD 238,673 thousand or 22.44% in comparison to 31 December 2021. The major impact on movements in the impairment allowance had the improvement of the quality of the Bank's portfolio due to the collection of non-performing exposures and write-off of receivables that are 100% covered by the impairment.

Financial assets by impairment levels in accordance with IFRS 9 are presented below:

		In RSD thousand
	31 December 2022	**31 December 2021**
Cash and balances held with the central bank	**21,730,549**	**12,690,155**
Stage 1	21,730,549	12,690,155
Receivables under derivatives	**11,752**	**901**
Stage 1	11,752	901
Securities	**12,084,609**	**14,280,687**
Stage 1	12,084,586	14,279,463
Stage 2	23	1,224
Stage 3	-	-
Loans and receivables due from banks and financial institutions	**4,068,927**	**3,840,947**
Stage 1	4,068,926	3,840,947
Stage 2	-	-
Stage 3	1	-
Loans and receivables due from customers	**71,957,507**	**67,170,213**
Stage 1	60,350,816	53,869,516
Stage 2	10,475,243	11,443,154
Stage 3	1,131,448	1,857,543
Other assets	**614,665**	**327,481**
Stage 1	542,087	262,667
Stage 2	1,623	2,185
Stage 3	70,955	62,629
Total gross	**110,468,009**	**98,310,384**
Stage 1 impairment allowance (Note 18)	135,047	86,704
Stage 2 impairment allowance (Note 18)	128,698	95,520
Stage 3 impairment allowance (Note 18)	561,411	881,605
Total impairment allowance	**825,156**	**1,063,829**
Total net	**109,642,853**	**97,246,555**

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

Financial Assets by Impairment (Continued)

Financial Assets by Category

The following breakdown presents financial assets according to categories used to calculate impairment allowances, as follows:

- Assets not classified as financial assets in line with IFRS 9.
- Assets classified under Stage 1 under IFRS 9.
- Assets classified under Stage 2 under IFRS 9.
- Assets classified under Stage 3 under IFRS 9.

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

Financial Assets by Impairment (Continued)

Financial Assets by Category (Continued)

A breakdown of financial assets according to stages and internal categories in line with the Methodology for the Calculation of Impairment Allowances under IFRS 9:

(In RSD thousand)

Category	31 December 2022 Gross exposure	31 December 2022 Net exposure	31 December 2021 Gross exposure	31 December 2021 Net exposure
Cash and balances held with the central bank	**21,730,549**	**21,728,051**	**12,690,155**	**12,689,315**
Stage 1, out of which:	**21,730,549**	**21,728,051**	**12,690,155**	**12,689,315**
Internal rating category 1	2,551,086	2,551,086	1,711,283	1,711,283
Government, state and other institutions with external ratings	19,179,463	19,176,965	10,978,872	10,978,032
Receivables under derivatives	**11,752**	**11,752**	**901**	**901**
Stage 1, out of which:	**11,752**	**11,752**	**901**	**901**
Internal rating category 1	-	-	-	-
Government, state and other institutions with external ratings	11,752	11,752	901	901
Securities	**12,084,609**	**12,084,609**	**14,280,687**	**14,280,687**
Stage 1, out of which:	**12,084,586**	**12,084,586**	**14,279,463**	**14,279,463**
Internal rating category 1	13,499	13,499	17,412	17,412
Government, state and other institutions with external ratings	12,071,087	12,071,087	14,262,051	14,262,051
Stage 2, out of which:	**23**	**23**	**1,224**	**1,224**
Internal rating category 1	23	23	1,224	1,224
Stage 3, out of which:	**-**	**-**	**-**	**-**
Internal rating category 1	-	-	-	-
Loans and receivables due from banks and other financial institutions	**4,068,927**	**4,066,855**	**3,840,947**	**3,838,517**
Stage 1, out of which:	**4,068,926**	**4,066,855**	**3,840,947**	**3,838,517**
Internal rating category 1	943,452	942,767	981,695	980,746
Internal rating category 2	861	854	-	-
Government, state and other institutions with external ratings	3,124,613	3,123,234	2,859,252	2,857,771
Stage 3, out of which:	**1**	**-**	-	-
Internal rating category 5	1	-	-	-
Loans and receivables due from customers	**71,957,507**	**71,193,873**	**67,170,213**	**66,140,381**
Stage 1, out of which:	**60,350,816**	**60,224,648**	**53,869,516**	**53,790,283**
Internal rating category 1	56,054,119	55,958,851	50,465,306	50,409,558
Internal rating category 2	4,296,697	4,265,797	3,404,210	3,380,725
Internal rating category 3	-	-	-	-
Internal rating category 5	-	-	-	-
Stage 2, out of which:	**10,475,243**	**10,346,582**	**11,443,154**	**11,347,656**
Internal rating category 1	9,638,212	9,576,320	10,394,093	10,350,288
Internal rating category 2	489,946	486,659	733,728	725,077
Internal rating category 3	159,511	141,253	134,688	122,272
Internal rating category 4	187,574	142,350	180,645	150,019
Internal rating category 5				
Stage 3, out of which:	**1,131,448**	**622,643**	**1,857,543**	**1,002,442**
Internal rating category 1	57,524	45,838	203,502	190,121
Internal rating category 2	18,920	13,792	83,006	72,542
Internal rating category 3	73,856	66,270	16,748	13,479
Internal rating category 4	11,558	9,456	-	-
Internal rating category 5	969,590	487,287	1,554,287	726,300

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

Financial Assets by Impairment (Continued)

Financial Assets by Category (Continued)

Category	31 December 2022 Gross exposure	31 December 2022 Net exposure	31 December 2021 Gross exposure	31 December 2021 Net exposure
Other assets	**614,665**	**557,713**	**327,481**	**296,754**
Stage 1, out of which:	**542,087**	**537,777**	**262,667**	**258,466**
Internal rating category 1	536,845	532,545	260,327	256,131
Internal rating category 2	2,415	2,406	1,522	1,518
Internal rating category 5	-	-	-	-
Government, state and other institutions with external ratings	2,827	2,826	818	817
Stage 2, out of which:	**1,623**	**1,586**	**2,185**	**2,163**
Internal rating category 1	1,135	1,118	1,749	1,733
Internal rating category 2	78	75	143	142
Internal rating category 3	126	117	83	81
Internal rating category 4	284	276	210	207
Internal rating category 5	-	-	-	-
Stage 3, out of which:	**70,955**	**18,350**	**62,629**	**36,125**
Internal rating category 1	29,049	1,847	28,872	24,877
Internal rating category 2	58	33	20	6
Internal rating category 3	119	50	4	1
Internal rating category 4	24	12	9	3
Internal rating category 5	41,705	16,408	33,724	11,238

The division of financial assets according to internal categories was carried out in accordance with the Methodology for the Calculation of Impairment Allowances under IFRS 9. The Bank divided all debtors into 5 internal categories by days past due:

Internal category	Days past due
1	0
2	1 to 30
3	31 to 60
4	61 to 90
5	Over 90

Borrowers in group 5 are borrowers with a default status.

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

Financial Assets by Category (Continued)

Fair Value of Collaterals

The Bank's collateral management system entails a set of activities and prescribed measures and rules implemented for regular recording, allocation and measurement of collaterals.

In order to mitigate its credit risk exposure, the Bank obtains collaterals from borrowers to securitize loan repayments. Security instruments that the Bank accepts may be in the form of:

- Financial assets (guarantee deposits)
- Guarantees issued by other banks as payment security
- Mortgages on immovable assets, i.e. property (residential and commercial real estate)
- Pledges over movable assets (machinery, equipment and vehicles); and
- Other collaterals

The Bank does not approve placements to customers based on the value of a security instrument, but on a positive assessment of the customer's financial position. Collaterals are therefore exclusively used to mitigate the credit risk exposure.

Collateral types and their fair values at the time of issuing securitized financial instruments comply with the loan type, maturity and borrower type.

Collaterals are recorded with relevant registers that are publicly available to all stakeholders.

The Bank may activate collaterals only after the default status has been declared and the contract with the borrower is terminated. The method of collection from the collateral depends on the collateral type. The fair value (collected value) of collaterals activated in 2022 amounts to RSD 124,412 thousand (2021: RSD 163,914 thousand).

For the purpose of assessing an additional credit risk arising from potential difficulties in collateral activation and a time lapse between a borrower's default and the Bank's ability to foreclose the collateral, the market value of the collateral underlying the security instrument (lien) in favour of the Bank is reduced to arrive at the value that the Bank would achieve in case of a possible sale of the goods in order to collect its receivables securitized by the asset.

The fair values of collaterals are presented in the following breakdown at an estimated market value but only to the amount of the receivables they secure, which applies to mortgages, pledges, deposits and guarantees received from borrowers.

The coverage of total financial assets by above-mentioned collaterals equalled 33.39% as of 31 December 2022. The coverage of gross financial assets under Stage 1 by total collateral was 28.97%, while the coverage by mortgages was only 16.91%. The coverage of financial assets under Stage 2 by total collateral was 68.54%, whereas the coverage by mortgages was 42.47%. The coverage of financial assets under Stage 3 by total collateral was 45.92%, and the coverage by mortgages was 35.10%.

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

Financial Assets by Category (Continued)

Fair Value of Collaterals (Continued)

An assessment of the fair values of collaterals and other security instruments by placements as of 31 December 2022:

(In RSD thousand)

	Gross assets	Deposits	Securities and guarantees of the Republic of Serbia	Mortgages	Pledges	Other
Financial assets	**148,161,745**	**4,411,970**	**1,860,100**	**29,368,167**	**3,499,399**	**10,328,567**
Stage 1	130,930,584	3,377,870	1,609,923	22,139,127	3,107,183	7,695,900
Stage 2	16,025,377	1,027,647	237,257	6,805,868	354,075	2,559,668
Stage 3	1,205,784	6,453	12,920	423,172	38,141	72,999

An assessment of the fair values of collaterals and other security instruments by placements as of 31 December 2021:

(In RSD thousand)

	Gross assets	Deposits	Securities and guarantees of the Republic of Serbia	Mortgages	Pledges	Other
Financial assets	**130,064,342**	**4,192,178**	**2,630,942**	**26,936,315**	**3,694,701**	**7,957,982**
Stage 1	111,641,974	3,004,966	2,263,886	19,913,481	3,210,202	5,444,293
Stage 2	16,491,972	1,156,800	347,686	5,767,848	460,965	2,474,790
Stage 3	1,930,396	30,412	19,370	1,254,986	23,534	38,899

LTV ratio

The LTV ratio is calculated as a ratio between the gross value of a financial asset and the estimated market value of the property on which a mortgage lien has been constituted in favour of the Bank.

As regards financial assets secured with mortgages as of 31 December 2022, financial assets secured with mortgages with an LTV ratio from 50% to 70% account for the largest share of 36.76%, financial assets secured with mortgages with an LTV ratio below 50% account for 33.50%, financial assets secured with mortgages with an LTV ratio from 70% to 90% account for 20.78%, financial assets secured with mortgages with an LTV ratio over 100% account for 7.96%, whereas financial assets secured with mortgages with an LTV ratio from 90% to 100% account for 1.00%.

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

Financial Assets by Category (Continued)

LTV ratio (Continued)

LTV ratio balance as of 31 December 2022:

(In RSD thousand)

LTV	Below 50%	50%-70%	70%-90%	90%-100%	Above 100%
Financial assets secured with mortgages	**9,836,239**	**10,796,925**	**6,102,239**	**293,682**	**2,339,082**
Stage 1	5,616,291	9,417,856	5,230,976	265,848	1,608,156
Stage 2	3,931,878	1,364,011	762,348	27,834	719,797
Stage 3	288,070	15,058	108,915	-	11,129

LTV ratio balance as of 31 December 2021:

(In RSD thousand)

LTV	Below 50%	50%-70%	70%-90%	90%-100%	Above 100%
Financial assets secured with mortgages	**11,463,420**	**7,746,628**	**4,254,601**	**737,994**	**2,733,672**
Stage 1	8,812,633	5,328,719	3,518,732	301,412	1,951,985
Stage 2	2,068,314	2,301,969	730,957	37,278	629,330
Stage 3	582,473	115,940	4,912	399,304	152,357

Financial Assets by Days Past Due

As of 31 December 2022, 90.69% of financial assets in the total gross financial assets have no days past due, 8.06% of financial assets are from 1 to 30 days past due, 0.38% of financial assets are from 31 to 90 days past due, 0.14% of financial assets are from 91 to 180 days past due, 0.20% of financial assets are from 181 to 365 days past due, and 0.52% of financial assets are over 365 days past due.

Breakdown of financial assets by days-past-due intervals

	31 December 2022		31 December 2021	
	Gross exposure	Net exposure	Gross exposure	Net exposure
No days past due	100,182,762	99,951,685	93,574,824	93,377,457
From 1 to 30 days past due	8,903,556	8,874,743	3,091,935	3,048,465
From 31 to 90 days past due	424,725	349,984	302,697	263,149
From 91 to 180 days past due	152,008	74,108	204,965	140,614
From 181 to 365 days past due	226,226	136,943	90,428	50,443
Over 365 days past due	578,732	255,390	1,045,535	366,427
Total	**110,468,009**	**109,642,853**	**98,310,384**	**97,246,555**

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

Financial Assets by Industry

The structure of financial assets by industry in net and gross amounts is presented below.

As of 31 December 2022, the exposure to banks and financial institutions accounts for the largest share in gross financial assets, i.e. 23.15% (2021: 15.87%).

Concentration of financial assets by industry (in RSD thousand)

	31 December 2022		31 December 2021	
	Gross exposure	Net exposure	Gross exposure	Net exposure
Agriculture, forestry and fishery	3,925,481	3,888,900	3,289,376	3,271,985
Mining	974,058	970,673	120,718	119,813
Manufacturing and processing industry	14,360,355	14,145,651	15,081,601	14,752,546
Electricity, gas and air conditioning supply	737,713	720,030	571,292	558,034
Construction industry	8,178,371	8,125,281	7,993,774	7,678,737
Trade and repair of motor vehicles and motorcycles	9,585,168	9,457,319	9,876,424	9,795,785
Transport and storage, accommodation and food, information and communications	5,462,169	5,410,938	5,783,157	5,719,242
Real estate, professional, scientific and technical activities, arts, entertainment and leisure	2,258,497	2,245,278	2,046,277	2,032,804
Banks, financial institutions and insurance companies	25,572,830	25,537,703	15,597,000	15,586,642
Retail customers	20,178,668	19,943,104	18,961,341	18,749,051
Other	19,234,699	19,197,976	18,989,424	18,981,916
Total	**110,468,009**	**109,642,853**	**98,310,384**	**97,246,555**

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

Financial Assets by Industry (Continued)

Concentration of financial assets by industry (in RSD thousand)

Exposures to customers in other industries:
- Non-residents, including foreign banks without a defined and registered business activity in line with the Regulation on the Classification of Industries of the Government of the Republic of Serbia,
- State authorities,
- Administrative, ancillary and services activities,
- Travel agencies, education,
- Health care and welfare,
- Art, entertainment and leisure industry.

Concentration of off-balance sheet items by industry (in RSD thousand)

	31 December 2022		31 December 2021	
	Gross exposure	Net exposure	Gross exposure	Net exposure
Agriculture, forestry and fishery	279,864	279,840	254,032	253,997
Mining	68,222	68,220	889,705	889,695
Manufacturing and processing industry	8,562,018	8,561,339	7,736,678	7,735,013
Electricity, gas and air conditioning supply	670,788	670,504	246,577	246,484
Construction industry	13,131,025	13,130,577	11,008,420	11,008,106
Trade and repair of motor vehicles and motorcycles	5,365,472	5,365,139	4,383,251	4,379,589
Transport and storage, accommodation and food, information and communications	3,335,870	3,334,632	2,872,128	2,839,004
Real estate, professional, scientific and technical activities, arts, entertainment and leisure	1,632,127	1,631,907	1,761,876	1,761,490
Banks, financial institutions and insurance companies	11,234	11,232	6,481	6,464
Retail customers	435,722	435,276	397,152	396,972
Other	4,201,394	4,200,909	2,197,658	2,194,299
Total	**37,693,736**	**37,689,575**	**31,753,958**	**31,711,113**

The concentration of financial assets by industry is within the prescribed internal limits.

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

Financial Assets by Geographic Region

The table below shows financial assets by exposure to certain geographic regions. As of 31 December 2022, a net exposure to customers in Serbia is prevailing (91.39%). Borrowers from the European Union account for 1.68%, from the USA and Canada account for 0.08%, whereas borrowers from other regions account for 6.85%.

Concentration of financial assets by region, net exposures

(In RSD thousand)

	31 December 2022	31 December 2021
Serbia	100,200,158	88,154,245
European Union	1,840,541	2,168,466
USA and Canada	91,390	84,895
Other	7,510,764	6,838,949
Total	**109,642,853**	**97,246,555**

Financial Assets by Serbian Regions

The table below shows financial assets by exposure to certain geographic regions in Serbia. As of 31 December 2022, a net exposure to customers in Belgrade is prevailing (58.63%), the exposure to customers in Western Serbia is 22.29%, in Vojvodina 9.57%, and the exposure in Southern and Eastern Serbia is 5.93% and 3.57% respectively.

Concentration of financial assets by Serbian regions, net exposures (in RSD thousand)

(In RSD thousand)

	31 December 2022	31 December 2021
Belgrade	58,749,452	47,675,853
Vojvodina	9,589,187	8,914,804
Southern Serbia	5,944,814	5,361,806
Eastern Serbia	3,581,614	3,154,481
Western Serbia	22,335,091	23,047,301
Total	**100,200,158**	**88,154,245**

Write-Off of Receivables

The Bank will adequately manage the collection of NPLs as long as it assesses that collection activities are economically justified, i.e. as long as the collection is possible. The Bank deems that it is no longer economically justified to attempt the collection in the following instances:

- Severe collection difficulties, including death of a borrower or a pledger;
- Lack of assets for an execution/enforcement procedure,
- Prolonged periods without collection and no prospects of further collection; and
- Debt amount is low and does not justify the use of Bank’s resources for collection purposes.

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

Write-Off of Receivables (Continued)

If the Bank assesses that a loan cannot be collected, it performs a so-called debt relief. After performing a debt relief, the Bank permanently waives collection of receivables from a borrower, based on a settlement (agreement) with the borrower/co-borrowers, a legally binding court decision, an enforceable document (adjudication or decision), a relevant decision of a Bank's competent body or an assignment of receivables resulting in the cessation of the right to further collection. In such a case, all Bank's receivables are derecognized from Bank's balance and off-balance sheet items. A relief of a loan and/or receivable may but need not be preceded by the direct write-off of the loan and/or receivable. On the other hand, the Bank conducts so-called accounting write-off of balance sheet assets with low collectability. Accounting write-off entails a transfer of balance sheet assets to off-balance sheet items of the Bank. Balance sheet assets include non-performing loans and other non-performing exposures. Accounting write-off does not imply Bank's waiver of its legal and contractual rights, or of the collection of these receivables, but accounting write-off is done from Bank's balance sheet items, whereas these receivables are further kept under off-balance sheet records and the Bank continues with the collection of receivables already started. The Bank performs accounting write-off of balance sheet assets with low collectability in the event when the calculated impairment of such receivables that the Bank credited to the allowance for impairment amounts to 100% of its gross carrying value, i.e. if the receivables are fully indirectly written off. Accounting write-off is performed at least quarterly. In 2022, the Bank performed accounting write-off of receivables for NPLs in the total amount of RSD 410,924 thousand (2021: RSD 102,485 thousand). ,

Receivables collected under bankruptcy procedures

The Bank reports receivables under a bankruptcy proceeding by submitting a registration form in writing to the competent court. The Bank is required to register receivables in the original currency of receivables in accordance with the Law on Bankruptcy. On the day when the bankruptcy proceedings commence, creditors' receivables from the debtor that are not due will be deemed due. Foreign currency receivables are calculated in the RSD countervalue at the official middle exchange rate of the National Bank of Serbia on the date of the bankruptcy commencement, and they are recorded in RSD in the books of account. After the commencement of the bankruptcy proceeding, receivables in the functional currency (RSD) and receivables from indexed placements are stated in the books of account in the original currency and/or RSD. After the bankruptcy trustee has determined a final list of recognised receivables, a receivable to the client in the balance sheet items is reduced to the amount from the list of recognised receivables, and a potential difference is carried forward to off-balance sheet records.

As regards the Guidelines on Disclosure of Bank's Data and Information on Assets Quality ("Guidelines"), the required qualitative and quantitative information will be disclosed within data prepared and presented in accordance with the Decision on Disclosure of Data and Information by Banks ("Official Gazette of RS" no. 125/2014. 4/2015 and 103/2016).

Loan Restructuring

In 2022, the Bank amended the terms and conditions for the repayment of receivables in accordance with the National of Bank of Serbia's Decision on Classification of Balance Sheet Assets and Off-balance Sheet Items ("Official Gazette of the RS", no. 94/2011, 57/2012, 123/2012, 43/2013, 113/2013, 135/2014, 25/2015, 38/2015, 61/2016, 69/2016, 91/2016, 101/2017, 114/2017, 103/2018 and 8/2019).

In accordance with the amended NBS' Decision on Classification of Balance Sheet Assets and Off-Balance Sheet Items dated 29 June 2016, days past due in collection of receivables are calculated from the last contracted maturity date for materially significant amount of receivables.

Restructuring entails approval of concessions on repayment of receivables due to borrower's financial difficulties, which would not otherwise be allowed, regardless of whether a certain amount of receivables has already matured, whether the receivable has been impaired or defaulted in accordance with the decision governing capital adequacy of banks, in at least one of the following ways:

- modification of the original terms of the receivable, particularly if the subsequently agreed terms of repayment are more favourable than the original terms (interest rate reduction, write-off of a portion of the principal outstanding, entailing derecognition of that portion in the balance sheet assets, write-off of a portion of the accrued interest, write-off of a portion of the receivable, a change in the maturity date of the principal and/or interest, etc.) or than the terms that would be approved to another borrower with the same or similar risk level.
- refinancing of receivables, where a new receivable is originated from the loan approved to settle a portion of or the entire amount of the borrower's liability to the Bank or another legal entity to which the receivable due from the borrower has been assigned.

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

Restructured receivables due from corporate customers are:

- receivables restructured at the Bank level, where the Bank defines the restructuring terms;
- receivables restructured in collaboration with other creditors, either under an interbank agreement on equal terms of restructuring or under the Law on Consensual Financial Restructuring of Companies with the participation of an institutional mediator;
- receivables due from debtors where, in the previous bankruptcy procedure, a pre-packed reorganization plan was proposed and adopted; and
- receivables due from debtors where, in the bankruptcy procedure, a bankruptcy debtor reorganization plan was proposed and adopted

Restructured receivables from retail customers are receivables due from borrowers that the Bank assessed, based on the creditworthiness, as being able to settle the loan repayment liabilities to the Bank in a timely manner in the forthcoming period if certain repayment concessions are granted by the Bank.

Upon undertaking restructuring measures, the Bank is required to estimate whether the placement restructuring approved to a debtor is sustainable and economically justified for both the Bank and the debtor and to determine the restructuring schedule and regularly monitor its implementation and effects.

On a regular basis, at least semi-annually, the Bank monitors the implementation of the loan restructuring schedule through the Report on the Rescheduled Receivables at the Client Level.

The Bank may cease to treat a receivable as restructured if at the end of the trial period the following criteria are met:
- the restructured receivable is not classified as non-performing;
- the borrower repaid a materially significant portion of the debt through regular payments of principal and/or interest during at least half of the trial period;
- The borrower is not over 30 days past due in any liability towards the Bank.

The probation period is a minimum two-year period that starts from the moment when the restructured receivable is classified as performing.

A material portion of the total amount of debt is the amount of at least 6% of the principal of the receivables with changed repayment terms based on a housing loan or receivables used to refinance the bank's receivable under that loan, or 8% of the principal of the receivables in case of other receivables.

The table below provides the number of customers and placements restructured in 2022, as well as their gross exposure as of 31 December 2022.

Balance as of 31 December 2022	No. of customers	No. of restructured loans
137,097	25	26

The table below provides the number of customers and placements restructured in 2021, as well as their gross exposure as of 31 December 2021.

Balance as of 31 December 2021	No. of customers	No. of restructured loans
356,317	27	36

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

Loan Restructuring (Continued)

Breakdown of the total sum of restructured and impaired loans as of 31 December 2022

(In RSD thousand)

Category	31 December 2022			
	Gross exposure	Net exposure	No. of customers	No. of loan facilities
Stage 1	-	-	-	-
Stage 2	146,356	145,963	19	21
Stage 3	228,574	186,880	50	56
Total	**374,930**	**332,843**	**69**	**77**

Breakdown of the total sum of restructured and impaired loans as of 31 December 2021

(In RSD thousand)

Category	31 December 2021			
	Gross exposure	Net exposure	No. of customers	No. of loan facilities
Stage 1	-	-	-	-
Stage 2	191,136	189,567	21	27
Stage 3	251,608	201,888	40	50
Total	**442,744**	**391,455**	**61**	**77**

Fair Value of Assets and Liabilities

The fair value stated in the financial statements is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an independent transaction.

Fair value is calculated using the market information available as of the reporting date.

Whenever possible, the Bank measures the fair vale using the market prices available on an active market for a specific instrument. A market is deemed active if the quoted prices are easily and regularly available and reflect actual common market transactions performed under market conditions.

The fair value of a current liquid instrument presented at its nominal value approximates its carrying value. This applies to cash and cash equivalents, as well as receivables and liabilities without a determined maturity or without a fixed interest rate. For other receivables and liabilities, expected future cash flows are discounted to their net present values using market interest rates.

Quoted market prices are used to determine the fair values of trading securities. The fair value of other securities is calculated as the net present value of expected future cash flows using the interest rates applied to similar securities.

In determining the fair value of municipal bonds issued by local self-government units in the Republic of Serbia, the applicable discount rate is increased by the issuer risk/premium at the time of the municipal bond issue or at a more recent date if such an input is available. The Bank applies an approach based on the initially assessed value of the risk premium to the calculated credit spread, which is determined as the cost of risk.

Given that there is no sufficiently developed secondary loan market, where the fair value of these financial instruments could be determined, it is necessary to use lower input levels than Levels 1 and 2, i.e. Level 3 inputs. The observation unit is a single loan, or a loan facility, and the fair value is determined using the income approach or converting future cash flows (income) of a specific loan using the discounted cash flow method.

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

Fair Value of Assets and Liabilities (Continued)

Disbursement of new loans to the retail and corporate customers in 2022 was in line with the market conditions (departures per months in certain product categories, taking into account maturity, currency and placement type were within the range of +/-1 p.p.). Given the foregoing, the fair values determined for loans disbursed in 2022 are equal to their carrying values.

Loans disbursed before 2022 were subject to discounting using the interest rates available on the website of the National Bank of Serbia. These interest rates are taken from the Report on Interest Rates of Banks on Loans to Retail and Non-financial Customers by Type, Maturity and Purpose – newly approved placements. The Bank used inputs for December 2022.

Fair values of deposits and other liabilities due to other customers were calculated by discounting the value of non-interest-bearing earmarked deposits at a market interest rate of 0.99%, i.e. at an interest rate obtained as the average weighted interest rate on EUR term deposits of corporate and retail customers, which were in the Bank's deposit portfolio as 31 December 2022.

Assessment of Financial Instruments

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 (unadjusted) on active markets for identical assets or liabilities accessible to market participants on the fair value measurement date;
- Level 2: Assessment 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, interest rates, correlations, etc.). Indirectly identifiable inputs are used for instrument measurement based on a quoted market price on active markets for similar instruments; indicated prices for the same or similar instruments on markets that are deemed less active or other assessment techniques, where all significant inputs are directly or indirectly observable from market data;
- Level 3: its parameters are not publicly available for the given asset or liability.

Financial assets measured at fair value (in RSD thousand)

31 December 2022	Level 1	Level 2	Level 3	Total
Securities				12,084,609
• Financial assets at FVTPL	13,522	-	-	13,522
• Securities at FVTOCI	-	12,071,087	-	12,071,087

31 December 2021	Level 1	Level 2	Level 3	Total
Securities				14,280,687
• Financial assets at FVTPL	18,636	-	-	18,636
• Securities at FVTOCI	-	14,262,051	-	14,262,051

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

Financial assets and liabilities not measured at fair value (in RSD thousand)

31 December 2022	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	-	21,728,051	-	21,728,051
Receivables under derivatives	-	-	11,752	11,752
Loans and receivables due from banks and other financial institutions	-	-	4,066,855	4,066,855
Loans and receivables due from customers	-	-	71,279,991	71,279,991
Other assets	-	-	557,713	557,713
Financial liabilities				
Deposits and other liabilities due to banks, other financial institutions and the central bank	-	-	8,212,864	8,212,864
Deposits and other liabilities due to other customers	-	-	81,057,405	81,057,405
Other liabilities	-	-	891,494	891,494

31 December 2021	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	-	12,689,315	-	12,689,315
Receivables under derivatives	-	-	901	901
Loans and receivables due from banks and other financial institutions	-	-	3,838,517	3,838,517
Loans and receivables due from customers	-	-	66,510,086	66,510,086
Other assets	-	-	296,754	296,754
Financial liabilities				
Deposits and other liabilities due to banks, other financial institutions and the central bank	-	-	7,644,590	7,644,590
Deposits and other liabilities due to other customers	-	-	74,471,299	74,471,299
Other liabilities	-	-	668,716	668,716

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

Assessment of Financial Instruments (Continued)

Breakdown of financial assets and liabilities at fair value – comparison of their carrying and fair values calculated for the purpose of being disclosed in Notes to the Financial Statements (in RSD thousand)

31 December 2022	FVTPL	FVTOCI	Other amortisation cost	Total amount in books	Total fair value
Financial assets					
Cash and balances held with the central bank	-	-	21,728,051	21,728,051	21,728,051
Receivables under derivatives	-	-	11,752	11,752	11,752
Securities	13,522	12,071,087	-	12,084,609	12,084,609
Loans and receivables due from banks and other financial institutions	-	-	4,066,855	4,066,855	4,066,855
Loans and receivables due from customers	-	-	71,193,873	71,193,873	71,279,991
Other assets	-	-	557,713	557,713	557,713
Financial liabilities					
Liabilities arising from derivatives			1,573	1,573	1,573
Deposits and other liabilities due to banks, other financial institutions and the central bank	-	-	8,212,864	8,212,864	8,212,864
Deposits and other liabilities due to other customers	-	-	81,057,821	81,057,821	81,057,405
Other liabilities	-	-	891,494	891,494	891,494

(In RSD thousand)

31 December 2021	FVTPL	FVTOCI	Other amortisation cost	Total amount in books	Total fair value
Financial assets					
Cash and balances held with the central bank	-	-	12,689,315	12,689,315	12,689,315
Receivables under derivatives	-	-	901	901	901
Securities	18,636	14,262,051	-	14,280,687	14,280,687
Loans and receivables due from banks and other financial institutions	-	-	3,838,517	3,838,517	3,838,517
Loans and receivables due from customers	-	-	66,140,381	66,140,381	66,510,086
Other assets	-	-	296,754	296,754	296,754
Financial liabilities					
Liabilities arising from derivatives	-	-	7,644,590	7,644,590	7,644,590
Deposits and other liabilities due to banks, other financial institutions and the central bank	-	-	74,488,194	74,488,194	74,471,299
Deposits and other liabilities due to other customers	-	-	668,716	668,716	668,716

29. RISK MANAGEMENT (Continued)

29.2. Capital and Capital Adequacy

The Bank manages capital and capital adequacy ratios in order to maintain the required level of capital to support the development of the Bank and its business activities.

The capital adequacy ratio represents the ratio of Bank's capital to its risk-weighted assets. Bank's risk-weighted assets equal the sum of its credit-risk weighted assets and the capital requirement for the foreign exchange and operational risks multiplied by the reciprocal value of the capital adequacy ratio.

Bank's capital is comprised of the core capital and supplementary capital net of a sum of deductible items. The Bank is thereby required to maintain a minimum amount of capital of no less than EUR 10,000,000 in the RSD countervalue during the ordinary course of business at all times.

The Bank calculates the capital requirement for credit risk using the standardized approach, by multiplying the total credit risk-weighted assets by 8%. Bank's credit risk-weighted assets comprise a sum of the gross carrying values of Bank's balance sheet assets less impairment allowances and the gross carrying values of Bank's off-balance sheet items less provisions, multiplied by conversion factors.

The Bank calculates the capital requirement for foreign exchange risk by multiplying a sum of the total net open foreign currency position and the absolute value of the net open position in gold by 8%. The total net open foreign currency position represents the absolute value of the higher of either the total long or total short foreign currency positions.

The Bank calculates the capital requirement for operational risk by applying the basic indicator approach equal to the three-year average exposure indicator multiplied by the capital requirement rate of 15%.

Taking into account that the Bank does not reach the prescribed limits, it is not obliged, in addition to the capital requirements for credit, foreign exchange and operational risks, to calculate and ensure the coverage of capital requirements in connection with other market risks arising from the items recorded in the trading book.

As of 31 December 2022, the Bank's capital and capital adequacy were calculated in accordance with relevant decisions of the National Bank of Serbia, which comply with the implementation of Basel III standard.

Bank's capital adequacy ratios as of 31 December 2022 were as follows:

- Bank's capital adequacy ratio - 29.99%;
- Bank's Tier 1 capital adequacy ratio - 29.98%:
- Bank's common equity Tier 1 capital adequacy ratio 28.23%,

which were higher than their minimum values prescribed under the National Bank of Serbia's Decision on Capital Adequacy for Banks:

- 8% for capital adequacy ratio of banks:
- 6% for Tier 1 capital adequacy ratio of banks;
- 4.5% for common equity Tier 1 capital adequacy ratio of banks**.**

29. RISK MANAGEMENT (Continued)

29.2. Capital and Capital Adequacy

In RSD thousand

No.	Item	31 December 2022	31 December 2021
1	**CAPITAL**	**20,552,618**	**14,362,328**
1.1	**TIER 1 CAPITAL**	**20,551,278**	**14,360,988**
1.1.1	**Common equity Tier 1 capital**	**19,351,278**	**13,160,988**
1.1.1.1	**Common equity Tier 1 capital instruments and relevant share premium**	**17,161,329**	**11,297,709**
1.1.1.1.1	Paid in common equity Tier 1 capital instruments	9,887,600	7,338,200
1.1.1.1.2	Share premium associated with common equity Tier 1 capital instruments	7,273,729	3,959,509
1.1.1.2	(-) Loss	**-**	**-**
1.1.1.3	Revaluation reserves and other unrealized gains/losses	**(499,012)**	**(227,400)**
1.1.1.4	Reserves from profit, other reserves and reserves for general banking risks	**3,827,958**	**2,938,563**
1.1.1.5	(+/-) Regulatory adjustments of the value of common equity Tier 1 capital elements	**(12,291)**	**(14,487)**
1.1.1.6	(-) Goodwill decreased by related deferred tax liabilities	**-**	**-**
1.1.1.7	(-) Other intangible assets decreased by related deferred tax liabilities	**(1,016,170)**	**(716,894)**
1.1.1.8	(-)Deferred tax assets dependable on Bank’s future profitability, except for those arising from temporary differences less related deferred tax liabilities	**(51,106)**	**(63,913)**
1.1.1.9	(-)The required reserve for estimated losses on Bank’s balance sheet assets and off-balance sheet items deductible from Bank’s common equity Tier 1 capital	**-**	**-**
1.1.1.10	(-) Gross amount of receivables from borrowers – retail customers, whose credit indebtedness before the loan approval was higher than the percentage determined in accordance with the decision of the NBS	**(59,430)**	**(52,590)**
1.1.1.11	(-)Gross amount of receivables from borrowers – retail customers, who meet the condition for applying the deductible item of common equity Tier 1 capital based on the contractual maturity criterion	**-**	**-**
1.1.2	**Additional Tier 1 capital**	**1,200,000**	**1,200,000**
1.1.2.1	Additional Tier 1 capital instruments and relevant share premium	1,200,000	1,200,000
1.1.2.1.1	Paid in additional Tier 1 capital instruments	600,000	600,000
1.1.2.1.2	Share premium associated with additional Tier 1 capital instruments	600,000	600,000
1.2	**SUPPLEMENTARY CAPITAL**	**1,340**	**1,340**
1.2.1	Supplementary capital instruments, subordinated liabilities and accompanying share premium	1,340	1,340
1.2.1.1	Paid in supplementary capital instruments	1,340	1,340
1.2.1.2	Share premium associated with supplementary capital instruments	-	-
2.	**Total risk-weighted assets:**	**68,539,985**	**60,759,233**
2.1	Risk-weighted credit risk exposures	62,382,259	55,406,720
2.2	Risk-weighted foreign exchange risk exposures	-	-
2.3	Risk-weighted assets for credit exposure adjustment risk	9,388	-
2.4	Risk-weighted operational risk exposures	6,148,338	5,352,513
3.	**Capital adequacy ratios:**		
3.1	Capital adequacy ratio	**29.99%**	**23.64%**
3.2	Tier 1 capital adequacy ratio	**29.98%**	**23.64%**
3.3	Common equity Tier 1 capital adequacy ratio	**28.23%**	**21.66%**

29. RISK MANAGEMENT (Continued)

29.3. Repossessed Property following Foreclosure

The Bank is actively involved in sales of repossessed property following foreclosure and may retain the foreclosed assets for a certain period of time, only in cases when a quick sale would result in significant losses.

Repossessed property following foreclosure as of 31 December 2022 and 31 December 2021:

No.	Repossessed property	Area (m^2)	Acquisition date	Execution debtor	Net book value as of 31 December 2022	Net book value as of 31 December 2021
1.	Business premises, KO Cuprija	82	20/12 2018	Interchem HIM doo	-	4,619
2.	Business premises, KO Cuprija	89	20/12/2018	Interchem HIM doo	-	4,485
3.	Residential building 1, Ko Voljavče-Jagodina	256.8	31/08/2020	Interchem HIM doo	6,810	6,810
4.	Two bedroom flat-Kragujevac	121	29/09/2020	Interchem HIM doo	10,584	10,584
5.	Business premises 1-basement, KO Jagodina	222	21/05/2021	Interchem HIM doo	12,052	12,052
6.	Business premises 2-ground floor, KO Jagodina	222	21/05/2021	Interchem HIM doo	20,102	20,102
7.	Business premises 1- attic, KO Jagodina	222	21/05/2021	Interchem HIM doo	16,053	16,053
8.	Residential building, KO Stulac Vrnjacka Banja with construction land	133.96 + 809 construction land	02/09/2021	Marix doo	-	3,668
	Total				**65,601**	**78,373**

29. RISK MANAGEMENT (Continued)

29.4. Liquidity Risk

Liquidity risk is a risk of a potential occurrence of adverse effects on the Bank's financial performance and capital due to its inability to discharge its liabilities when these fall due. The objective of liquidity risk management is to maintain Bank's liquid assets at a level that ensures the Bank's timely settlement of its liabilities.

The Bank manages its assets and liabilities ensuring that it is able to settle its due liabilities (liquidity) at all times and permanently settle all its liabilities (solvency).

The following organizational units at the Bank are responsible for liquidity risk management:

- The Board of Directors, which adopted the Liquidity Risk Management Policy and the Contingency Business Plan (liquidity crisis plan);
- The Executive Board, which implements the adopted policy and defines the Liquidity Risk Management Procedure;
- Risk Management Department and Treasury Department, which monitor and maintain liquidity on a daily basis.
- The Asset Liability Committee (ALCO), which monitors the Bank's the liquidity risk exposure and proposes adequate measures for liquidity risk management

Liquidity risk is measured by the Risk Management Department by calculating the liquidity ratio, quick liquidity ratio and liquidity coverage ratio, as well as additional liquidity ratios, deposit concentration ratio, s GAP analysis and stress tests.

The Bank's exposure to the liquidity risk is measured by monitoring the liquidity ratio, quick liquidity ratio and liquidity coverage ratio as prescribed by the NBS' Decision on Liquidity Risk Management by Banks and the Bank's Liquidity Risk Management Procedure. The liquidity ratio is the sum of the level 1 and level 2 liquid receivables, one hand, and the sum of demand payables or payables without a contracted maturity and liabilities falling due within a month from the day of calculating this ratio. The quick liquidity ratio is the sum of level 1 liquid receivables, on one hand, and the sum of liabilities payable on demand or a without contractually defined maturity and payables with a contracted maturity falling due within a month from the ratio calculation date. The liquidity coverage ratio represents a Bank's liquidity buffer and its net liquid asset outflows, which would occur over the next 30 days from the date of calculating this ratio under assumed stress conditions.

Realised liquidity ratios and quick liquidity ratios

		Liquidity ratio
	2022	2021
31 December	1.95	1.93
Average value	1.83	1.98
Maximum value	2.33	2.36
Minimum value	1.34	1.63

		Quick liquidity ratio
	2022	2021
31 December	1.70	1.66
Average value	1.56	1.77
Maximum value	1.95	2.20
Minimum value	1.12	1.41

The Bank's liquidity was also monitored through its liquid asset ratio, which represents liquid assets relative to the total assets.

29. RISK MANAGEMENT (Continued)

29.4. Liquidity Risk (Continued)

Realised liquid asset ratios

	2022	2021
31 December	32.29%	30.05%
Average value	28.20%	29.65%
Maximum value	34.51%	31.63%
Minimum value	23.73%	26.75%

Realised Indicators of coverage with liquid assets

	2022	2021
31 December	147.70%	149.86%

In 2022, the Bank monitored its liquidity risk levels based on the movements in its additional liquidity ratios specified by the Liquidity Risk Management Procedure and ratios referred to under contracts that the Bank signed with international financial institutions. The values of these ratios were within limits prescribed by the said Procedure and the contracts signed with international financial institutions.

The critical element of liquidity risk monitoring and management is monitoring the consistency of the maturities of assets and liabilities. Consistency and inconsistency of maturities of assets and liabilities are fundamental for the Bank's management. It is uncommon for banks to achieve complete maturity consistency of their assets and liabilities since transactions are often performed for indefinite periods and are different types. It is uncommon for banks to achieve complete maturity consistency of their assets and liabilities since transactions are often performed for indefinite periods and are different types.

In 2022, the Bank adjusted the methodological framework for the creation of the liquidity gap in terms of the treatment of asset positions with the central bank, securities and related interest, fees, and accruals of loans and placements.

29. RISK MANAGEMENT (Continued)

29.4. Liquidity Risk (Continued)

The table below presents Bank's assets and liabilities grouped in maturity buckets from the reporting date to the contractual maturity date.

In RSD thousand

31 December 2022	Up to 30 days	30 to 90 days	90 to 365 days	1 to 5 years	Over 5 years	Total
Cash and balances held with the central bank	19,676,951	2,051,100	-	-	-	**21,728,051**
Pledged financial assets	-	-	-	-	-	**-**
Securities	12,084,609	-	-	-	-	**12,084,609**
Receivables under derivatives	11,752	-	-	-	-	**11,752**
Loans and receivables due from banks and other financial institutions	3,941,838	427	26,701	2,113	95,776	**4,066,855**
Loans and receivables due from customers	2,746,315	5,982,001	19,391,782	31,503,550	11,570,225	**71,193,873**
Other assets	31,267	-	-	-	526,446	**557,713**
Total financial assets	**38,492,732**	**8,033,528**	**19,418,483**	**31,505,663**	**12,192,447**	**109,642,853**
Liabilities under derivatives	1,573	-	-	-	-	**1,573**
Deposits and other liabilities due to banks, other financial institutions and the central bank,	3,429,914	2,425,428	1,323,709	1,033,813	-	**8,212,864**
Deposits and other liabilities due to other customers	13,741,673	9,804,912	46,402,305	8,935,846	2,173,085	**81,057,821**
Other liabilities	282,180	-	-	-	609,314	**891,494**
Total financial liabilities	**17,455,340**	**12,230,340**	**47,726,014**	**9,969,659**	**2,782,399**	**90,163,752**
Maturity gap	**21,037,392**	**(4,196,812)**	**(28,307,531)**	**21,536,004**	**9,410,048**	**19,479,101**

29. RISK MANAGEMENT (Continued)

29.4. Liquidity Risk (Continued)

In RSD thousand

	Up to 30 days	30 to 90 days	90 to 365 days	1 to 5 years	Over 5 years	Total
31 December 2021						
Cash and balances held with the central bank	12,689,315	-	-	-	-	**12,689,315**
Pledged financial assets	-	-	-	-	-	**-**
Securities	1,398,287	-	-	5,266,000	7,616,400	**14,280,687**
Receivables under derivatives	901					**901**
Loans and receivables due from banks and other financial institutions	3,838,517	-	-	-	-	**3,838,517**
Loans and receivables due from customers	2,360,599	3,740,196	16,965,482	29,735,403	13,338,701	**66,140,381**
Other assets	294,718	-	-	-	2,036	**296,754**
Total financial assets	**20,582,337**	**3,740,196**	**16,965,482**	**35,001,403**	**20,957,137**	**97,246,555**
Liabilities under derivatives	-	-	-	-	-	**-**
Deposits and other liabilities due to banks, other financial institutions and the central bank,	2,728,117	2,054,359	715,797	2,079,248	67,069	**7,644,590**
Deposits and other liabilities due to other customers	42,524,020	5,579,472	16,326,634	8,226,949	1,831,117	**74,488,194**
Other liabilities	59,735	-	-	-	608,981	**668,716**
Total financial liabilities	**45,311,872**	**7,633,831**	**17,042,431**	**10,306,198**	**2,507,168**	**82,801,500**
Maturity gap	**(24,729,535)**	**(3,893,635)**	**(76,949)**	**24,695,205**	**18,449,969**	**14,445,055**

29. RISK MANAGEMENT (Continued)

29.5. Market Risk (Interest Rate Risk, Foreign Exchange Risk and Security Price Risk)

29.5.1. Interest Rate Risk

Interest rate risk is a risk of a possible adverse effects on the Bank's financial performance and capital due to changes in interest rates. The Bank is exposed to interest rate risk based on items recorded in its banking book.

The objective of the Bank's interest rate risk management is to minimize adverse effects that may arise from changes in market interest rates.

The following organizational units at the Bank are responsible for interest rate risk management:

- The Board of Directors, which adopted the Interest Rate Risk Management Policy;
- The Executive Board, which implements the adopted policy and determines the Interest Rate Risk Management Procedure;
- The Asset Liability Committee (ALCO), which monitors the Bank's interest rate risk exposure and proposes adequate measures for interest rate risk management;
- The Risk Management Department, which implements the risk management policy and procedure and reports to the Bank's management on the risk exposure, and
- The Marketing Department, which monitors market interest rates on a daily basis and proposes interest rates for Bank's products.

Interest rate risk is measured by the Risk Management Department by means of repricing risk measurement, basis risk, yield curve risk and optionality risk measurements.

The following tables provide breakdowns of interest-bearing assets and liabilities grouped into maturity buckets for fixed interest rate items and repricing periods for variable interest rate items.

29. RISK MANAGEMENT (Continued)

29.5. Market Risk (Interest Rate Risk, Foreign Exchange Risk and Security Price Risk) (Continued)

29.5.1. Interest Rate Risk (Continued)

In RSD thousand

31 December 2022	Up to 30 days	30 to 90 days	90 to 365 days	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances held with the central bank	14,049,215	-	-	-	-	7,678,836	21,728,051
Pledged financial assets	-	-	-	-	-	-	-
Securities	12.071,087	-	-	-	-	13.522	12,084,609
Receivables under derivatives	-					11.752	11.752
Loans and receivables due from banks and other financial institutions	3,514	259	27.086	1.607	-	4,034,389	4,066,855
Loans and receivables due from customers*	37,657,138	3,494,081	16,458,582	11,251,303	1,372,514	960,254	71,193,873
Other assets	-	-	-	-	-	557,713	557,713
Total financial assets	**63,780,954**	**3,494,340**	**16,485,668**	**11,252,910**	**1,372,514**	**13,256,466**	**109,642,853**
Liabilities under derivatives	-	-	-	-	-	1.573	1.573
Deposits and other liabilities due to banks, other financial institutions and the central bank,	1,500,460	2,386,351	1.307,743	1.021,123	-	1.997.186	8,212,864
Deposits and other liabilities due to other customers	22,591,270	8,528,889	27,853,577	19,569,000	2.168.236	346,851	81,057,821
Other liabilities	-	-	-	-		891,494	891,494
Total financial liabilities	**24,091,730**	**10,915,240**	**29,161,320**	**20,590,123**	**2.168.236**	**3,237,104**	**90,163,752**
Gap individual	**39,689,224**	**(7,420,900)**	**(12,675,652)**	**(9,337,213)**	**(795,722)**		
Gap cumulative	**39,689,224**	**32,268,324**	**19,592,672**	**10,255,459**	**9,459,737**		

29. RISK MANAGEMENT (Continued)

29.5. Market Risk (Interest Rate Risk, Foreign Exchange Risk and Security Price Risk) (Continued)

29.5.1. Interest Rate Risk (Continued)

In RSD thousand

	Up to 30 days	30 to 90 days	90 to 365 days	1 to 5 years	Over 5 years	Non-interest bearing	Total
31 December 2021							
Cash and balances held with the central bank	8,338,861	-	-	-	-	4,350,454	12,689,315
Pledged financial assets	-	-	-	-	-	-	-
Securities	400,000	-	-	5,266,000	7,616,400	998,287	14,280,687
Receivables under derivatives	-					901	901
Loans and receivables due from banks and other financial institutions	1,428,120	-	-	-	-	2,410,397	3,838,517
Loans and receivables due from customers*	9,693,245	4,774,154	24,035,419	20,368,136	5,722,205	1,547,222	66,140,381
Other assets	-	-	-	-	-	296,754	296,754
Total financial assets	**19,860,226**	**4,774,154**	**24,035,419**	**25,634,136**	**13,338,605**	**9,604,015**	**97,246,555**
Liabilities under derivatives	-	-	-	-	-	-	-
Deposits and other liabilities due to banks, other financial institutions and the central bank,	2,728,117	3,053,807	885,254	910,343	-	67,069	7,644,590
Deposits and other liabilities due to other customers	4,916,159	6,281,323	18,591,730	5,832,766	-	38,866,216	74,488,194
Other liabilities	-	-	-	-		668,716	668,716
Total financial liabilities	**7,644,276**	**9,335,130**	**19,476,984**	**6,743,109**	**-**	**39,602,001**	**82,801,500**
Gep individual	**12,215,950**	**(4,560,976)**	**4,558,434**	**18,891,027**	**13,338,605**		
Gep cumulative	**12,215,950**	**7,654,974**	**12,213,408**	**31,104,435**	**44,443,040**		

**The (net) amount of NPLs is stated as a non-interest-bearing amount under Loans and receivables due from customers*

x

29. RISK MANAGEMENT (Continued)

29.5. Market Risk (Interest Rate Risk, Foreign Exchange Risk and Security Price Risk) (Continued)

29.5.1. Interest Rate Risk (Continued)

The table below provides interest rate sensitivity, which is measured against the impact of a parallel shift of the yield curve by 200 basis points on Bank's capital and income.

In RSD thousand

	2022		2021	
	Capital impact	Income impact	Capital impact	Income impact
As of 31 December	(1,023,699)	33,761	(659,210)	63,846
Average value	(797,761)	48,738	(559,919)	69,213
Maximum value	(698,205)	59,560	(507,921)	74,563
Minimum value	(1,023,699)	33,761	(659,210)	63,846

29.5.2 Foreign Exchange Risk

Foreign exchange risk is a risk of a potential occurrence of adverse effects on the Bank's financial performance and capital due to fluctuations in foreign exchange rates. The Bank is exposed to foreign exchange risk based on items stated in both the banking book and the trading book.

The Bank manages foreign exchange risk to minimize losses arising from changes in foreign exchange rates.

The following organizational units at the Bank are responsible for the foreign exchange risk management:
- The Board of Directors, which adopted the Market Risk Management Policy;
- The Executive Board, which implements the adopted policy and determines the Foreign Exchange Risk Management Procedure;
- The Asset Liability Committee (ALCO), which monitors the Bank's interest rate risk exposure and proposes adequate measures for interest rate risk management,
- The Risk Management Department and Treasury Department, which monitor and manage the currency structure of sources of assets and placements on a daily basis.

The foreign exchange risk is measured by the Risk Management Department using the foreign exchange ratio, as a ratio between the net open foreign currency position and Bank's capital, in accordance with the NBS' Decision on Capital Adequacy of Banks and Decision on Reporting Requirements for Banks and the Bank's Foreign Exchange Risk Management Procedure.

Realised foreign exchange risk ratios

	2022	2021
As of 31 December	0.80%	0.73%
Average value	2.19%	1.57%
Maximum value	7.02%	5.50%
Minimum value	0.13%	0.19%

In 2022, the Bank's foreign exchange risk measured by the foreign exchange risk ratio was in a low-risk range. The average value of the foreign exchange risk ratio was 2.19%.

The following tables provide open net foreign exchange positions individually by currency as of 31 December 2022 and 2021.

29. RISK MANAGEMENT (Continued)

29.5. Market Risk (Interest Rate Risk, Foreign Exchange Risk and Security Price Risk) (Continued)

29.5.2. Foreign Exchange Risk (Continued)

Breakdown of assets and liabilities by currency

In RSD thousand

As of 31 December 2022	EUR	USD	CHF	Other	Total	RSD	Total
Cash and balances held with the central bank	6,326,412	52,182	73,660	35,293	6,487,547	15,240,504	21,728,051
Pledged financial assets	-	-	-	-	-	-	-
Securities	-	-	-	-	-	12,084,609	12,084,609
Receivables under derivatives	-	-			-	11,752	11,752
Loans and receivables due from banks and other financial institutions	1,651,520	343,059	885,703	98,066	2,978,348	1,088,507	4,066,855
Loans and receivables due from customers	45,585,794	-	-	-	45,585,794	25,608,079	71,193,873
Other assets	36,600	156	11	45	36,812	520,901	557,713
Total financial assets	**53,600,326**	**395,397**	**959,374**	**133,404**	**55,088,501**	**54,554,352**	**109,642,853**
Liabilities under derivatives	-	1.573	-	-	-	-	**1.573**
Deposits and other liabilities due to banks, other financial institutions and the central bank,	4,990,466	100,270	266	12	5,091,014	3,121,850	8,212,864
Deposits and other liabilities due to other customers	43,731,159	843,191	951,226	115,616	45,641,192	35,416,629	81,057,821
Other liabilities	580,579	-	-	-	580,579	310,915	891,494
Total financial liabilities	**49,302,204**	**945,034**	**951,492**	**115,628**	**51,312,785**	**38,849,394**	**90,163,752**
Net foreign currency position	**4,298,122**	**(549,637)**	**7,882**	**17,776**	**3,775,716**	**15,704,960**	**19,479,101**

29. RISK MANAGEMENT (Continued)

29.5. Market Risk (Interest Rate Risk, Foreign Exchange Risk and Security Price Risk) (Continued)

29.5.2. Foreign Exchange Risk (Continued)

In RSD thousand

As of 31 December 2021	EUR	USD	CHF	Other	Total	RSD	Total
Cash and balances held with the central bank	5,534,011	46,037	155,931	47,343	5,783,322	6,905,993	12,689,315
Pledged financial assets	-	-	-	-	-	-	-
Securities	-	-	-	-	-	14,280,687	14,280,687
Receivables under derivatives	-	901			901	-	901
Loans and receivables due from banks and other financial institutions	2,147,791	369,344	634,736	238,696	3,390,567	447,950	3,838,517
Loans and receivables due from customers	34,843,895	-	-	-	34,843,895	31,296,486	66,140,381
Other assets	89,616	34	4	51	89,705	207,049	296,754
Total financial assets	**42,615,313**	**416,316**	**790,671**	**286,090**	**44,108,390**	**53,138,165**	**97,246,555**
Liabilities under derivatives	-	-	-	-	-	-	-
Deposits and other liabilities due to banks, other financial institutions and the central bank,	3,978,892	455,572	40,729	101,905	4,577,098	3,067,492	7,644,590
Deposits and other liabilities due to other customers	36,897,003	828,698	669,525	101,857	38,497,083	35,991,111	74,488,194
Other liabilities	576,573	-	-	-	576,573	92,143	668,716
Total financial liabilities	**41,452,468**	**1,284,270**	**710,254**	**203,762**	**43,650,754**	**39,150,746**	**82,801,500**
Net foreign currency position	**1,162,845**	**(867,954)**	**80,417**	**82,328**	**457,636**	**13,987,419**	**14,445,055**

29. RISK MANAGEMENT (Continued)

29.5. Market Risk (Interest Rate Risk, Foreign Exchange Risk and Security Price Risk) (Continued)

29.5.2. Foreign Exchange Risk (Continued)

The impact of changes in exchange rates by 15% on the Bank's net foreign currency position as of 31 December 2022 and 31 December 2021 is provided below. Foreign currency clause items are presented under the EUR item for RSD placements and EUR-indexed liabilities, i.e. under the USD item for RSD placements and USD-indexed liabilities.

31 December 2022	EUR	EUR +15%	EUR -15%	USD	USD +15%	USD -15%	CHF	CHF +15%	CHF -15%
Financial assets	53,689,787	61,743,255	45,636,319	395,502	454,827	336,177	959,373	1,103,279	815,467
Financial liabilities	49,504,937	56,930,678	42,079,196	919,065	1,056,925	781,205	951,360	1,094,064	808,656
Net currency position	**4,184,850**	**4,812,577**	**3,557,123**	**(523,563)**	**(602,098)**	**(445,028)**	**8,013**	**9,215**	**6,811**

(In RSD thousand)

31 December 2021	EUR	EUR +15%	EUR -15%	USD	USD +15%	USD -15%	CHF	CHF +15%	CHF -15%
Financial assets	42,615,313	49,007,610	36,223,016	416,316	478,763	353,868	790,671	909,271	672,070
Financial liabilities	41,452,468	47,670,338	35,234,598	1,284,270	1,476,911	1,091,630	710,254	816,792	603,715
Net currency position	**1,162,845**	**1,337,272**	**988,418**	**(867,954)**	**(998,148)**	**(737,762)**	**80,417**	**92,479**	**68,354**

29.5.3. Security Price Risk

Security price risk is a risk of the occurrence of adverse effects on the Bank's financial performance and capital due to changes in prices of securities within the Bank's portfolio.

The Bank manages security price risk to minimize adverse effects that may occur due to changes in prices of securities in the Bank's portfolio.

The following organizational units at the Bank are responsible for security price risk management:

- The Board of Directors, which adopted the Security Portfolio Management Policy and Market Risk Management Policy;
- The Executive Board, which implements the adopted policy;
- The Asset Liability Committee (ALCO), which monitors the Bank's security price risk exposure and proposes adequate measures for its management, and
- The Treasury Department, which manages the securities portfolio on a daily basis, and the Risk Management Department, which monitors the value trends in trading book items and reports to the Bank's management.

According to the relevant sources of market information, the Risk Management Department actively monitors the values of securities in Bank's possession and supervises their compliance with the internally prescribed limits.

29. RISK MANAGEMENT (Continued)

29.5. Market Risk (Interest Rate Risk, Foreign Exchange Risk and Security Price Risk) (Continued)

29.5.3. Security Price Risk (Continued)

Value of the Bank's portfolio

In RSD thousand

	Market value as of 31 December	
	2022	**2021**
Securities at fair value through profit or loss (FVTPL)	**13,522**	**18,636**
Bank shares	-	-
Corporate shares	13,522	18,636
Securities at fair value through other comprehensive income (FVTOCI)	**12,071,087**	**14,262,051**
RSD bonds issued by the Republic of Serbia	12,071,087	14,262,051

29.6. Operational Risk

Operational Risk Exposure

Operational risk is the risk of a potential occurrence of adverse effects on the Bank's financial result and capital due to negligence and omissions in employees' performance, inadequate internal procedures and processes, inadequate management of the information and other systems in the Bank or unforeseen external events. Operational risk excludes reputational risk and strategic risk, but it includes legal risk.

The following organizational units at the Bank are responsible for operational risk management:

- The Board of Directors, which adopted the Operational Risk Management Policy;
- The Executive Board, which implements the adopted policy and determines the Operational Risk Management Procedure;
- The Asset Liability Committee (ALCO), which monitors the Bank's operational risk exposure and proposes adequate measures for its management;
- The Risk Management Department, which monitors and collects information on operational risk events and reports to the management on the Bank's operational risk exposure;
- Operational risk exposure is measured by the Risk Management Department through identification of operational risk, the database maintenance and analysis in accordance with the Operational Risk Management Procedure.

The Bank's exposure to operational risk is measured by monitoring the number of events of the same type during a calendar year and the financial effect of each of these events.

	2022	**2021**
Number of events	128	118
Gross loss (EUR)	2,291,630	1,652,783
Net loss (EUR)	3,731	12,331

In 2022, 128 operational risk events were recorded, i.e. 10 events more than in 2021. A large number of events related to cashier shortages or surpluses, which successfully resolved (58 events of cashier shortages and 27 events of cashier surpluses). The remaining 43 events pertained to instances of operational disruptions, system failures, technical problems, a failure to fully comply with procedures for approval of placements, incorrect bank account numbers during payments, accounting errors, operational errors, external fraud, etc.

The Bank assesses outsourcing risk based on contracts concluded with third parties, which clearly specify rights and obligations of the contracting parties.

The Bank also identifies and assesses operational risks upon each introduction of new products, processes and systems or new business activities.

29. RISK MANAGEMENT (Continued)

29.7. Inadequate Information System Management Risk

The objective of inappropriate information system management risk is to minimize negative effects that may occur due to the Bank's information system exposure to public networks, malicious internal attacks, hardware failures, sabotage and maintenance of these exposures within the prescribed limits.

Pursuant to the National Bank of Serbia’s Decision on Minimum Information System Management Standards for Financial Institutions (“Official Gazette of RS”, No. 23/2013, 113/2013, 2/2017, 88/2019 and 37/2021), the Bank undertook a number of activities in order to comply with the said Decision. In this regard, the Information System Development Strategy, the Business Continuity Strategy, Outsourcing Exit Strategies, the Information System Security Policy and the Information System Management Policy were adopted.

Based on organisational and process changes, various procedures and instructions were complied with the NBS’ Decision on Minimum Information System Management Standards for Financial Institutions.

The Bank has completed the PCI DSS recertification process, which has confirmed adequate level of data protection of credit card activities. The process of harmonization with the requirements of the PCI DSS standard means not only procedural improvements, but also improvements in the protection of the information system, which consequently provides a higher level of protection of both credit card activities and business processes of the Bank in general.

The Bank's information system has functionalities to support business processes and provides timely, accurate and complete information relevant to making business decisions and risk management.

The Bank is continuously working on improving its information system. In this regard, it regularly updates the existing Information System Development Strategy and Information System Management Policy.

In order to ensure quality information system management, the Bank regularly holds meetings of the Information System Management Committee, which has the following roles and responsibilities:

- Analyses and monitors the application and adequate implementation of the adopted Information System Development Strategy, Information System Management Policy and Information System Security Policy, as well as implementation of related systems of internal controls;
- In terms of compliance with the achievement of Bank's business goals, it analyses and approves important information system projects / project initiatives based on the reasonableness of the investment;
- Monitors the progress of major IS projects;
- Defines the priorities of the IS project portfolio;
- Analyses and approves priorities of important IS activities;
- Supervises information system functionality and security as a whole;
- Coordinates, supervises and proposes for adoption a data classification in the information system;
- Considers and proposes for adoption reports on information system risks;
- Considers how to handle high level risks which are the result of incidents or changes in the information system;
- At least quarterly reports to the Bank’s Executive Board on the state of the information system, identified irregularities and suggest methods for rectifying such irregularities, i.e. improving policies and procedures for information system management and implementation of internal controls.

Risk identification, measurement and assessment are regularly performed by the risk owner (owner of an affected business or technical process), the information system risk coordinator and the Information System Risk Management Forum, according to the Bank's information system risk management procedure.

The information system management framework consists of the adopted Information System Development Strategy and Information System Management Policy as well as information system incident management processes, information system change management, portfolio management, information system development projects and programs defined by appropriate procedures and other Bank’s corporate bylaws.

29. RISK MANAGEMENT (Continued)

29.7. Inadequate Information System Management Risk (Continued)

The following organizational units at the Bank are responsible for the information system management risk:

- Management Board, which adopted the Information System Development Strategy, Information System Security Policy and Business Continuity Strategy;
- The Executive Board, which implements adopted strategies and policies and establishes procedures and guidelines;
- The Information System Management Committee that monitors the operation and development of the information system and makes appropriate decisions and proposes appropriate measures to the Executive Board of the Bank;
- IT Risk Management Forum that makes decisions on the management of further actions to mitigate the risks in question, monitors the implementation and effectiveness of measures and considers the risk quantification proposed by the Information Security Department. The Forum reports to the Information System Management Committee, which further reports to the Executive Board on a quarterly basis on its performance.
- Information Technology Division, which plans, proposes and executes all activities related to the Bank's information system and reports to the Information Technology Committee;
- The director of the Information Security Department conducts an assessment of the security risk of the information system in the Bank and submits a report to the IS Risk Management Forum.

29.8. Exposure Risk

The Bank manages the exposure risk in order to minimize negative effects that may arise from the concentration of the Bank’s exposure to a single entity or a group of related entities and Bank’s related parties and to maintain such exposures within prescribed limits.

The following organizational units at the Bank are responsible for exposure risk management:

- The Board of Directors, which decides on the Bank’s exposures to a single entity or a group of related entities in excess of 10% of the Bank’s capital and on exposures to Bank’s related parties;
- The Executive Board, which defines the Exposure Risk Management Procedure, decides on the Bank’s exposures to a single entity or a group of related entities up to 10% of the Bank’s capital and on exposures to Bank’s related parties in accordance with the Board of Directors’ Decision on Authorising the Bank’s Executive Board to Execute Legal Transactions with a Related Party;
- The ALCO, which monitors the Bank’s exposures to a single entity, a group of related entities and Bank’s related parties and proposes adequate measures for exposure risk management;
- The Risk Management Department, which reports to the management on the Bank’s exposures to a single entity, a group of related entities and Bank’s related parties.

Exposure risks are measured by the Risk Management Department through the preparation of reports stipulated under relevant NBS’ decisions and Bank’s procedures.

(In RSD thousand)

	2022		2021	
	Exposure amount	Equity interest	Exposure amount	Equity interest
Bank’s related parties	3,363,316	16.36%	1,938,024	13.49%
Large exposures	7,074,854	34.43%	4,830,235	33.64%

In 2022, the Bank’s exposures to a single entity/a group of related entities and Bank’s related parties were within the prescribed limits. For all exposures within the medium exposure risk level range, i.e. above 10% of the Bank capital, a prior approval of the Board of Directors was obtained.

The Bank monitors its concentration ratio for 20 largest gross exposures. The concentration ratio for 20 gross largest exposures represents the Bank’s balance sheet assets and off-balance sheet items that are subject to classification for 20 largest business groups other than banks and Bank capital. The Bank’s goal is to maintain this ratio at levels below 250%.

29. RISK MANAGEMENT (Continued)

29.8. Net Exposures to Bank's Related Parties and Large Exposures (Continued)

As of 31 December 2022, the Bank's balance sheet assets and off-balance sheet items subject to classification for 20 largest business groups, other than banks, amounted to RSD 22,390,657 thousand (2021: RSD 19,962,855 thousand). The concentration ratio for 20 largest gross exposures as of 31 December 2022 amounted to e 103.90% (2021: 133.07%). The concentration ratio for 20 largest gross exposures has decreased by 29.17 p.p as a result of a Bank capital increase.

29.9. Risk of Investments in Entities Not Belonging to Financial Sector and in Fixed Assets

Investments in other entities are investments whereby the Bank acquires equity interests or share in entities that do not belong to the financial sector. Such investments are not associated with acquisition of shares for further sales within six months from their acquisition date.

The following organizational units at the Bank are responsible for investment risk management:

- The Board of Directors, which makes decisions on individual investments in Bank's fixed assets in excess of EUR 250 thousand in the RSD equivalent;
- The Executive Board, which adopted the Investment Risk Procedure and makes decisions on investments in Bank's fixed assets that do not exceed EUR 250 thousand in the RSD equivalent;
- The ALCO, which monitors bank's investment risks and proposes adequate measures for the investment risk management; and
- IT Division, Technical and Administrative Operations Unit and Information Security Unit, which are in charge of acquisition of fixed assets.

The Bank's investment risks are measured by the Risk Management Department and Financial Management and Budgeting Department.

Investments in Entities Not Belonging to Financial Sector, Fixed Assets and Investment Property relative in relation to Bank Capital

	31 December 2022	31 December 2021
Investments in non-FS entities	0.00%	0.00%
Total investments in non-FS entities, fixed assets and investment property	8.42%	11.20%

In 2022, Bank's investments were within the low risk level range.

29.10. Country Risk

Country risk is the risk relating to the country of origin of the entities/persons the Bank is exposed to, i.e., a risk of negative effects on the Bank's financial performance and capital due to the Bank's inability to collect receivables due from non-residents for reasons resulting from political, economic and social circumstances prevailing in the country of origin of such entities/persons.

The following organizational units at the Bank are responsible for country risk management:

- The Board of Directors, which adopted the country risk management policy;
- The Executive Board, which implements the adopted policy and defines the country risk management procedure;
- ALCO, which monitors the Bank's exposure to the country risk and proposes adequate measures for this risk management;
- Payment Operations Department, which is involved in account opening and closing and money transfers with correspondent banks.

Country risk is measured by the Risk Management Department, where the monthly identification of the country risk is made upon preparation of the monthly report on the Bank's risk exposure.

The Bank has a system in place for classification of countries per country risk level based on the risk categories assigned to countries by the largest international credit rating agencies (Moody's. Standard & Poor's and Fitch).

29. RISK MANAGEMENT (Continued)

29.10. Country Risk (Continued)

In 2022, the Bank had exposure toward clients operating in the countries, which, according to the rating of the international credit rating agencies and in line with the Bank's relevant procedure, were classified as low-risk and medium-risk countries.

The Bank's exposure to the low-risk countries is not limited. As of 31 December 2022, such countries were Germany, Austria, United States of America and Czech Republic. As of 31 December 2022, the medium-risk countries were Macedonia, Turkey, Romania, Bosnia, Croatia and Montenegro. The Bank's exposure to these medium-risk countries was significantly lower that the internally prescribed limits during December 2022.

List of countries to which the Bank was exposed as of 31 December 2022:

Country	Risk level	Limit	Interest in Bank's equity
Germany	Low	No limit	5.23%
Austria	Low	No limit	0.56%
United States of America	Low	No limit	0.45%
Czech Republic	Low	No limit	0.06%
Belgium	Low	No limit	0.00%
Macedonia	Medium	100% of regulatory capital	21.71%
Turkey	Medium	100% of regulatory capital	27.57%
Romania	Medium	20% of regulatory capital	3.10%
Bosnia	Medium	40% of regulatory capital	1.71%
Croatia	Medium	10% of regulatory capital	0.02%
Montenegro	Medium	40% of regulatory capital	0.01%
Albania	Medium	25% of regulatory capital	0.00%
Italy	Medium	10% of regulatory capital	0.00%

29.11. Environmental and Social Risks

The Bank manages environmental and social risks in order to identify, assess and control risks that may jeopardise natural and social environments in accordance with the Environmental and Social Risk Management Policy and Procedure.

The following organizational units at the Bank are responsible for environmental and social risk management:

- The Board of Directors, which defines and at least annually reviews the environmental and social risk policy and assesses the need to amend this policy;
- The Executive Board, which implements the adopted policy and defines procedures for environmental and social risk management;
- Credit Committees, which decide on the loan approval in accordance with the available information and opinion of the Credit Division on the risk of impact on the natural and social environment;
- Risk Management Department, which monitors the loans at the portfolio level per categories of environmental and social risk through preparation and analysis of the risk reports.

Upon processing an individual client's loan request, the first step is to classify the environmental risk per the client's core business activity and the activity that is to be financed.

Environmental and social risk categories are:

- High – list excluded;
- High – category A;
- High;
- Medium; and
- Low

If the activity subject to financing is included in the exclusion list, the client's loan request is denied. If it is classified into high-risk category A, the client is required to provide the Assessment of the Impact on the Environment and the impact on the environment is further considered before a decision is made on loan approval by the competent Credit Committee.

29. RISK MANAGEMENT (Continued)

29.11 Environmental and Social Risks (Continued)

Upon check-up of the loan request analysis with the proposed decision to the competent Credit Committee, the Crediting Department checks the classification of the activity that is to be financed according to the environmental and social risk level, checks the information on the impact of the client and the client's activity subject to financing on the natural and social environment.

The Bank's loan and other contracts contain provisions and clauses regarding the protection of the natural and social environment to be observed by both the clients and the Bank.

The Bank's Credit Risk Management Department monitors the balances of loans and receivables per client industry, business activity and environmental and social risk category through preparation and analysis of the relevant risk reports.

Breakdown of corporate loans by environmental and social risk category

(In RSD thousand)

Risk category	Number of customers 31 December 2022	Number of customers 31 December 2021	Placement amount (balance and off-balance) 31 December 2022	Placement amount (balance and off-balance) 31 December 2021	Placement amount (balance and off-balance) Increase / decrease
High – list excluded	-	-	-	-	-
High – category A	15	17	1,331,673	1,350,312	(18,639)
High	446	408	20,108,661	17,006,278	3,102,383
Medium	3,065	2,809	29,848,286	29,215,628	632,658
Low	2,583	2,451	37,288,389	31,594,540	5,693,849
Total	**6,109**	**5,685**	**88,577,009**	**79,166,758**	**9,410,251**

In the structure of exposures (balance sheet and off-balance sheet exposures) to customers, legal entities and entrepreneurs as of 31 December 2022, the largest share was that of the clients involved in business activities with a medium environmental and social impact (42.10%), the second largest share (33.70%) was that of exposures to clients performing activities classified as a low impact category, those classified in the high-impact category had a share of 20.70% and activities with high risk category A had a share of 1.50%.

30. COMPLIANCE WITH NBS REGULATIONS

Ratio/Indicator	Values prescribed by NBS regulations	Values as of 31 December 2022	Values as of 31 December 2021
Bank's capital	Min 10,000,000 €	175,180,689 €	122,147,239€
Total capital adequacy ratio	min 8%	29.99%	23.64%
Tier 1 capital ratio (T1 ratio)	Minimum 6%	29.98%	23.64%
Common equity tier 1 capital ratio (CET 1 ratio)	Minimum 4.5%	28.23%	21.66%
Foreign exchange risk ratio	max 20%	0.80%	0.73%
Liquidity ratio	Min 1	1.95	1.93
Quick liquidity ratio	Min 0.7	1.70	1.66
Asset coverage ratio	100%	147.70%	149.86%
Concentration ratio per the Bank's exposure to certain types of products*	Max 30%	3.84%	7.31%
Total exposure to the entities related to the Bank	-	16.36%	13.49%
Exposure to a single entity/a group of related entities	max 25%	12.65%	12.34%
Sum of all large Bank's exposures	max 400%	34.43%	33.64%
Investments in non-FS entities	max 10%	0.00%	0.00%
Total investments in non-FS entities and the Bank's fixed assets	max 60%	8.42%	11.20%

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

Pursuant to Article 22 of the Law on Accounting ("Official Gazette of the RS", no. 79/2019 and 44/2021 – second law), the Bank reconciled its balances of receivables and payables with its counterparties as of 31 October 2022. The total balance of receivables sent to be reconciled amount to RSD 23,969,042 thousand, while the payables amount to RSD 36,722,061 thousand. Out of the total amount of receivables requested to be reconciled, the amount of RSD 1,094,358 thousand, i.e. 5%, remained unreconciled. Out of the total amount of payables requested to be reconciled, the amount of RSD 2,689,538 thousand, i.e. 7%, remained unreconciled.

32. EVENTS AFTER THE REPORTING PERIOD

There were no significant events subsequent to the reporting date, which would require adjustments and disclosures in the notes to the accompanying financial statements of the Bank as of and for the year ended 31 December 2022.

33. EXCHANGE RATES

The official middle exchange rates for certain major currencies determined in the Interbank Foreign Exchange Market, and used for translation of the statement of financial position components denominated in foreign currencies into RSD were as follows:

In RSD

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

In Belgrade
March 23rd 2023

Aleksandar Mijailovic
Head of the Financial Management and Planning Division

Dusica Eric
Member of the Executive Board

AKCIONARSKO DRUŠTVO HALKBANK BEOGRAD

Aziz Arslan
Chairman of the Executive Board

ANNUAL OPERATING REPORT

2022

PEOPLE

PEOPLE FIRST AND FOREMOST

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HALKBANK a.d. Belgrade (hereinafter: the Bank or Halkbank) is obliged, starting from this year, to compile a non-financial report, in accordance with the Law on Accounting, which is incorporated into the Operating Report.
This means that the Annual Operating Report includes a non-financial report which contaings information necessary to understand the development, business results and position of the legal entity, as well as the results of its activities related to minimum environmental protection, social and personnel issues, respect for human rights, corruption and bribery issues, including:
1) brief description of the business model of the legal entity;
2) a description of the legal entity's policies regarding these issues, including the basic analysis procedures being conducted;
3) results of these measures;
4) the underlying risks associated with those matters relating to the business of the legal entity, including, where relevant and necessary, its business relationships, products or services that may cause negative results in those areas, and the way in which the legal entity manages the business risks;
5) non-financial key performance indicators important for a particular business.

I DEVELOPMENT, ORGANISATIONAL STRUCTURE AND BUSINESS ACTIVITIES

1. ESTABLISHMENT

HALKBANK Turkiye was founded in Türkiye in 1933 and has been building a growing network of branches since then. HALKBANK Turkiye aims to efficiently provide all banking services, create added value for its customers, shareholders and employees, as well as to contribute to the development of the banking sector and capital markets, but also gain a respectable place in the banking industry. Today, HALKBANK Turkiye operates successfully in Türkiye, Macedonia, Serbia and the Netherlands.

HALKBANK a.d. Belgrade has been operating in the Republic of Serbia since 2015 when Türkiye Halk Bankasi A.S. became the major owner of Čačanska banka (operating since 1956).

The Bank was registered with the Serbian Business Registers Agency under Decision no. BD 54244 dated 13th September 2005.

The Bank has been operating under the name of HALKBANK a.d. Beograd since 22nd October 2015 when the change of its legal name was registered in the Serbian Business Registers Agency under Decision no. BD 89155/2015.

2. ORGANISATION OF OPERATIONS

HALKBANK a.d. Belgrade is the universal bank, which offers all types of banking products and services to corporate clients, entrepreneurs and retail clients. The Bank encourages and finances growth and development of the domestic economy, but is also a safe place for savings deposits of all clients. The Bank’s primary goal is to create products that will completely satisfy all customers’ expectations.

The Bank is registered in the Republic of Serbia for performance of payment operations and credit and deposit operations in the country and abroad and it operates in compliance with the Law on Banks.

HALKBANK a.d. Belgrade has successfully expanded its business network and client base. Today the Bank offers services and products through a network of 30 branches, 9 sub-branches and 1 cash desk. As at 31st December 2022, the Bank was comprised of 9 branches in Belgrade, 3 branches in Čačak and branches located in the towns of Smederevo, Jagodina, Gornji Milanovac, Kraljevo, Užice, Kragujevac, Kruševac, Aranđelovac, Valjevo, Šabac, Niš, Leskovac, Novi Sad, Pančevo, Novi Pazar, Subotica, Sremska Mitrovica and Vranje and 8 sub-branches in Paraćin, Požega, Topola, Ivanjica, Vrnjačka Banja, Zrenjanin, Tutin, Pirot and Preševo. During 2022, the Bank opened new branches in Sremska Mitrovica and Vranje, as well as one sub-branch in Preševo.

3. BASIC PERFORMANCE RATIOS

(in RSD thousand)

Income Statement**	2021.	2022.	Plan 2022	Plan realization
Net interest income	2,489,846	2,958,785	3,304,351	90%
Net fee and commission income	1,173,708	1,575,463	1,753,660	90%
Net income/(losses) on impairment of financial assets	-165,781	-154,391	-223,172	69%
Operating expenses	2,730,879	3,054,758	3,020,394	101%

Net profit before tax	946,464	1,412,915	1,992,983	71%
Profit tax	(58,589)	(131,142)	(216,711)	61%
Profit from deferred taxes	1,519	2,748	0	-
Net profit after tax	889,394	1,284,521	1,776,271	72%

Balance Sheet	31.12.2021.	31.12.2022.	Plan 2022	Plan realization
Loans to clients*	65,872,844	70,909,114	88,416,507	22%
Deposits from clients*	68,914,073	75,653,127	80,952,456	56%
Capital	16,127,517	21,628,332	18,595,483	223%
Total assets	99,781,574	112,660,659	127,426,205	47%

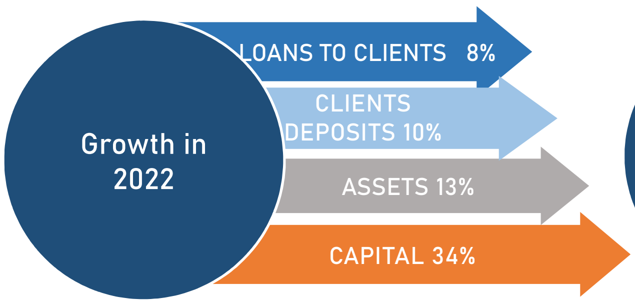
Key Performance Indicators (KPI)	31.12.2021.	31.12.2022.	Plan 2022
Costs to Income Ratio (CIR)**	73.76%	66.28%	59.27%
Net Interest Income to OPEX	91.17%	96.86%	109.40%
Non-interest income to Operating costs Ratio	44.40%	54.02%	58.06%
Capital Adequacy Ratio (CAR)***	23.64%	29.99%	18.12%
ROA	0.97%	1.26%	1.57%
ROE	5.87%	7.82%	10.02%
NIM	3.39%	3.68%	3.56%

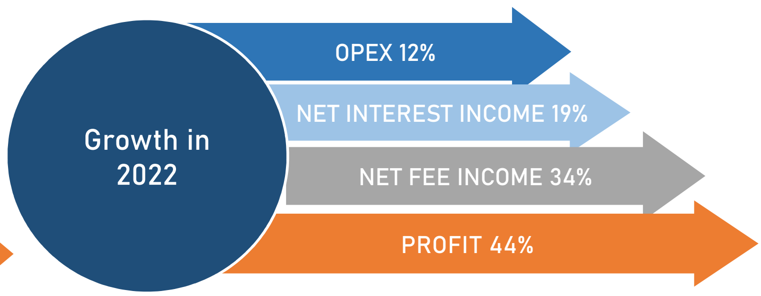
All financial projections for 2022 are prepared in EUR and realization of goals is followed in EUR. Planned amounts in this report are presented in EUR by using middle exchange rate RSD/EUR valid on 31.12.2022 for balance sheet positions and average exchange rate RSD/EUR for 2022 for income statement positions.

*The difference of positions „Loans to clients" and „Deposits from other clients" from the positions in the official Balance sheet form are explained in the items 3.1 and 3.2

**In order to calculate the cost-to-income ratio, Income from the 'Other income' position, have been included within revenues along with net interest and fee income.

***Capital adequacy ratio calculated based on NBS temporary measure. Capital adequacy ratio based on regular calculation as of 31.12.2023. was 28.02%





II FINANCIAL POSITION AND OPERATING RESULTS

1. MACROECONOMIC ENVIRONMENT AND BANKING SECTOR

Economic activity

During the two years of the global crisis caused by the coronavirus pandemic, the Serbian economy achieved good results. The gross domestic product in 2020 and 2021 was 46,815 and 53,329 million euros, respectively, while the cumulative GDP growth in 2020 and 2021 was 6.4%, which represents one of the best results in Europe. The package of economic measures during the two crisis years contributed to an increase in the liquidity of economic entities, ease of doing business, while through grants to the population it stimulated domestic demand, and thus indirectly influenced economic activity. In the moments when the end of the pandemic was finally in sight, there was a new global shock caused by the conflict in Ukraine. In the first quarter of 2022, Serbia's GDP grew by 4.3% compared to the same quarter of the previous year, primarily because there were no more significant negative effects of these geopolitical events on the dynamics of domestic economic activity. However, the escalation of conflicts and the tightening of international economic and political relations, accompanied by record energy prices and the consequent reduction in global trade and foreign demand, have inevitably had an impact on domestic and global economic activity, so that the expected GDP growth for 2022 is around 2.5%. while the growth estimate for 2023 was reduced to 2.5%. The record prices of energy products, along with the increase in imported quantities, reflected the deterioration of the balance of payments trends, and under the influence of these factors, we have a larger current account deficit than previously projected both during this year and in the next year.

Real GDP growth rate (%)

Source: NBS; * NBS projection

Inflation

Inflation begins to move upwards from the middle of 2021. Although the initial causes of inflation were of a temporary nature and expectations were that it would quickly return to the target, this did not happen due to geopolitical tensions. Russia's invasion of Ukraine has led to an energy crisis in Europe, sanctions and disruptions in supply chains, all of which have led to rising prices.

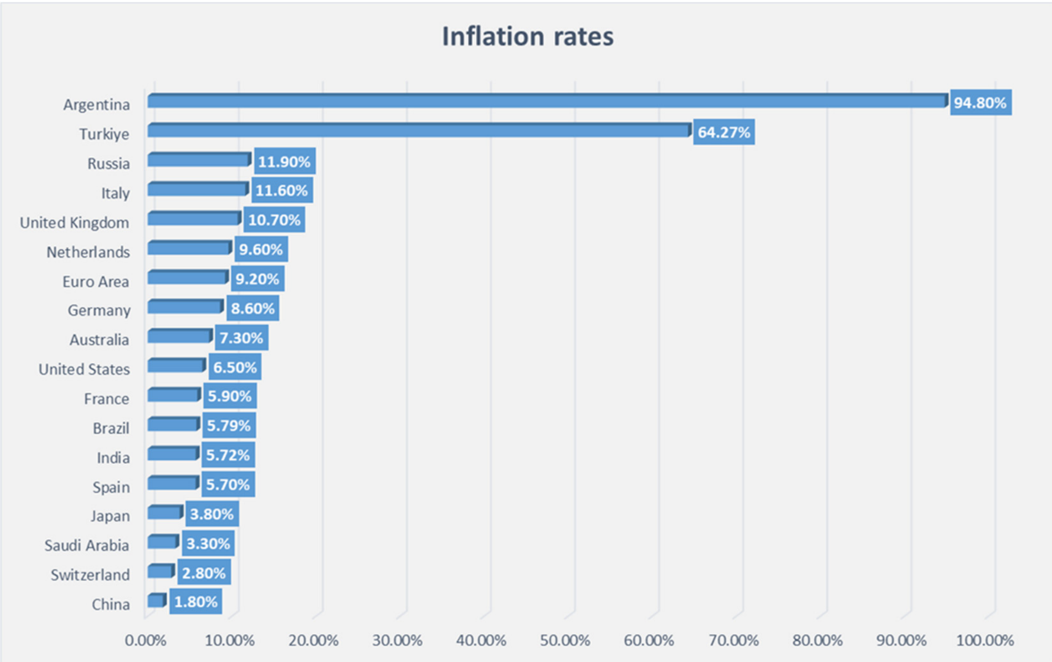
In December 2022, the year-on-year increase in consumer prices amounted to 15.1%, the monthly increase in consumer prices in December was 0.5%. The causes of such high inflation are increased geopolitical tensions, sanctions, a bad agricultural season and problems in the energy sector, which together led to an increase in the price of energy and food.

During the year, the highest price growth was recorded for fuel, food and housing rents, so that the year-on-year base inflation (after excluding the prices of food, energy, alcohol and cigarettes) was lower than the total inflation and amounted to 10.1% in December.

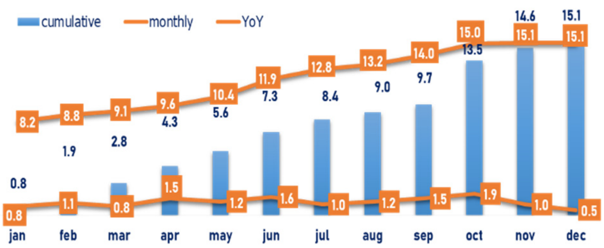
The National Bank of Serbia uses monetary policy measures to reduce price increases and bring inflation back within the inflation target, at the same time taking care not to jeopardize aggregate domestic demand, while the state limits the prices of some food products and energy products and bans the export of certain agricultural products.

NBS expects that inflation reached its peak at the beginning of the fourth quarter of 2022 and that it will then have a downward trajectory, as well as that its return to the inflation target is expected at the end of 2024.

Overview of inflation rates in the world's largest economies in 2022



Consumer prices trends in Serbia during 2022



Source: Statistical Office of the Republic of Serbia

Labor market

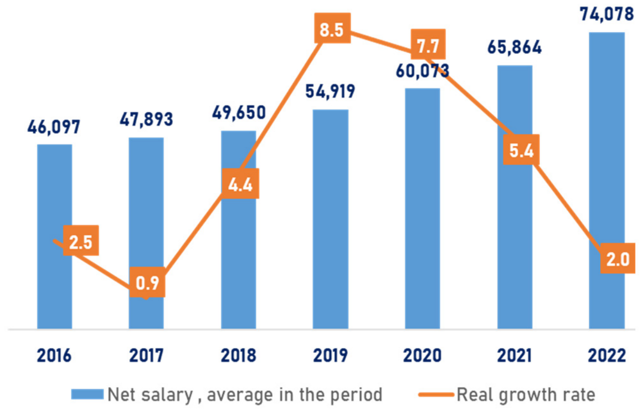
With a successfully managed economic policy, and strong economic growth and general stability of the economy, significant negative effects of the pandemic were avoided during 2021, and better than expected trends were recorded on the labor market, which was especially visible in earnings. The beginning of 2022 is characterized by the continuation of positive trends in the labor market, which is reflected, above all, through the growth of employment and real wages, but under the influence of geopolitical tensions, somewhat slower compared to the previous period.

Although the rate of employment, unemployment and population outside the labor force, as relative measures of the state of the labor market, in the third quarter remained almost unchanged compared to the second quarter of 2022, there were certain changes in the framework of total employment and other complementary sets. In the male population, the employment rate decreased by 0.6%, while on the other hand, in the female population, the employment rate increased by 0.4%.

The unemployment rate in the third quarter of 2022 was 8.9% and was 0.9 p.p. lower compared to the end of the previous year. The employment rate reached a level of 50.8% in Q3 2022, which is the highest level since 2010.

The average net salary continued to grow in 2022 (January-November period) and amounted to RSD 74,078 (631 euros). Compared to the same period of the previous year, the nominal growth of wages was 13.9%, while the real growth was 2%. Real growth represents the growth of earnings when we exclude the effect of inflation.

Movement of average monthly net salary and real growth rates



Source: Ministry of Finance

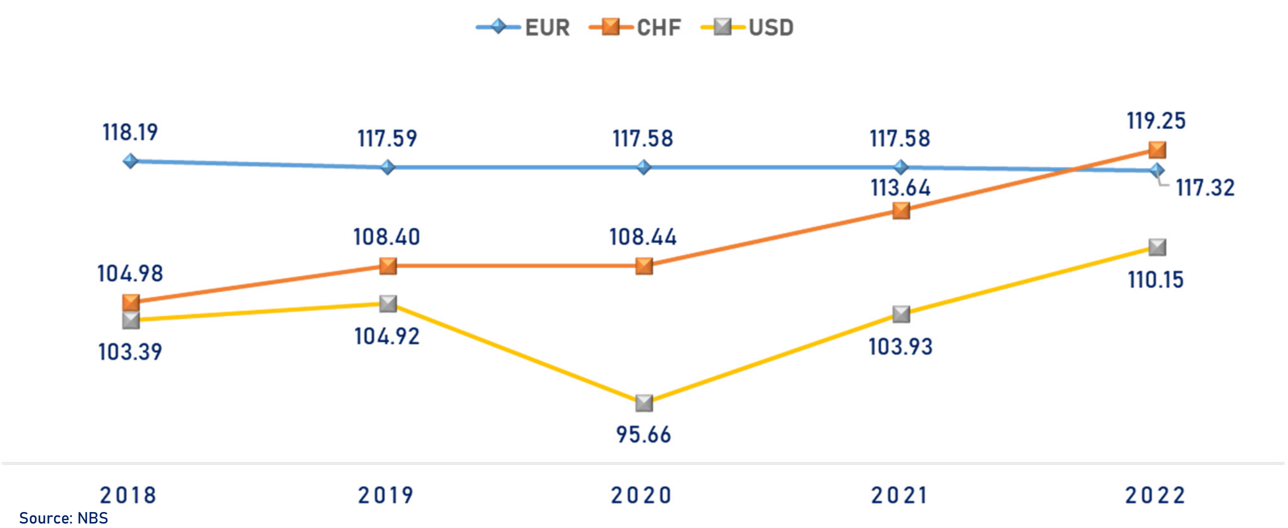
Exchange rate

Gross foreign exchange reserves of the National Bank of Serbia at the end of December 2022 amounted to EUR 19,415.7 million, this is also the highest level of gross foreign exchange reserves at the end of the month and year since the data has been monitored in this way. During December, gross foreign exchange reserves increased by 2,148.4 million euros, while in the whole of 2022 they increased by 2,961.2 million euros.

The increase in foreign exchange reserves in December was mostly influenced by the standby arrangement approved by the International Monetary Fund for the Republic of Serbia (EUR 985.6 million), the inflow of USD funds from the Abu Dhabi Development Fund in the amount of USD 1 billion and the intervention of the National Bank of Serbia on the domestic foreign exchange market.

Since the beginning of the year, the euro has weakened in relation to the dinar by 0.22%. In the last quarter, the dollar has weakened in relation to other world currencies, so that the growth in relation to the dinar at the end of the year is 5.99%.

FX trends



Source: NBS

Interest rates

The previous year was marked by a significant increase in interest rates on the financial markets, which ended the period of cheap money and marked the beginning of the period of restrictive monetary policy and the fight against rising inflation.

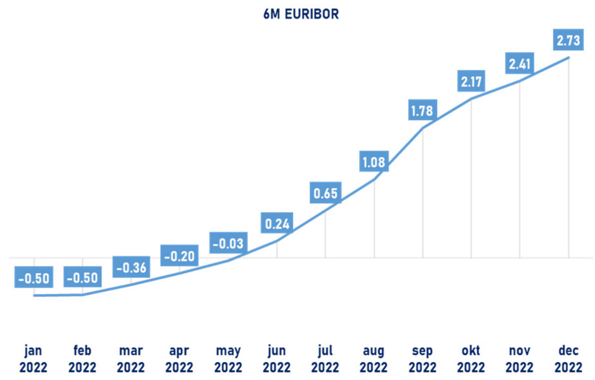
During 2022, the Executive Board of the NBS increased the key policy rate on nine occasions, from the initial 1.5% to 5%, which was current until the beginning of 2023, when the NBS increased the reference interest rate by an additional 0.25 p.p.

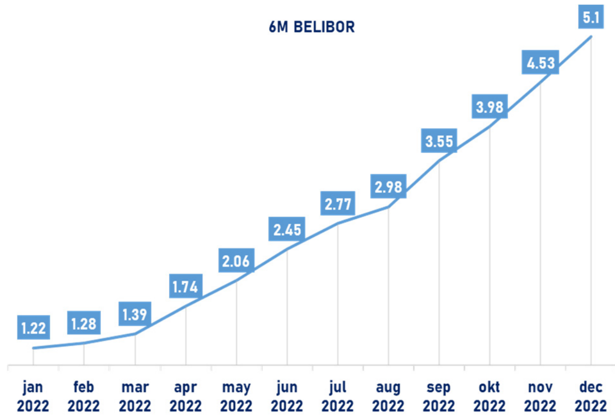
In the future period, we can expect that the NBS will continue to increase the reference interest rate during the first half of 2023, also expectations are that the reference interest rate will not exceed 6% and that it will remain at that rate until a significant reduction in consumer prices.

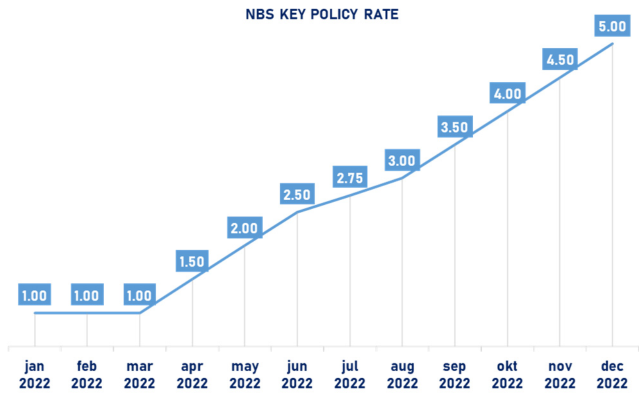
Due to the economic crisis and increasing uncertainty, interest rates on government bonds have also increased, where they are now around 7% for ten-year government bonds.

The tightening of monetary conditions by the NBS continued to be transmitted to the growth of interest rates on dinar loans to households and the economy. According to NBS data, the interest rate on newly approved loans to households in dinars in December 2022 was 12.31%, while on newly approved loans to legal entities in the same month it reached the level of 5.86%. In December 2022, the interest rate on newly approved loans to households, indexed in foreign currency and in foreign currency, amounted to 5.93%, while on newly approved loans to legal entities, it reached the level of 5.01%. Despite the fact that interest rates on loans have increased, lending activity in Q3 2022 has continued to grow.

Interest rate fluctuations in financial markets







Credit rating

Standard and Poor's – In December 2022, the rating agency Standard and Poor's maintained Serbia's credit rating at the BB+ level, despite expressed uncertainties from the international environment. The agency points out that the conflict between Russia and Ukraine as well as the recession in Europe have an impact on Serbia's economy, but it also points out that the economy, supported by exports and foreign direct investments, has positive prospects in the medium term. In its report, the Standard and Poor's agency emphasizes the credibility and continuity of Serbia's monetary and overall economic policy, the resilience of our economy, the preserved stability of the banking sector, and positively evaluates the new arrangement with the IMF.

Fitch Ratings – In August 2022, the Fitch Ratings agency kept Serbia's credit rating one step closer to investment grade, despite pronounced geopolitical risks. At the same time, the agency maintained stable prospects for increasing Serbia's credit rating in the coming period. As key factors in the agency's decision, the agency cites the credible framework of the macroeconomic policy conducted in Serbia, as well as stronger management, human resources and a higher level of gross domestic product per capita compared to countries with a similar credit rating

Credit rating of the Republic of Serbia, Türkiye, neighboring countries and Eurozone countries according to the rating agency Moody's

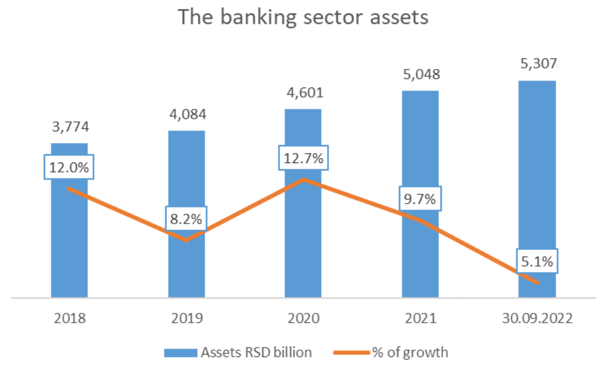
Country/Year	2017	2018	2019	2020	2021	2022	Current Outlook
Germany	Aaa	Aaa	Aaa	Aaa	Aaa	Aaa	Stable
France	Aa2	Aa2	Aa2	Aa2	Aa2	Aa2	Stable
Bulgaria	Baa2	Baa2	Baa2	Baa1	Baa1	Baa1	Stable
Romania	Baa3	Baa3	Baa3	Baa3	Baa3	Baa3	Stable
Croatia	Ba2	Ba2	Ba2	Ba1	Ba1	Ba1	Stable
Serbia	Ba3	Ba3	Ba3	Ba3	Ba2	Ba2	Stable
Montenegro	B1	B1	B1	B1	B1	B1	Stable
Turkiye	Ba1	Ba3	B1	B2	B2	B3	Negative
Bosnia and Herzegovina	B3	B3	B3	B3	B3	B3	Stable

Source:https://tradingeconomics.com/

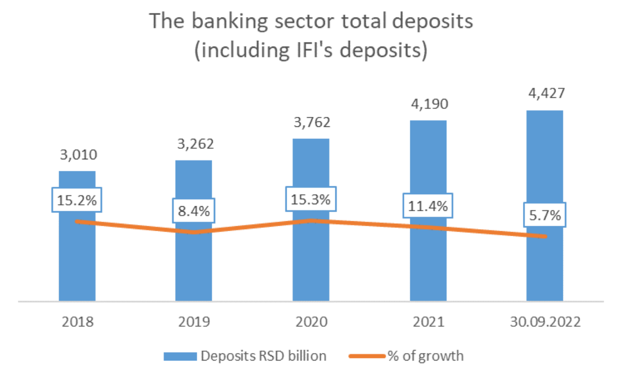
Banking sector

At the end of the third quarter of 2022, 22 banks with an organizational network of 1,402 business units were operating on the Serbian banking market. In 2022, the process of merging NLB and Komercijalna bank into NLB Komercijalna bank was completed, in December Naša AIK bank was merged with AIK bank, which continued the consolidation process in the banking sector of Serbia. The total number of employees in the banking sector is 22,072.

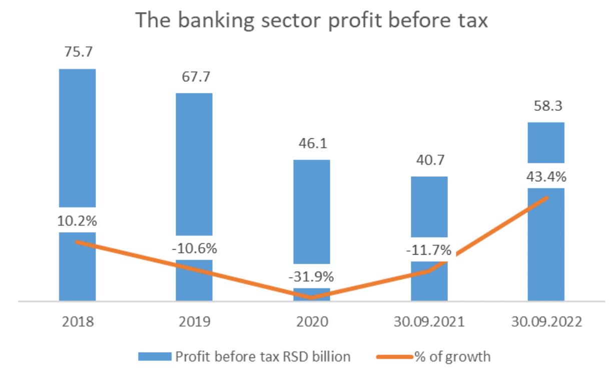
The total balance sheet assets of the banking sector of Serbia amounted to 5.307 billion dinars, which is an increase of 5.1% compared to the end of 2021. In the same period, the total deposits of clients and financial institutions recorded a growth of 5.7% and reached the level of 4.427 billion dinars, while the capital of banks decreased by 0.88% and amounted to 713 billion dinars. A significant negative impact on the capital of banks that have in their portfolio debt securities issued by the Republic of Serbia, and which were valued at fair value through other business results, had an increase in interest rates on the mentioned securities on the secondary market.



Source: Halkbanks analysis of the banking sector



Source: Halkbank's analysis of the banking sector



Source: Halkbank's analysis of the banking sector

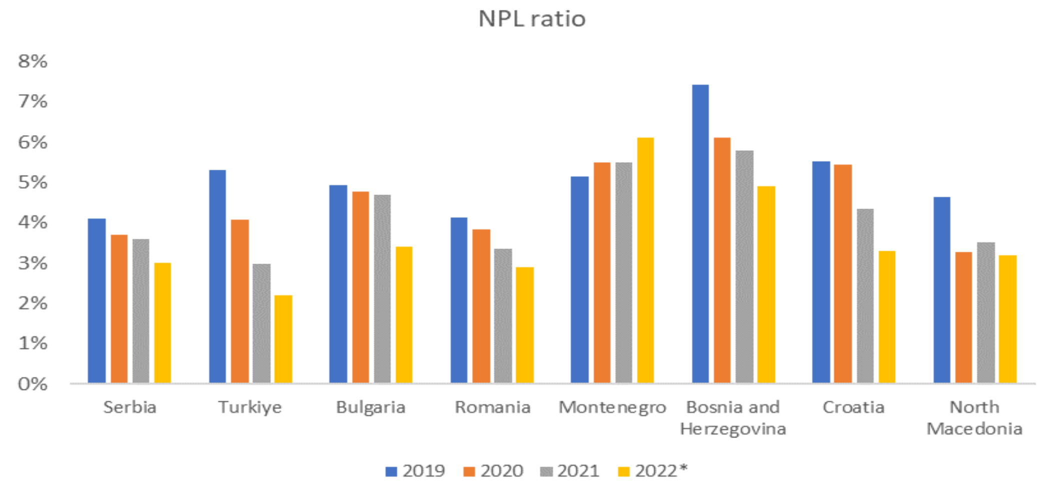
The first 10 banks had a share of 86.66% in the total balance amount, in total deposits of clients and financial institutions 86.73%, and in net loans to clients 86.47%. As in the previous period, Banca Intesa is the leading bank in terms of total assets and deposits with a share in the total assets of the banking sector of 14.97% and a share in total deposits of 14.78%. OTP Bank, Unicredit Bank and NLB Komercijalna bank also have a market share of over 10% in total assets. The Bank's net loans and receivables from clients at the end of the third quarter of 2022 amounted to RSD 69,856 million, which is 5.62% more than at the end of 2021. With a participation in total net loans to the banking sector of 2.22%, the Bank took 13th place and was ranked one place better compared to the end of 2021. The participation of the Bank in the total balance sheet assets of the banking sector is 1.94% and the Bank is in 14th place in terms of balance sheet assets. In terms of the amount of deposits, the Bank is in 13th place in the banking sector with a share of 1.96%.

Closing on 30.09.2022. the banking sector achieved a pre-tax result of RSD 58.3 billion, which is 43.4% more compared to the same period of the previous year. 21 banks operated with a positive result, while one bank operated with a loss in the amount of RSD 140.6 million.

According to the realized profit before taxation in the first nine months of 2022 of RSD 884.6 million, Halkbank took 12th place.

The increased profitability of the banking sector in 2022 is accompanied by an increase profitability indicators compared to the same period of the previous year. At the end of the third quarter of 2022, the return on equity (ROE) was 10.8% (7.5% at the end of Q3 2021), while the return on assets (ROA) was 1.5% (1.1% at the end of Q3 2021). When calculating the indicator, the annualized result before taxation was taken. The growth of profitability indicators is primarily a consequence of the growth of the net interest margin.

Problem loans (NPL ratio) amounted to 3% at the end of November 2022, while the coverage of these placements with provisions is 57.3%. According to NBS data for Q2 2022, the share of problem loans in total loans to both the economy and the population tends to fall, which indicates that economic support measures were adequate and timely, and that the quality of bank assets was maintained. At the end of 2022, Halkbank had a share of NPLs in total loans of 1.32% and a ratio of non-performing loans coverage with provisions related to non-performing loans of 49.96%, while NPL coverage with total provisions was 79.49%. Despite the corona virus pandemic, rising interest rates and inflation, in 2022 almost all countries in the surrounding area recorded a decline in the share of non-performing loans in total loans.



*Last known data
Source: https://www.managementsolutions.com/, NBS, https://www.ceicdata.com/, https://ec.europa.eu/, https://www.statista.com/

The banking sector of Serbia was adequately capitalized with an average capital adequacy ratio of 19.5% at the end of the third quarter, which is significantly above the required minimum of 8%.

2. ACHIEVEMENT OF BASIC OPERATING TARGETS

The bank sees its goals through the realization of the goals set in the Business Policy for 2022. The goals were realized through the activities listed below.

1. In its business policy for 2022, the Bank plans to expand its business network by opening three new business units, as well as a branch in Preševo, the opening of which was planned in 2021, but was postponed to 2022. In April 2022, the Bank opened a new branch in Preševo, in October a branch was opened in Vranje and in November we opened a new branch in Sremska Mitrovica. With the new branches, the bank currently operates with 39 branches and sub branches, at the end of the previous year we had 36 branches adn sub branches.

2. In order to increase our market share, it is planned for our growth of key balance sheet positions to be higher than the growth expected for the banking sector. During Q3 2022, Halkbank improved its position in the loan segment from 14th to 13th place and overtook its main competitor Addiko Bank.

3. In 2022, the bank achieved a positive financial result (before tax) in the amount of 1,412,915 thousand RSD, which represents a growth of 49% compared to the same period of the previous year. The achieved values of the most important indicators related to this business objective are shown in the following table:

(in RSD thousand)

Indicators	31.12.2022	Plan 2022	Plan realization
Net interest income	2,958,785	3,304,351	90%
Net fee income	1,575,463	1,753,660	90%
Operating costs	3,054,758	3,020,394	101%
Profit	1,284,521	1,776,271	72%

4. In February 2021, the bank started the implementation of the project for the new "Core Banking" system called Halk Fusion. It is estimated that the new software solution for the "Core Banking" system will be implemented during 2023. In 2022, activities were carried out within the framework of very important phases of the project planned for 2022. During 2022, the planned activities related to the planned cycles of data migration as well as UAT data migration, data cleaning, technical preparation of the environment, delivery and testing of the delivered functionalities that were planned in this period (UAT cycles 1 and 2) were carried out.

Training of key users and preparation of user instructions was also done. The implementation phase has been extended until the full delivery of the planned functionalities and the correction of reported defects by Assec with a supplementary delivery in 2023.

In 2023, the plan of activities for the actual release into production (Rollout) will be further elaborated, as well as the preparation of the so-called general rehearsals (Dress Rehearsals), PEN Test and Performance Test of the applications themselves, as well as preparation and maintenance of End User Training, changes to internal acts as well as other activities related to the release of the new system to production.

5. Expansion of the network of POS terminals and ATMs is foreseen with planned investments of EUR 2.1 million for this purpose. Realized investments in 2022 amounted to EUR 612 thousand, i.e. 29% of the planned budget. At the end of 2022, the bank had a network of 98 ATMs (91 at the end of 2021) and 4,332 POS terminals (3,325 at the end of 2021).

6. During 2022, we actively worked on the improvement and development of new products and services, as well as the optimization of certain processes. A system of electronic invoices (E-invoice) and a system for efficient management of mail and documentation (E-office) were successfully introduced."

In order to harmonize business operations with the Law on Electronic Invoicing (Official Gazette No. 44/2021 and 129/2021), an agreement on the entrustment of activities was concluded with the Service Provider - the company "Inception" for the implementation of E-office and e-invoice solutions in the software the Bank's system.

The E-invoice solution enabled us to integrate with the system of electronic invoices - the SEF platform (Electronic invoices system), as well as to automate the entire process of receiving, controlling, approving, copying data into the bank's core system and paying electronic invoices.

The e-office solution enabled us to enter, receive and process invoices that are not sent through the SEF platform, as well as all other documents that arrive at the Bank, as well as electronic records of all received documents, digitalization of the process of managing mail, contracts and documentation in general.

This integration enabled the full implementation of all processes of sending and receiving documentation, both in paper and electronically. This avoids the unnecessary cost of printing, envelopes, addressing and physical delivery of invoices, and thus contributes to the preservation of the environment.

7. As of December 31, 2022, the bank achieved a capital adequacy ratio of 29.99% (it is planned to maintain this ratio at a level above 18%), which is significantly higher than the regulatory limits. The indicator was calculated with the application of the provisions of the Decision on temporary measures of the National Bank of Serbia, according to which, when calculating the value of the indicator, the amount of unrealized losses/gains based on changes in the value of debt instruments that are valued at fair value through other results in accordance with IFRS 9 to which it was applied is excluded reduction factor of 70%.

The adoption of the aforementioned Decision was initiated by the observed decrease in regulatory capital at the level of the banking sector in the period from September 30, 2021 to March 31, 2022, where the key reason was identified as a significant increase in accumulated unrealized losses based on the decrease in the fair value of the debt securities portfolio from values that are valued at fair value through other results in accordance with IFRS, due to the increase in market interest rates.

According to the Business Policy for 2022, it is planned to maintain the daily liquidity indicator at a level above 1.20, as well as a narrower liquidity indicator at a level above 0.90. The mentioned goals were realized, bearing in mind the fact that on 31.12.2022. the value of the daily liquidity indicator was 1.95, and the narrower liquidity indicator was 1.7.

3. BALANCE SHEET

3.1 Assets

As of December 31st 2022, the Bank's total assets amounted to 112,660,659 thousand RSD and accounted increase of 12.91% compared to the end of 2021, or by 12,879,085 thousand RSD.

The highest growth, both in percentage (71.23%), and in absolute amount (RSD 9,038,736 thousand) was achieved in the position of Cash, cash equivalents and assets held with the central bank and is primarily the result of recapitalization in the amount of 50 million euros realized in November 2022. year by the sole shareholder of the bank, HALKBANK Turkiye.

Considering that the interest rates, on the secondary market, on debt securities issued by the Republic of Serbia, which make up the largest part of the "Financial assets" position, had a growing trend almost throughout 2022, there was a drop in their fair value.. In addition to the above, the reduction of this position by 15.4% was influenced by the collection of overdue coupons as well as the collection of principal of overdue bonds.

Despite the unfavorable macroeconomic circumstances, in 2022 the Bank achieved growth in its client loan portfolio in the amount of 7.65%. Growth was achieved both in retail segment and in corporate segment.

(in RSD thousand)

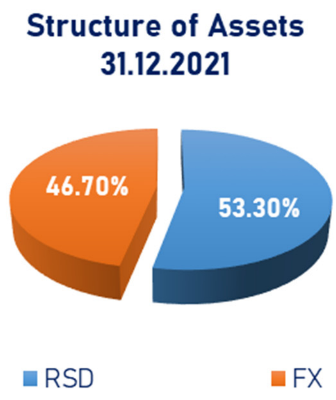
ASSETS	31.12.2021	31.12.2022.	Plan 2022	% of change
Cash, cash equivalents and assets held with the central bank	12,689,315	21,728,051	11,614,918	71.23%
Financial assets*	14,281,588	12,096,361	17,598,360	-15.30%
Loans to banks and other financial organizations**	3,822,319	4,066,971	3,402,350	6.40%
Loans to clients**	65,872,844	70,908,921	88,416,507	7.65%
Intangible assets, property, plant and equipment and investment property	2,324,973	2,745,689	5,858,142	18.10%
Other assets***	790,535	1,114,666	535,928	41.00%
Total assets	**99,781,574**	**112,660,659**	**127,426,205**	**12.91%**

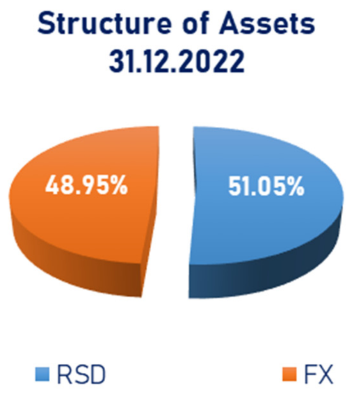
* The position "Financial assets" consists of pledged financial assets, receivables from derivatives and securities from official Balance sheet.

** The positions of „Loans to clients" and „Loans to banks and other financial organizations" differ from the positions „Loans and receivables from clients" and „Loans and receivables from banks and other financial organizations" presented in the official Balance sheet form for the amount of claims for accrued interest, fees and accrued interest receivable and accrued income for EIR compensation, shown in the „Other assets" position. Position „Other assets" includes position „Deferred tax assets" from official Balance sheet form.

*** The position „Other assets" includes position „Deferred tax assets" from official Balance sheet form.

The following graphs present the currency structure of assets as at 31.12.2021. and 31.12.2022.





3.1.1 Loans to clients

In accordance with the strategy of the Bank, the main focus is on achieving maximum customer satisfaction, development of innovative products and services, improvement and digitalization of processes with a constant emphasis on raising business efficiency.

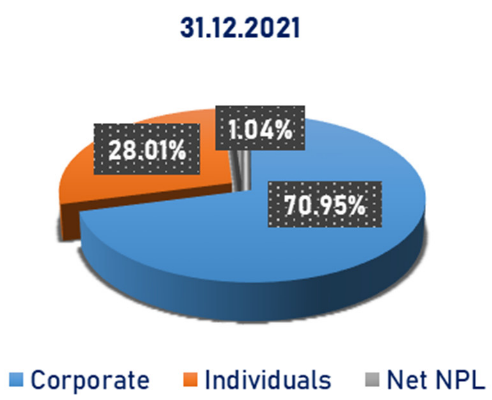
The structure of position Loans to clients as of December 31st 2021 and December 31st 2022 is given in the following table:

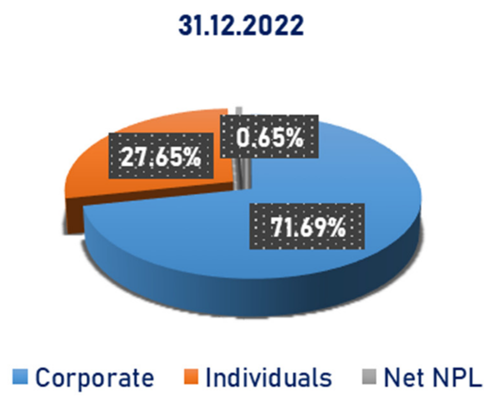
(in RSD thousand)

	31.12.2021.	31.12.2022.	Plan 2022	% of change
Loans to clients - net	65,872,844	70,908,921	88,416,464	7.65%
Corporate clients without NPL	46,736,357	50,836,466	63,473,722	8.77%
Retail clients without NPL	18,449,572	19,609,618	23,910,305	6.29%
NPL (net)*	686,915	462,837	1,032,437	-32.62%

** NPL position refers to net receivables from problematic customers, without receivables for interest and fee*

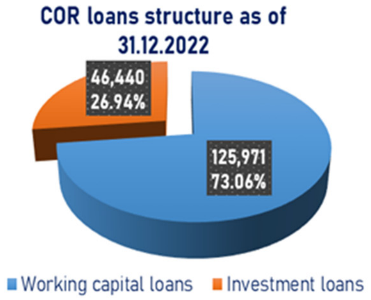
The Bank's net loan portfolio in 2022 increased by 7.65%, i.e. RSD 5,036,077 thousand. In addition to the growth of the loan portfolio, compared to the end of 2021, a reduction in the net amount of NPL loans by 32.62% was achieved, as a result of a very active approach to their collection, both through the taking of collateral and cash collection.

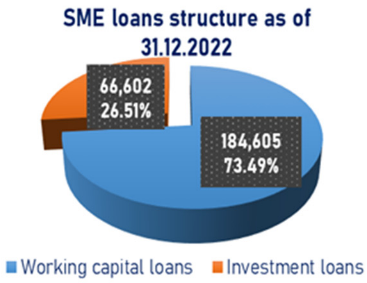




Gross loans – Corporate

Gross corporate loans, including gross NPL, as of December 31st 2022 amounted to RSD 51,700,244 thousand, with growth of 5.79% comparing to the end of 2021. In the following graphs, structure of these loans is presented:





The most important activities of Corporate and SME Marketing Division during 2022 were as follows:

- Bank realized EUR 260.7 million in Corporate, SME and Agro segments through standard loan products, as well as certain programs and actions. The focus was on the standard loan products, credit lines in cooperation with SEF foundation, Micro loans campaign FRK investment loans campaign in cooperation with the National Bank of Serbia, as well as lending to Agro clients.

- In the first half of 2022, the Bank signed an agreement with the Ministry of Agriculture regarding subsidized loans for working capital and agricultural equipment. This is the fifth consecutive year of the Bank's participation in the program through which significant results have been achieved through lending to Agro clients. In addition, the Bank has started the cooperation with Ministry of agriculture, forestry and water management, regarding the World Bank-funded Competitive Agriculture Project, for grants approval in agriculture. Targeted group are commercial and market oriented agriculture households which are not fulfilling criteria for using Europe Union funds.

- During the third quarter of 2022, the Bank completed all necessary analysis and preparations for the introduction of the new credit product "Project Financing" into the Bank's offer for the business client segment. Project financing is the financing of legal entities for special purposes (so-called SPV) for the purpose of development, construction or refinancing of previous investments in development and construction, where the source of loan repayment is inflow based on the sale, lease and/or exploitation of the financed project.

The expected positive effects on the Bank's operations in the event of the introduction of a new product into the Bank's offer are as follows:

- the offer in the business client segment will become more competitive on the market
- diversification of the existing loan portfolio
- increasing the volume and number of housing loans
- increase in the bank's loan portfolio covered by solid collateral
- transformation from short-term to long-term exposures
- better risk control.

Complete documentation and results of the analysis conducted, were sent to the National Bank of Serbia and approval for the introduction of the new product was obtained.

Gross loans - Retail

Gross retail loans, including gross NPL, as of December 31st 2022 amounted to RSD 19,954,264 RSD with the following structure:

(in RSD thousand)

Loan type	31.12.2021.	31.12.2022.	% of change
Cash loans	9,465,804	9,598,973	1.41%
Housing loans	8,189,349	9,285,051	13.38%
Consumer loans	642,873	517,722	-19.47%
Allowed overdraft	138,936	149,856	7.86%
Other	297,426	402,662	35.38%
Total	**18,734,388**	**19,954,264**	**6.51%**

Retail Marketing and ADC Division realized following activities during 2022 with an aim to launch new products and services, to increase portfolio and profitability:

- The loan portfolio grew by around EUR 10.5 million since the beginning of the year, or 6.51%. The main driver of growth was housing loans (13.38%, or about EUR 9.5 million). In parallel with the further growth of the portfolio, there was also an increase in interest income, which in the observed period of 2022 increased by 13.04% compared to the previous year.

- In addition, the number of clients, salary and pension recipients continued to grow and the growth percentage is around 6.7%. About that, the growth of income from fees for monthly account maintenance, i.e. current account packages, continued. The income from the maintenance of the current account package in 2022 compared to the same period last year increased by 16.41%.

- The campaign for approval of loans and credit cards "HALK PACKAGE Tailored for you" for employed natural persons continued. The campaign contains 4 products:
  o cash loan/loan for refinancing
  o current account package - Silver or Gold
  o allowed overdraft on the current account
  o credit card – Mastercard World

- In order to support colleagues from the newly opened branch in Vranje and Sremska Mitrovica in the acquisition of new clients, we launched the "Welcome Campaign" - VIP conditions for cash and refinancing loans for employed individuals in the territory of the municipalities of Vranje and Sremska Mitrovica.

- The offer of cash loans for pensioners continued.

- Considering market trends, almost all interest rates included in the Catalog of credit products were changed from fixed to variable during the first half of 2022. However, due to market demands and a significant increase in interest rates and in connection with the change in BELIBOR, clients mostly requested the offer of cash loans with fixed interest rates, so in the second half of November we adopted the campaign of Cash and refinancing loans with a fixed interest rate, which lasted until the end of 2022.

- In addition, great importance and attention is devoted to the further growth of the deposit base, so the Bank has been in an aggressive campaign to collect client deposits since August 2022. The offer was adapted to the market conditions so that significant activity both on the PR side and in the Bank's business network in this period collected a new EUR 30 million of retail deposits. The biggest growth was achieved in term retail deposits in EUR currency, which the Bank set as the most important goal in this period.

- For the sake of more complete monitoring of active clients, the definition of "active client" has been improved.

  An active population client is a client who cumulatively meets the following conditions:
  1. To be the recipient of a salary or pension
  2. To have a loan regardless of the amount or to have a fixed-term deposit in the amount of at least EUR 10,000
  3. To use any two of the following products: permitted current account overdrafts, the Bank's electronic service, debit card, credit card, individual insurance, or is a user of checks.

- Special conditions were approved - Tariff of fees for providing services to individuals, Paralympians, medal holders from the Paralympic Games, VIP clients and employees of the Bank.

- After the approval of the new product by the National Bank of Serbia, at the beginning of September, Halkbank has included in its offer a modern solution for accepting payments by payment cards at merchants' online stores. As online payments are becoming more and more popular and preferred by consumers, the Bank offers all interested merchants the possibility of accepting all types of payment cards at online stores, including advanced functionalities such as the option of saving cards for future payments (card on file), the option of automatic recurring payment (recurring payment), payment by link option and 3DSecure technology of the latest generation.

- A new category - "Number of products per client" was successfully implemented, thereby increasing the sales network's awareness of the importance of cross-selling, which aims to increase client satisfaction and the Bank's profitability.

- Finally, the plan is to further expand the Bank's business network through the opening of new branches and branch offices, and the necessary market analysis is carried out regularly. After the opening of new branches in Preševo, Vranje and Sremska Mitrovica and the relocation of the branch in Leskovac, in the next year it is planned to open 5 new business units, of which the first two will continue to cover the territory of Belgrade.

3.2 Equity and Liabilities

Total liabilities as of December 31st 2022 amounted to 112,660,659 thousand RSD with the following structure:

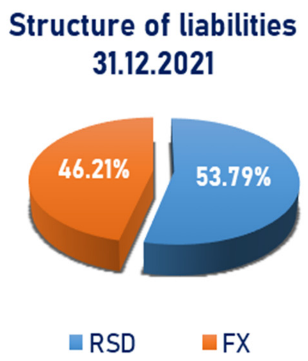
(in RSD thousand)

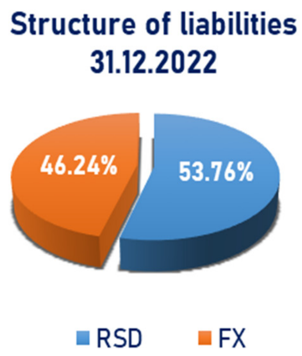
LIABILITIES	31.12.2021.	31.12.2022.	Plan 2022	% of change
Deposits from banks and other financial organizations**	4,604,184	5,047,709	17,949,975	9.63%
Deposits from other clients**	68,914,073	75,653,127	80,952,456	9.78%
Funds borrowed***	6,889,604	6,225,876	8,212,568	-9.63%
Other liabilities****	3,246,196	4,105,615	1,715,723	26.47%
Total liabilities	**83,654,057**	91,032,327	108,830,722	8.82%
Share capital	12,499,049	18,362,669	12,473,718	46.91%
Profit of the current year	889,394	1,284,521	1,774,267	44.43%

Undistributed profit from previous years	542	542	863,962	0.00%
Reserves	2,738,532	1,980,600	3,483,537	-27.68%
Total capital	**16,127,517**	21,628,332	18,595,483	34.11%
Total liabilities	**99,781,574**	112,660,659	127,426,205	12.91%

* The position "Reserves" shows Reserves from profit in net amount and Revaluation reserves, i.e. Unrealized losses. By the decision of the Bank's Assembly dated April 26, 2022. in 2021, the Bank's profit in the amount of RSD 889,394 thousand was allocated to the profit reserve position. In addition, there was an increase in unrealized losses as a consequence of the increase in interest rates on the market of debt securities issued by the Republic of Serbia, which led to a decrease in the fair value of the mentioned securities in the Bank's books.
**The positions "Deposits drom other clients" and "Deposits from banks and other financial organizations" differ from the positions "Deposits and other liabilities due to customers" and "Deposits and other liabilities to banks, other financial institutions and the central bank" presented in the official form of the Balance Sheet, for the amount of liabilities based on interest and fees, accrued liabilities for accrued interest and other financial liabilities to clients, which are presented in the position "Other liabilities".
*** The position "Received loans" shown in the overview is shown without accrued liabilities for accrued interest and accrued expenses for liabilities stated at amortized value using the effective interest rate, which are part of the total amount of loans received from customers and banks shown in the Bank's financial statements , which are shown in the overview under the position "Other liabilities". This position includes received loans recorded on account 508 regardless of the creditor's sectoral structure.
**** The position "Other liabilities" additionally contains the position "Provisions" from the official form of the Balance Sheet.

The following graphs present the currency structure of liabilities as at 31.12.2021. and 31.12.2022:





3.2.1 Deposits from banks, other financial organizations and central bank

The structure of deposits from banks, other financial organizations and central bank and comparative analysis as of December 31st 2021 and December 31st 2022 is presented in the following table:

(in RSD thousand)

Deposits from banks and other financial organizations	31.12.2021.	31.12.2022.	% of change
Transaction deposits	74,295	163,875	120.57%
Other deposits	4,529,889	4,883,834	7.81%
Total	**4,604,184**	**5,047,709**	**9.63%**

Within the position, other deposits are deposits of insurance companies and "money market" deposits of domestic and foreign banks.

3.2.2 Deposits from clients

The structure of deposits from clients and comparative analysis by segments as of December 31st 2021 and December 31st 2022 is presented in the following tables and graphs:

(in RSD thousand)

Deposits from clients	31.12.2021.	31.12.2022.	Plan 2022	% of change
Transaction deposits	32,501,479	35,378,567	39,303,004	8.85%
Other deposits	36,412,594	40,274,560	41,649,452	10.61%
Total	**68,914,073**	**75,653,127**	**80,952,456**	**9.78%**

Total increase of deposits from clients in 2022 amounted to 9.78%.

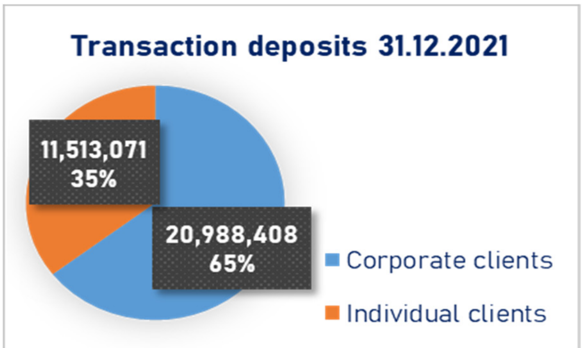
(in RSD thousand)

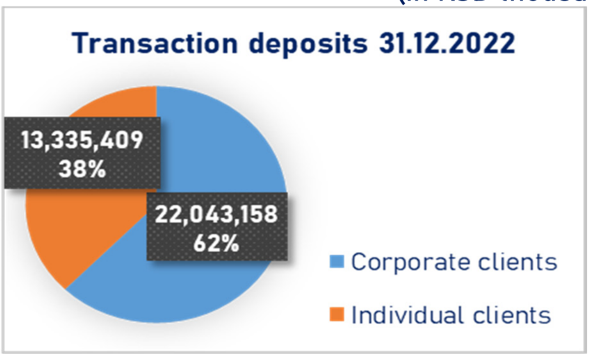
Deposits from clients	31.12.2021.	31.12.2022.	Plan 2022	% of change
Corporate clients	37,226,531	39,289,101	44,582,512	5.54%
Retail clients	31,687,542	36,364,026	36,369,944	14.76%
Total	**68,914,073**	**75,653,127**	**80,952,456**	**9.78%**

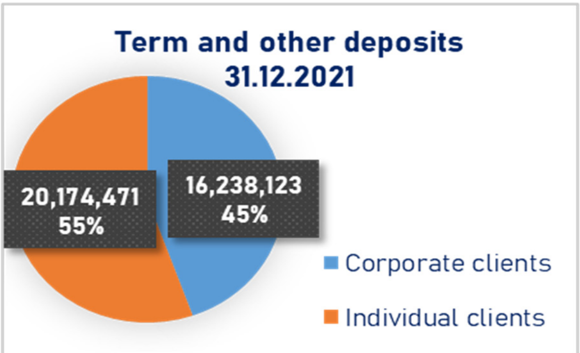
By constant monitoring of market trends, individual and proactive approach to clients, the Bank increased the level of deposits from corporate clients by 5.54%, and the level of deposits from retail clients by 14.76%. The significant growth of retail deposits is primarily the result of the campaign organized in the second half of the year.

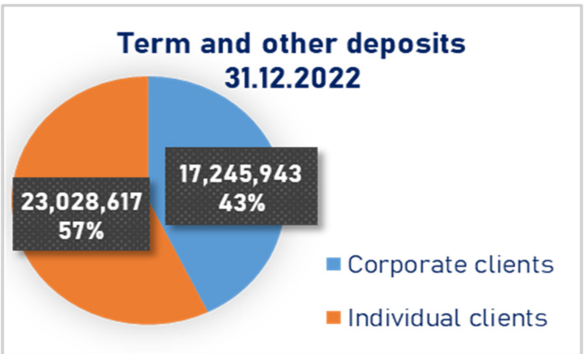
The structure deposits from clients is presented in the following graphs:

(in RSD thousand)









Funds borrowed

(in RSD thousand)

Borrowed loans in foreign currency	31.12.2021.	31.12.2022.	% of change
- EIB	4,436,438	3,767,574	-15.08%
- Demir-Halk Bank (Nederland) N.V.	999,448	821,257	-17.83%
- EAR long-term revolving line	855,461	1,291,979	51.03%
- European Fund for Southeast Europe	167,975	0	-100.00%
- GGF	414,996	345,066	-16.85%
- Government of Republic of Italy	15,286	0	-100.00%
Total	6,889,604	6,225,876	-9.63%

During the 2022, the Bank paid the principle of long-term loans to IFIs on a regular basis in the amount of EUR 12,592 thousand. In the same period, the Bank withdrew EUR 7,064 thousand of IFI's funds.

3.2.3 Equity

The capital of the Bank as of December 31st 2022 amounted to RSD 21,628,332 thousand and comprised of the following:

(in RSD thousand)

Equity	31.12.2020	31.12.2021.	% of change
Share capital – ordinary shares	7,338,200	9,887,600	34.74%
Share capital – preference cumulative shares	1,340	1,340	0.00%
Share capital - preference non-cumulative shares	600,000	600,000	0.00%
Share premium	4,559,509	7,873,729	72.69%
Revaluation reserves**	-200,031	-1,847,358	823.54%
Reserves from profit	2,938,563	3,827,958	30.27%
Undistributed profit from previous years	542	542	0.00%
Profit of the current year	889,394	1,284,521	44.43%
Total	**16,127,517**	21,628,332	34.11%

** By the decision of the Bank's Assembly dated April 26, 2022. in 2021, the Bank's profit in the amount of RSD 889,394 thousand was allocated to the profit reserve position.*
*** The decrease in revaluation reserves, i.e. the increase in unrealized losses, is a consequence of the increase in interest rates on the market of debt securities issued by the Republic of Serbia, which led to a decrease in the fair value of the mentioned securities in the Bank's books.*
****In November 2022, the Bank's capital was increased by issuing the XXXIV issue of shares, i.e. 254,940 ordinary shares with a nominal value of RSD 10,000 per share and an issue value of RSD 23,000 per share were issued, which increased the Bank's total capital by RSD 5,863,620 thousand. The buyer of the shares is the sole shareholder of the Bank, HALKBANK Turkiye, which after this transaction became the owner of 1,048,894 shares of the Bank.*

The information about the number of shareholders and the basic information of shares is presented in the following table:

Information on shares	31.12.2021.	31.12.2022.
Number of shareholders	1	1
Number of shares	793,954	1,048,894
Nominal value per share in RSD	10,000	10,000
Net book value per share in RSD	20,312.91	20,620.13

4. OFF-BALANCE SHEET ITEMS

One of the significant segments of business with clients, in which the Bank achieves continuous growth and which are a stable source of income for the Bank, are certainly performance and payable guarantees and letters of credit. On this position during the 2022, there is a growth rate of 18.98% compared to the end of 2021. The structure of off-balance sheet items as of December 31st 2021 and December 31st 2022 is presented in the following table:

(in RSD thousand)

Off-balance sheet items	31.12.2021.	31.12.2022.	% of change
Contingent liabilities (guarantees, avals, acceptances and irrevocable liabilities)	20,444,145	24,324,703	18.98%
Operations for and on behalf of third parties	245,181	234,678	-4.28%
Derivatives (SWAP)	471,365	4,097,585	769.30%
Other off-balance sheet items	140,412,289	116,639,915	-16.93%
Total	**161,572,980**	**145,296,881**	**-10.07%**

The following table compares the structure of the item guarantees, avals, acceptances and irrevocable liabilities as of December 31st 2021 and December 31st 2022:

(in RSD thousand)

Contingent liabilities (guarantees, avals, acceptances and irrevocable liabilities)	31.12.2021.	31.12.2022.	% of change
Performance guarantees	13,417,697	15,355,620	14.44%
Payment guarantees	4,471,642	6,159,579	37.75%
Unused limits which cannot be revoked	1,834,620	2,131,882	16.20%
Issued foreign currency letters of credit with Banks' confirmation	676,096	469,290	-30.59%
Issued uncovered letters of credit	44,090	208,331	372.51%
Total	**20,444,145**	**24,324,702**	**18.98%**

In the following table, position “Other off-balance sheet items” is presented.

(in RSD thousand)

Other off-balance sheet items	31.12.2021.	31.12.2022.	% of change
Received fixed assets (buildings, cars, land etc.) as collateral in favor of the Bank	96,262,582	72,954,657	-24.21%
Commitments for framework loans and facilities	11,306,284	13,369,033	18.24%
Calculated suspended interest	5,280,990	5,231,256	-0.94%
Financial assets pledged as collateral	0	0	-
Other off-balance sheet items	27,562,433	25,084,969	-8.99%
Total	**140,412,289**	**116,639,915**	**-16.93%**

5. STATEMENT OF PROFIT AND LOSS FOR THE PERIOD

The Income Statement for the period from January 1st to December 31st 2022 is presented in compliance with the Law on Accounting, IFRS and NBS regulations.

The Bank realized a profit of RSD 1,284,521 thousand at the end of the 2022.

(in RSD thousand)

Income Statement	2021.	2021. Reclassified	2022.	% of change	Plan 2022
Interest income	3,105,259	3,105,259	3,846,270	23.86%	4,126,915
Interest expense	615,413	615,413	887,485	44.21%	822,564
Net interest income	**2,489,846**	**2,489,846**	**2,958,785**	**18.83%**	**3,304,351**
Fee and commission income	1,512,865	1,512,865	2,147,386	41.94%	2,188,610
Fee and commission expense	339,157	339,157	571,923	68.63%	434,950
Net fee and commission income	**1,173,708**	**1,173,708**	**1,575,463**	**34.23%**	**1,753,660**
Net trading income	140,691	140,691	12,958	-90.79%	140,951
Other operating income	38,879	38,879	74,858	92.54%	37,587
Net income/(losses) on impairment of financial assets	-165,781	-165,781	-154,391	-6.87%	-223,172
Total net operating income	**3,677,343**	**3,677,343**	**4,467,673**	**21.49%**	**5,013,377**
Salaries, salary compensation and other personal expenses	1,125,268	1,288,130	1,478,613	14.79%	1,189,623
Depreciation costs	464,110	464,110	522,341	12.55%	551,704
Other expenses	1,141,501	978,639	1,053,804	7.68%	1,279,067
Total operating expenses	**2,730,879**	**2,730,879**	**3,054,758**	**11.86%**	**3,020,394**

NET PROFIT BEFORE TAX	**946,464**	**946,464**	**1,412,915**	**49.28%**	**1,992,983**
PROFIT TAX	(58,589)	(58,589)	(131,142)	128.83	-216,711
PROFIT FROM DEFERRED TAXES	1,519	1,519	2,748	80.91	0
NET PROFIT BEFORE TAX	**889,394**	**889,394**	**1,284,521**	**44.43%**	**1,776,271**

*The item "Other operating income" consists of the items "Other operating income" and "Other income" from the official income statement form.
**In the course of 2022, the salary contribution borne by employers in the amount of RSD 162,862 thousand was reclassified from the position of Other business expenses to the position of Salary expenses, salary compensation and other personal expenses at the request of the external auditor.

In the course of 2022, there was a significant increase in both BELIBOR and EURIBOR rates. Primarily as a result of the growth of the mentioned rates, but also as a consequence of the growth of the loan portfolio, the net interest income increased by 18.83%, i.e. by RSD 468,939 thousand. The net interest margin increased from 3.39% as of 31.12.2021 to 3.68% as of 31.12.2022. Net income from fees and commissions increased by 34.23%, i.e. by RSD 401,755 thousand. The biggest contribution to this increase was the growth of income from payment transaction fees (increase of RSD 296,102 thousand, i.e. 35.54%), as well as the growth of income from payment card fees (increase of RSD 202,051 thousand, i.e. 82.35%). The growth of payment card fees is, among other things, the result of the expansion of the POS terminal network. According to the measures of the NBS, all banks that increased the fees for payment services to citizens from January 1, 2021, agreed to reduce the fees for payment services by 30% or to return them to the level before their increase. The NBS has also decided that all banks must include the basic package for a current account at a price of 150 dinars in their offer.

Total operating expenses are higher by 11.86%, i.e. by RSD 323,879 thousand compared to 2021. The largest participation in the total operating costs is recorded by the salaries of employees with 48.4% (this amount also includes provisions based on bonuses for the 13th and 14th salary for the contribution of employees to the good business results of the Bank, as well as other short-term and long-term provisions based on future payments to employees in accordance with IAS 19), then depreciation costs at 17.1%, as well as the premium paid to the Deposit Insurance Agency at 6.4%.

The largest decrease was recorded in provisions for court disputes (reduction of costs in the amount of RSD 74,725 thousand, i.e. 92% compared to 2021), which is a consequence of the changed position of the Supreme Court of Cassation in relation to legal proceedings brought by natural persons against banks, and refer to the collection of fees for the processing of loan applications and the release of loans into the exchange rate. In addition, the costs of legal services (costs of lawyers' services, court fees and litigation costs in the amount of the difference between the Bank's obligation according to the court decision and the reserved amounts) were reduced by RSD 49,558 thousand, or 57%. On the other hand, the increase was recorded by Salary expenses, salary compensation and other personal expenses of employees by 14.79%, i.e. RSD 190,483 thousand, which is the result of several factors, namely the 14th salary paid for 2021 at the expense of the expenses of 2022, formed provisions for the 13th and 14th salary for 2022, as well as the increase in the number of employees. At the same time, due to the increase in the client's deposit base, the costs of deposit insurance increased by RSD 35,874 thousand, i.e. by 23% compared to the previous year, then the costs of consulting services by RSD 33,647 thousand, the increase of which was caused by services related to the development of the internal rating methodology of clients , as well as services related to the implementation of the new Core system, and PR costs for RSD 28,100 thousand, or 89% due to advertising during the first half of the year.

The structure of interest income is presented in the following table:

(in RSD thousand)

Interest income	31.12.2021.	31.12.2022.	% of change
Corporate clients	1,607,921	2,109,496	31.19%
Retail clients	1,019,070	1,150,808	12.93%
Securities	470,002	495,877	5.51%
Other	8,266	90,089	989.87%
Total	**3,105,259**	**3,846,270**	23.86%

The structure of fee and commission income is presented in the following table:

(in RSD thousand)

Fee and commission income	2021.	2022.	% of change
Fees from payment operations	833,198	1,129,300	35.54%
- Retail Segment	44,968	54,730	21.71%
- Corporate Segment	581,951	806,534	38.59%
- Banking Segment	38,140	72,493	90.07%
- Packages maintenance fees	168,139	195,543	16.30%
Fees from guarantees	226,024	273,490	21.00%
Fees from FX changes	149,340	235,595	57.76%
Fees from payment cards	245,361	447,412	82.35%
- Merchant service charges	145,690	271,537	86.38%
- Interchange fees	41,773	94,703	126.71%
- Payment cards and other	57,898	81,172	40.20%
Other fees	58,942	61,589	4.49%
Total	**1,512,865**	**2,147,386**	**41.94%**

The structure of interest expense is presented in the following table:

(in RSD thousand)

Interest expense	2021.	2022.	% of change
Deposits – corporate	265,902	318,723	19.86%
Deposits – retail	183,900	286,922	56.02%
Banks deposits	99,780	190,632	91.05%
Borrowings IFI's	51,276	76,808	49.79%
IFRS 16	14,555	14,400	-1.06%
Total	**615,413**	**887,485**	**44.21%**

The structure of fee and commission expense is presented in the following table:

(in RSD thousand)

Fee and commission expenses	2021.	2022.	% of change
Payment operations	154,203	219,625	42.43%
Fees from payment cards	164,480	322,076	95.81%
Credit bureau	14,624	13,754	-5.95%
Credit lines	17	253	1388.24%
Other fees	5,833	16,215	177.99%
Total	**339,157**	**571,923**	**68.63%**

6. CASH FLOWS

Cash flows from operating activities during the 2021 and 2022 are presented in the table below:

(in RSD thousand)

Cash inflows from operating activities	I - XII 2021	I - XII 2022	Change
Interest	3,307,350	3,947,637	640,287
Fees	1,510,907	2,153,924	643,017
Other operating income	13,135	10,901	-2,234
Dividend and share in profit	622	5	-103
Total cash inflows	**4,832,014**	**6,112,981**	1,280,967
Cash outflows from operating activities			
Interest	587,498	794,632	207,134
Fees	336,113	570,108	233,995
Salaries	1,044,406	1,376,237	331,831
Tax and contribution	215,398	56,204	-159,194
Other operating expenses	893,020	1,013,164	120,144
Total cash outflows	**3,076,435**	3,810,345	733,910
Net cash inflows from operating activities before increase/decrease in financial assets or financial liabilities	**1,755,579**	**2,302,636**	**547,057**

Cash inflows from operating activities before increase/decrease in financial assets or financial liabilities during 2022 increased by RSD 1,280,967 thousand comparing to the same period in 2021.

Cash outflows from operating activities before increase/decrease in financial assets or financial liabilities increased during 2022 by RSD 733,910 thousand comparing to the same period in 2021. Decrease of outflows in 2022 compared to 2021 deriving from Tax and contributions resulted from reclassification of contributions borne by the employees from the position „Tax and contributions“ to position „Salaries“.

Net cash inflows from operating activities before increase/decrease in financial assets or financial liabilities in 2022 amounted to RSD 2,302,636 thousand, which is increase of RSD 547,057 thousand comparing to same period in 2021.

7. INVESTMENT PLAN

During the 2022 total investments in fixed assets(including the right of use in accordance with IFRS 16 to which the amount of RSD 209,428 thousand refers), investment property and intangible investments amounted to RSD 1,015,576 thousand.

Changes at these balance sheet items are presented in the following table: (in RSD thousand)

Investments*	Buildings	Equipment	Investment property	Intangible investments	Rents in IFRS 16 scope	Total	Plan for 2022
Balance 31.12.2021.	205,770	634,101	126,688	716,894	641,520	2,324,973	2,319,816
Estimated balance on 12/31/2022. (budget)	205,769	603,079	126,754	856,821	641,528	2,433,949	2,433,949
Total increase:	345	313,297	84,068	412,386	209,428	1,018,524	3,980,632
IT	0	165,544	0	411,386	0	576,930	1,461,368
Adaption of business premises	345	44,075	0	0	0	44,420	2,428,574
Other	0	103,678	80,400	0	0	184,078	41,415
IFRS 16 – rents (building and cars)	0	0	0	0	209,428	209,428	49,275
Revaluation	0	0	0	0	0	0	0
Reclassfication	0	0	3,668	0	0	3,668	0
Total decrease:	9,512	178,839	78,069	112,110	219,278	597,808	551,704
Depreciation	9,512	178,750	2,692	112,110	0	303,064	325,948
Depreciation – IFRS 16	0	0	0	0	219,278	219,278	225,756
Sell	0	0	70,575	0	0	70,575	0
Other	0	5	4,802	0	0	4,807	0
Disposal and retirement	0	84	0	0	0	84	0
FX effects							
Balance 31.12.2022.	196,603	768,559	132,687	1,016,170	631,670	2,745,689	5,858,142

** Presented in net amount as oposed to the way it was presented in the Notes to the Financial statements*

The Bank's investments in 2022 related to the acquisition of POS terminals and ATMs with the aim of expanding their network, investments in the development of projects related to business with payment cards, which aim at digitalization and improvement of the quality of services provided to clients, investments in IT equipment, both the renewal of existing outdated equipment and the acquisition of equipment for new employees, investments in security equipment and other equipment necessary for the smooth operation of branches, as well as investments in the development of existing and acquisition of new software solutions and the acquisition of licenses for them. Part of the funds was allocated for the renovation of the branch in Leskovac, which will be located at a new address from 2022, as well as for the adaptation of office space for three new branches that were opened in 2022 (Preševo, Vranje and Sremska Mitrovica). Given that the process of implementing the new core system continued in 2022, part of the salary costs of the employees working on this project were capitalized in accordance with IAS 38.

8. COMPLIANCE OF OPERATIONS WITH THE NBS REGULATIONS AND IFI AGREEMENTS

As of December 31st, of 2022, all the operating ratios of the Bank were within the limits prescribed by the Law on Banks and NBS regulations.

Ratio	The values prescribed by the NBS regulations	Values at December 31st 2022
Regulatory Capital - NBS temporary measure*	Min 10,000,000 €	175,180,689 €
Regulatory Capital – regular calculation	Min 10,000,000 €	163,688,022 €
Capital adequacy ratio - NBS temporary measure*	min 8% (SREP 14.98%)	29.99%
Capital adequacy ratio – regular calculation	min 8% (SREP 14.98%)	28.02%
Foreign exchange risk ratio	max 20%	0.80%
Liquidity ratio	Min 1	1.95
Narrow liquidity ratio	Min 0.7	1.70
Liquidity coverage ratio	Min 100%	147.70%
Exposure to one person or group of related persons	max 25%	12.65%
Sum of large exposures	max 400%	34.43%
Investment in non-financial sector	max 10%	0%
Bank's investments into non-financial sector, fixed assets and investment property	max 60%	8.42%

**The National Bank of Serbia on June 29, 2022, adopted the Decision on a temporary measure related to the calculation of the bank's capital, in accordance with which the bank can exclude from the calculation of the core capital the amount of the temporary regulatory adjustment, i.e. the amount of unrealized losses/ gains based on changes in the value of debt instruments that are valued at fair value through other results in accordance with IFRS 9 to which a reduction factor of 0.70 was applied.*

During the last quarter of 2022, based on the Decision of the Bank's Shareholders' Assembly on the issuance of the XXXIV issue of shares - ordinary shares (no. 3776, October 21st, 2022), and the consent of the National Bank of Serbia (Decision no 11936, December 13th, 2022), an increase of the share capital of the Bank was realized in in the amount of EUR 50 million.

In addition, by the Decision of the Bank's Shareholders' Assembly, held on April 26th, total profit achieved in 2021 in the amount of EUR 7.5 million is included in the Bank's capital.

Respecting the above mentioned, on December 31st, 2022 the Bank achieved a capital adequacy ratio of 29.99% (23.64% on December 31st, 2021), which is significantly higher than the regulatory limits.

By the Decision on the Minimum Requirement for Capital and Eligible Liabilities of a Bank, National Bank of Serbia (IO NBS no. 30, April 07th 2022) defines ratio of Capital and Eligible Liabilities to total liabilities for the Bank equal to 6.36%, which was previously at level of 7.97%. As per the last available calculation from June 30th 2022, the ratio of the Capital and Eligible Liabilities to total liabilities of the Bank was 18.80%, which is significantly above the defined limit. Based on the portfolio structure, it is expected that defined ratio will be on the similar level with the next calculation.

Compliance with the covenants from the agreements concluded with the international financial institutions (IFIs)
Pursuant to the defined limits in the agreements concluded with the international financial institutions (IFIs) - Green for Growth Fund (GGF), and European Fund for Southeast Europe (EFSE) the Bank is required to comply with agreed financial covenants until the final repayment of the loans. As of December 31st, of 2022, the Bank is aligned with all indicators.

III RISK MANAGEMENT ADEQUACY

Fundamentals of the risk management process

Having in mind the activity it is engaged in, i.e types of realized business processes, the Bank is inclined to take different types of risks in its business and therefore the presence of risk is a general characteristic of different business activities of the Bank. In this regard, the Bank has established a comprehensive and reliable risk management system based on its clear risk management strategy and included in all its business activities, thus ensuring compliance of the Bank's risk profile with its identified risk appetite.

Risk management strategy is based on a conservative approach, which implies restrictive takeover of all the risks that Bank is or may be exposed in its operations. The affirmation of this principle is in line with a key strategic business objectives such as achieving positive financial results and preserving the capital base, i.e. improving the market position of the Bank.

The functioning of the risk management system is regulated by the adopted internal policies and procedures for each material risk, and is subject to independent assessment by internal audit.
The risk management system is designed in accordance with the size and organizational structure, nature, size and complexity of the Bank's business activities, i.e. its risk profile.

Pursuant to the Law on Banks and the National Bank of Serbia (hereinafter: NBS) Decision on Risk Management, in Halkbank a.d. Beograd (hereinafter: the Bank) the most significant risks have been identified to which the Bank is exposed in its operations, namely:

- Liquidity risk;
- Credit risk, including residual risk, dilution risk, settlement/delivery risk, counterparty risk, credit risk induced by interest rate risk, FX credit risk, portfolio currency structure risk and concentration risk;
- Risk of losses from external influences (macroeconomic risk);
- Interest rate risk;
- Foreign exchange risk, pricing risk and other market risks;
- Outsourcing risk;
- The risk of money laundering and terrorist financing;
- The risk of introducing new products / services;
- Risks of investing in other legal entities and fixed assets of the Bank;
- Risks relating to the country of origin of the entity to which the Bank is exposed (country risk);
- Operational risk, including legal risk;
- Reputation risk;

- Strategic risk;
- Risk of compliance of the Bank’s operations, including risk of regulatory sanctions, risk of financial losses and reputation risk;
- Environmental and social risk.

The Bank's targets in risk management are minimization of negative effects on the financial result and equity, based on the Bank's exposure to the aforementioned risks, with obeying defined risk appetite frame and the maintenance of required capital adequacy level.

During 2022, the Bank continued to strengthen its risk management system by improving internal documents, methods and processes that are in line with regulatory changes and recommendations of the internal and external audit and the National Bank of Serbia.

Risk management framework

The risk management system established in the Bank includes the following:

- Risk management strategies and policies, as well as procedures, guidelines and methodologies for risk identification, measurement, assessment and managing risks;
- Risk appetite - The Bank's intention to take risks to realize its strategies and policies (risk structure), as well as to determine the acceptable level of risk assumed (risk tolerance). The optimal, acceptable level of risk that the Bank intends to assume is quantified through Risk Preference;
- Risk profile - the Bank's assessment of the structure and levels of all risks exposed or likely to be exposed in its business;
- Risk appetite framework - The overall approach, including strategies, policies, procedures, processes, controls and systems through which the risk appetite is established, communicated and monitored. It includes a statement of appetite risk, risk limits and an overview of the roles and responsibilities of organizational parts of the Bank that monitor the application and follow-up of the RAF. RAF takes into account material risks for the Bank, as well as for the good business reputation that the Bank enjoys in relation to customers, depositors, creditors and the market in general. RAF is in line with the Bank's business policy.
- Risk appetite statement - Represents an aggregated level of risk that the Bank is willing to accept, or to avoid, in order to achieve its business objectives. It includes qualitative descriptions, as well as quantitative measures expressed in relation to income, capital, risk measurement, liquidity and other relevant indicators.;
- Internal organisation / organisational structure ensuring that risk management activities and administration activities are functionally and organisationally separated from the activities of assuming risk, with clearly defined segregation of operations and duties of staff in order to avoid any conflict of interests;
- Effective and efficient risk management process, including mitigation, monitoring and control of the risks to which the Bank is or may be exposed;
- Internal control system as a group of processes and procedures established for the purpose of appropriate risk control, monitoring effectiveness and efficiency of business, reliability of financial and other data and information of the Bank, as well as their adjustment to regulations and internal documents with the aim to ensure safety and stable operations;
- Appropriate information system.

The Bank's Supervisory Board is responsible for establishing a risk management system in the Bank and for supervising such system. The Bank's Supervisory Board is responsible to ensure that the Executive Board identifies risks to which the Bank is exposed and to control such risks pursuant to adopted policies and procedures.

The Executive Board implements risk management strategies and policies adopted by the Supervisory Board, adopts procedures for risk identification, measuring, assessment and management, analyses efficiency of their implementation and reports to the Supervisory Board about such activities.

The Audit Committee is responsible for continuous supervision over the implementation of risk management policies and procedures, and the system of internal controls.

Assets and Liabilities Committee (hereinafter: ALCO) is in charge of monitoring the Bank's exposure to risks arising from the structure of its balance sheet receivables and liabilities and off-balance sheet items and it proposes risk management measures.

Relevant Credit Committee make decisions on granting loans and origination of other receivables, as well as on amendments to the conditions of such loans and receivables. Decides on all issues related to collection, including reprogramming and restructuring, and all other issues related to potentially problematic, problematic and contested claims.

The following Bank's organisational units participate in the risk management process: the Risk Management Department, Credit Division, Internal Audit Department and Compliance and AML Department.

Risk Management Department - monitors legislation in the field of risk management, the NBS decisions and internal documents of the Bank and is responsible for their proper implementation; manages risk-weighted assets and off-balance sheet items of the Bank; conducts activities related to the registration, measurement, management and mitigation of credit, market, operational and other risks to which the Bank is exposed.

Credit Division – management of lending operations through established lending procedures, analyzes the financial condition and creditworthiness of corporate and retail clients, evaluates proposed collaterals, monitors placements at the client level in order to identify and mitigate credit risk.

Internal Audit Department - provides the Board of Directors with an independent and objective opinion on issues subject to audit, performs advisory activities aimed at improving the existing system of internal controls and operations of the Bank and provides assistance to the Supervisory Board in achieving its goals, applying a systematic, disciplined and documented approach, risk management, control and process management.

Compliance and AML Department - responsible for the identification and monitoring of compliance risk of the Bank and management of such risk, which in particular includes the risk of sanctions of the regulatory body and financial losses as well as reputational risk.

The risk management process consists of several stages:

- Risk identification;
- Risk measurement and assessment;
- Risk mitigation and mitigation;

- Risk monitoring and risk control;
- Risk reporting.

The process is based entirely on documented policies, guidelines and procedures, which are regularly reviewed in terms of their comprehensiveness, accuracy and quality.

Credit Risk

The Bank measures and monitors the credit risk level through assessing the clients' solvency and controlling the loan portfolio through the calculation of impairment provisions pursuant to the IFRS rules.

Structure of gross risk-weighted assets in terms of classification categories

(in RSD thousand)

Classification category	Classified amount as of 31.12.21	% of the share in gross classified assets		Classified amount as at 31.12.22	% of the share in gross classified assets	
A	41,085,491	40.03%	74.58%	44,788,496	39.49%	74.30%
B	35,463,243	34.55%		39,483,716	34.81%	
V	18,465,416	17.99%	17.99%	23,262,856	20.51%	20.51%
G	3,761,704	3.66%	7.43%	2,874,910	2.53%	5.19%
D	3,869,135	3.77%		3,012,166	2.66%	
Total	102,644,989	100.00%		113,422,144	100.00%	

The total balance and off balance assets that are classified increased as of December 31st 2022 compared to the end of 2021, by 10.5%.

The structure of the Bank's portfolio changed in terms of a decrease in the share of placements classified in categories A and B by 0.28 p.p, while the share of placements classified in category V increased by 2.52 p.p. The share of placements in categories G and D also increased by 2.24 p.p.

Portfolio quality as of December 31st 2022 remained in medium risk level, considering that more than 70% of asset, but less than 75%, is classified in categories A and B.

Collection and coverage of NPLs

Gross NPL based on the methodology of reporting to the National Bank of Serbia is shown in the following table:

(in RSD thousand)

	31.12.2021.	31.12.2022.	Change
NPL portfolio	1,508,439	946,974	-561,465

NPL as of December 31st 2022 decreased by RSD 561,465 thousand compared to the end of the 2021.

The reduction of NPLs was largely influenced by the collection and accounting write-off of receivables from customers Inter-Kop doo u stečaju and Nissal doo u stečaju, in the total amount of RSD 516,140 thousand.

New exposures that became the NPL during the 2022, amounts to RSD 272,228 thousand, out of which 63% (RSD 171,967 thousand) relates to Corporate and SME clients, and 37% (RSD 100,261 thousand) to retail customers.

During beginning of 2022, the Bank collected RSD 593,048 thousand on the basis of NPLs.

Share of gross NPLs in total gross Bank's loans

Ratio	31.12.2021.	31.12.2022.	Change
Share of NPLs in total loans	2.25%	1.32%	-0.93 p.p.

NPL coverage

Ratio	31.12.2021.	31.12.2022.
Ratio of NPL coverage with Impairment provisions for loans	67.76%	79.49%
Ratio of NPL coverage with NPL Impairment provisions	53.93%	49.96%

In Risk appetite framework, the Bank defined the optimal (target) level for distressed assets (NPE) and non-performing loans (NPL) at a level that is less than 5% and 3%, respectively as well as the NPL coverage ratio which is calculated as a ratio of NPL impairments and non-performing loans (NPL) at the level above than 50%.

On December 31st 2022, the Bank complies with the defined limits of these indicators, except NPL coverage with NPL Impairment provisions ratio.

During the last quarter of 2022, as a result of the collection and accounting write-off of problematic receivables, there was a decrease in NPLs in the amount of RSD 252,983 thousand (21%), which was followed by a decrease of NPL provisions in the amount of RSD 199,429 thousand (30%), which contributed to the achievement below the target values.

Liquidity Risk

The realized value of the Liquidity coverage ratio (LCR) on 31.12.2022. is 147.7%, which is in line with the defined limits established by the Bank's internal acts.

The risk appetite framework defines the optimally acceptable value of the mentioned ratio as a minimum of 120%, and the defined exposure limit is as a minimum of 105%.

It should be noted that the limit for this indicator was exceeded on 30.06.2022 and 31.07.2022, where the indicators were 105.23% and 107.37%, respectively.

In line with Liquidity Contingency Plan, the value of the relevant indicator below 110% indicates a potential liquidity crisis of the Bank (an indicator for early detection of a liquidity crisis).

However, after detailed review and discussion on causes of influence, it was confirmed that the current level of realized liquidity indicators anyhow does not represent a real threat on overall liquidity of the Bank.
The fact that the Bank has contracted credit line in amount of USD 65 million with the parent Bank is providing straight options of controlled liquidity management with instant effect on liquidity indicators improvement, including effects on LCR as well, by withdrawal of tranches with a maturity of more than 30 days.

Liquidity Ratio and Narrow Liquidity Ratio prescribed by NBS in the period from 01.01.2022. - 31.12.2022

	Liquidity Ratio	Narrow Liquidity Ratio
Value as of December 31st 2022	1.95	1.70
Average	1.83	1.56
Maximum	2.33	1.95
Minimum	1.34	1.12
Daily NBS limit	Minimum 0.8	Minimum 0.5
NBS limit on monthly level	Minimum 1	Minimum 0.7

Liquidity ratios of the Bank during the 2022 were in accordance with the prescribed limits by the Decision on liquidity risk management by banks, which was valid on 12/31/2022.
In order to manage liquidity risk adequately, the Bank monitors internally established indicators of structural liquidity, besides the limits prescribed by the NBS.

Additional liquidity ratios in the period from 01.01.-31.12.2022 – internally established

	Min.	Max.	Average	Limit
Liquid assets ratio	23.73%	34.51%	28.20%	Min 20.00%
Net loans to total deposits ratio	87.82%	93.78%	89.84%	Max 200.00%
Customers' deposits to total deposits ratio	85.89%	94.20%	90.01%	Min 75.00%
Deposit concentration ratio	14.82%	16.50%	16.24%	Max 30.00%

The Bank was within internally prescribed liquidity limits during 2022.

Foreign exchange risk

FX Risk ratio in the period from 01.01. – 31.12.2022.

Value as of December 31st, 2022	0.80%
Average	2.19%
Maximum	7.02%
Minimum	0.13%
Limit NBS	Max 20%

Foreign currency risk measured by FX Risk ratio predominantly was located in the low risk category during the 2022.

Total net weighted position of the Bank as of December 31st 2022

	(in RSD thousand)
Total net weighted position	-1,023,699
Equity	20,552,618
Total net weighted position and equity ratio	4.98%
Internally prescribed maximum	20%

Operational risk

In the period from January 1st to December 31th 2022 in terms of Operational risk, 128 events were reported in the Application of Operational risks. Eighty five of all events of operational risk that were reported referred to cash shortage or surpluses and have been successfully resolved (58 events of cash shortage and 27 events of cash surpluses).

Number of events	128
Cash shortage	58
Cash surplus	27
External frauds	5
Other	38
Net loss in RSD	438,155.54

The Bank performs also risk assessment of Outsourcing processes, based on the contract concluded with third parties, which have clearly defined rights and obligations of the parties. When introducing new products, processes and systems or new business activities, the Bank also performs assessment and identification of operational risk.

Exposure risk

The Bank's exposure* to persons related to the Bank and its large exposures as of December 31st 2022

	(in Rsd 000)	% of equity	Limit NBS
Persons related to the Bank	3,363,316	16.36%	-
Large exposures	7,074,854	34.43%	Max 400%

* The Bank's exposure refers to exposure after applying credit risk mitigation techniques and deductions, in line with NBS Decision on Risk management.

Concentration risk

The Bank monitors the concentration risk through a concentration ratio that was defined as the ratio of the 20 largest gross exposures at the level of the client or the group of related parties reduced by exposures covered with cash deposits and total regulatory capital.

The policy of credit risk management has determined that the concentration ratio should be maintained at a level below 250%.

	31.12.2021.	31.12.2022.	Preference (target) value
Concentration ratio of 20 largest clients/groups of related parties	133.07%	103.90%	Max 250% of regulatory capital

As of December 31st 2022, the concentration ratio is within an internally defined limit.

Additionally, in order to manage the risk of concentration, the Bank has established exposure limits (balance and off-balance sheet assets that are classified) in relation to certain geographical areas and according to a certain sector/branch of activity, which ensure the diversification of the portfolio. On 31.12.2022. the highest exposure of the Bank in terms of classified on-balance sheet and off-balance sheet activity in relation to the total classified balance sheet and off-balance sheet assets, was in the mining and processing industry sector (20.73%) and in the household sector (19.84%), which is significantly below the internally defined ones. limits of 60% and 25%, respectively. The exposure of the Bank in relation to geographical areas is monitored through the participation of exposures to clients from individual geographical areas in the total classified gross balance sheet assets and off-balance items. The Bank's largest exposure is to clients belonging to the region of Belgrade 35.27% and region of Western Serbia and amounts to 30.54%, which is significantly below the internally defined limit of 50% and 70% respectively.

Exposures of the Bank to retail loans with a contractual maturity of more than 2920 days may not exceed 30% of the Bank's capital determined in accordance with the decision regulating the bank's capital adequacy increased by the amount of all bank liabilities in dinars with a remaining maturity of more than 1825 days. The calculation of the capital amount referred to in the preceding paragraph shall not be subject to the regulatory adjustments and deductions from capital prescribed by the NBS decision regulating the bank's capital adequacy, except for deductions for the loss of the current year and earlier years and for unrealized losses. As of December 31st 2022, concentration risk ratio in retail segment calculated as previously described is 3.84%, which is significantly below the defined limit.

Investment Risk

The Bank did not have investments in non-financial sector as of September 30st 2022. Total investments in entities that are not in financial sector and in fixed assets and investment property were in the category of low risk (below 45% of capital).

Bank's investments into non-financial sector, fixed assets and investment property as of December 31st 2022

	Investments into non-financial sectors	Investments into fixed assets and investment property	Total
Amount (000 RSD)	0	1,729,517	1,729,517
Share in equity	0%	8.42%	8.42%
Limit NBS	Max 10%	-	Max 60%

Country risk - The risk relating to the country of origin of the person to whom the Bank is exposed

Bank establishes a system of country classification regarding the level of country risk and is committed to a system of risk classification by applying categories assigned by international rating agencies (Moody's, Standard&Poors and Fitch).

In the period from 01.01. to 31.12.2022, the Bank had exposures to clients, which operate in countries that are classified as low-risk and medium-risk countries, according to the Classification of official international credit rating agencies and the Bank Procedure.

Bank's exposure towards countries, which are in the category of low risk, is without limits. The country from this category as of December 31st 2022 were Germany, Austria, USA and Czech Republic. Countries in the category of medium risk were Macedonia, Türkiye, Romania, Bosnia, Croatia and Montenegro. Exposure to countries in the category of medium risk was significantly below adopted internal limits during observed period.

Review of countries of clients whose exposure is involved in country risk as of December 31st 2022

Country	Risk category	Limit	Share in Bank's capital
Germany	low	without limit	5.23%
Austria	low	without limit	0.56%
USA	low	without limit	0.45%
Czech Republic	low	without limit	0.06%
Belgium	low	without limit	0.00%
Macedonia	medium	100% regulatory capital	21.71%
Türkiye	medium	100% regulatory capital	27.57%
Romania	medium	20% regulatory capital	3.10%
Bosnia	medium	40% regulatory capital	1.71%
Croatia	medium	10% regulatory capital	0.02%
Montenegro	medium	40% regulatory capital	0.01%
Albania	medium	25% regulatory capital	0.00%
Italy	medium	10% regulatory capital	0.00%

Report on rescheduling of agricultural loans according to the NBS Decision

In order to respond timely and preventatively to all potential challenges from the international and domestic environment, and starting from the economic situation of some agricultural producers, on October 06th 2022, the National Bank of Serbia passed a Decision on Temporary Measures for Banks Aimed at Adequate Management of Credit Risk in Agricultural Loans Portfolio in Conditions of Aggravated Agricultural Production (hereinafter: Decision), which prescribes measures and activities that banks are required to implement to adequately manage credit risk, which means timely identification of potential difficulties for debtors and taking appropriate steps.

The Decision enable the rescheduling of existing liabilities of bank borrowers from the agriculture sector, meaning that those debtors may opt to postpone the settlement of their liabilities under principal from minimum six to 12 months, depending on their preferred grace period within the rescheduling.

The rescheduling is enabled for agricultural producers who are entered in the Register of Agricultural Households within the meaning of the law governing agriculture and rural development:

- a natural person who is the holder of a commercial family agricultural household,
- an entrepreneur,
- a micro and small legal person and
- an agricultural cooperative.

Given the intention to support the debtors most severely hit by the current aggravated conditions of agricultural production, the debtors entitled to the rescheduling are those who as at 31 May 2022:

- were not in arrears longer than 90 days under any obligation to a bank to which the rescheduling applies,
- were not in a default status in respect of the bank and their receivables a
- were not considered a non-performing loan, and/or a non-performing receivable within the meaning of NBS regulations.

A debtor may submit a rescheduling application to a bank no later than April 30th, 2023.

The table below shows the total number and amount of loans by type of debtor and loans purpose, which meet the conditions prescribed by the NBS Decision, i.e. for which the Bank's debtors can submit a request for a rescheduling of obligations in accordance with the mentioned Decision:

(in 000 RSD)

Type of debtor	Liquidity loans		Investment loans		Other loans		TOTAL	
	Number of loans	Amount	Number of loans	Amount	Number of loans	Amount	Number of loans	Amount
Retail - farmers	936	544,682	975	1,244,474	0	0	1911	1,789,156
Entrepreneurs	3	3,049	1	700	0	0	4	3,749
Legal entities - micro	4	4,974	4	46,124	2	18,891	10	69,989
Legal entities - small	10	176,963	0	0	5	568,895	15	745,858
Agricultural Cooperative	8	89,794	5	32,215	5	130,846	18	252,855
TOTAL	**961**	**819,462**	**985**	**1,323,513**	**12**	**718,632**	**1958**	**2,861,607**

Till the end of December, the Bank implemented the requests of 94 debtors for rescheduling of existing liabilities in accordance with the Decision.

The rescheduling of existing liabilities was carried out on 109 placements, with a total exposure of RSD 162,851 thousand, which is 5.7% of the initial balance of all loans to which the Decision refers.

An overview by type of person and loan purpose is given in the table below:

(in 000 RSD)

Type of debtor	Liquidity loans		Investment loans		Other loans		TOTAL	
	Number of loans	Amount	Number of loans	Amount	Number of loans	Amount	Number of loans	Amount
Retail - farmers	41	33,897	65	89,676	0	0	106	123,573
Entrepreneurs	0	0	0	0	0	0	0	0
Legal entities - micro	1	887	2	38,391	0	0	3	39,278
Legal entities - small	0	0	0	0	0	0	0	0
Agricultural Cooperative	0	0	0	0	0	0	0	0
TOTAL	**42**	**34,784**	**67**	**128,067**	**0**	**0**	**109**	**162,851**

Regarding the type of rescheduling, the largest number of debtors opt for a grace period of 12 months. On a total of 97 loans, which is 89% of the total number of loans for which the rescheduling of obligations was carried out, the debtors decided to postpone the settlement of their obligations under principal for a period of 12 months.

IV SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

After the end of the business year, there were no events that have a material impact on the financial statements for the period ending December 31st, 2022.

V PROJECTED FUTURE DEVELOPMENT

The bank's business policy and strategy define the basic business goals and main guidelines for the Bank's development on the Serbian market. The Bank's development is fully supported by the Bank's shareholder, HALKBANK Turkiye, through continuous recapitalizations, all in accordance with business needs and set goals.

One of the main goals is to expand the business network of branches, while increasing the market share in Belgrade and other regions where the Bank currently does not have branches. According to the Bank's strategy, key balance positions are planned to grow faster than the expected growth of the banking sector, which will lead to an increase in the Bank's market share in the total assets, loans and deposits of the Serbian banking sector.

VI RESEARCH AND DEVELOPTMENT ACTIVITIES

The bank conducts regular research on financial markets, analyzes the financial needs of clients and conducts research on the level of satisfaction of users of financial services.

The marketing sector continuously develops new products and services of the Bank and strives to, based on the information and conclusions obtained through market research and client needs, develop and offer to the market modified existing products, as well as completely new products and services.

VII INFORMATION ON REDEMPTION OF SHARES

There was no redemption of own shares during 2022.

VIII EXISTENCE OF AFFILIATES

The Bank has been successfully expanding its business network and client base. Today, the Bank's products and services are provided through a business network of 30 branches, 9 branches and 1 counter. As of December 31, 2022, the Bank has 9 branches in Belgrade, 3 branches in Čačak, branches in Smederevo, Jagodina, Gornji Milanovac, Kraljevo, Užice, Kragujevac, Kruševac, Arandjelovac, Valjevo, Šabac, Niš, Leskovac, Novi Sad, Pancevo, Novi Pazar, Subotica, Sremska Mitrovica and Vranje as well as 9 sub - branches in Paracin, Pozega, Topola, Ivanjica, Vrnjacka Banja, Zrenjanin, Tutin, Pirot and Preševo.


Subotica
Sombor / Vrbas
Zrenjanin
Novi Sad
Sr. Mitrovica
Pančevo
Šabac
Head Office Belgrade
Branches:
Zemun
Novi Beograd
Beograd
New Mill
Crveni krst
Corporate Branch
Makedonska
Bulevar
Smederevo
Mladenovac
Aranđelovac
Topola
Valjevo
Branches:
Čačak
Pivarska
Nemanjina
G. Milanovac
Kragujevac
Jagodina
Užice
Čačak
Paraćin
Požega
Kraljevo
Kruševac
Vrnjačka Banja
Aleksinac
Prijepolje
Ivanjica
Niš
Novi Pazar
Pirot
Tutin
Leskovac
Priština
Vranje
Preševo
Prizren

IX CORPORATE GOVERNANCE RULES

Corporate governance rules of the Bank are regulated in the following by-laws:

- Statute;
- Foundation Agreement;
- Corporate Governance Code;
- Business Code of Supervisory Board Members;
- Code of Conduct and Ethical Principles;
- Anti-corruption Policy and
- General Operating Conditions.

NON-FINACIAL REPORT

2022

I. PROFILE OF THE BANK

1. Vision and Mission Statement

Our vision is to be one of the most respected and chosen Leading Banks in the country.

Our mission is to be a bank that:

- by understanding the needs and expectations of clients, through the best channels offers the most appropriate solutions, a bank that provides banking services to all clients in the fastest and most efficient way through efficient alternative distribution channels or through its branches;
- is focused on the real sector together with a strong presence in the retail field, has high technology, innovative products and services, one that is aware of social responsibility and corporate values, with high quality standards, which provides productive activities and long-term profitability;
- one that puts people first and that pays attention to customer satisfaction at the highest level.

2. Corporate values

Trust - You can be sure that your money is in good hands.

Respect - We value your hard work and respect the capital you have acquired.

Honesty - Our business is transparent, and our priority is to fully protect your interests.

Quality - Our products and services are created in accordance with your requirements and expectations.

Simplicity - Our procedures are affordable and simple.

Speed - The processing of your requests is done in the shortest possible time.

Efficiency - It is in our and your interest to come up with quick solutions with simple procedures.

Development - The Bank follows world standards and business trends in order to constantly improve and adapt its products and services to market requirements.

Professionalism - We have carefully selected associates and colleagues and assembled a team of top professionals who are trained and ready to meet all your requirements.

Discipline - We diligently and conscientiously fulfill all our obligations to meet your and our professional needs.

3. Membership

Halkbank is a member of many associations, with which it cooperates and thus improves the business environment and economic development, including:

Turkish-Serbian bisuness association
Association of Serbian Banks
CFO Association of Serbia

4. Prizes and awards

"Best in Class Wallet Enabler" by Visa card organization - HALKBANK a.d. Belgrade was recognized as the only bank in Serbia that managed to successfully complete the Visa Digital Wallet project in a record short time frame.

5. Communication strategy

The communication strategy during 2022 was mostly focused on the presentation of the Bank's new products, technological innovations and services, as well as socially responsible campaigns. In accordance with the mission and vision of the Bank takes care of the channels of communication with clients, as well as with the wider public. Various communication channels were used to inform the public, all with the aim of ensuring and maintaining interaction with public and the Bank's clients.

Advertising took place through various channels of communication, such as TV commercials on national televisions RTS, PRVA TV and N1, articles in printed and digital editions of daily and monthly newspapers, radio advertisements on radio stations with a national frequency, local TV and radio stations, as well as printed and LED billboards throughout Serbia. In addition to communication via external channels, the Bank's own communication channels were also used, such as the website and profiles on social networks - Facebook, Instagram, LinkedIn.

The bank attended various events where communication with potential and existing clients was achieved - agricultural fairs, Republic Day of Turkey...

In the course of 2022, cooperation with the Serbian Foundation for Entrepreneurship (SEF) continued on the loan project for maintaining liquidity and working capital. The focus is on young companies and agricultural farms.

Continuing the process of improving contactless payment services via mobile phones and smart watches, the Bank introduced Google Pay, Garmin Pay and Apple Pay to most users in 2022.

Moving in the direction of digitalization development, an e-commerce service was introduced for Halkbank's clients.

Following technological trends, nowadays implemented in all spheres of society and business, the Bank will continue to work on enabling numerous innovative products and services, all with the aim of responding to the needs of clients.

II KEY EVENTS IN THE PREVIOUS YEAR

FEBRUARY

In February, a campaign of cash loans for pensioners was started, as well as the campaign "HALK PACKAGE Tailored for your" intended for employed natural persons.

Also, in February, a new version of the Bank's redesigned WEB site was released, with improved functionalities.

MARCH

During the month of March, a TV commercial promoting start-up loans and the Bank's brand awareness was filmed and broadcasted on N1, RTS 1 and TV PRVA.

APRIL

In April, the newly founded branch office in Preševo started working. In order to start a good cooperation with clients from that region, a special welcome loan offer has been made.

Halkbank has signed an Agreement on Business and Technical Cooperation with the Ministry of Agriculture, Forestry and Water Management, by which it joined the Serbia Competitive Agriculture Project (SCAP - Serbia Competitive Agriculture Project) started in cooperation with the World Bank in 2020, which will last until December 31. .2024. years.

MAY

In May, the Bank included E-commerce services in its offer, which is a service that includes the acceptance of payment cards at online points of sale for entrepreneurs, legal entities and budget users who are registered in the territory of the Republic of Serbia.

Also, in the same month, a campaign for dinar savings for individuals was launched, which promoted special conditions for savings in local currency.

JUNE

In June, a campaign of deposit products was launched - term products in euros, where clients could term their funds under special conditions.

In June, the redesigned application for mobile banking for individuals - SmartHALK, which contains improved functions, started to work.

JULY

In July, the SmartHALK Pro application for electronic and mobile banking was enabled for legal entities and entrepreneurs - the segment of Corporate, SME and Agro clients.

AUGUST

We signed an Annex to the partnership and guarantee agreement with the Serbian Foundation for Entrepreneurship for START-UP clients, with this partnership the Bank continues to actively support business beginners.

Google Pay and Garmin Pay services are enabled for Visa card users, which include contactless payment for users of devices with Android operating system, as well as for users of Garmin watches. At the same time, a cash back campaign was launched for users of these services, which allows them to get a certain amount of money back by paying with these digital wallets. Since Garmin is a worldwide synonym for sports and speed, and Garmin watches are the most widely used sports watches in the world, they were complemented by the possibility of contactless payment. As the Bank always strives to listen to the needs of clients and provide them with reliability, speed, practicality and quality, it was among the first in Serbia to enable payment using this service.

OCTOBER

The Apple pay service was introduced for Visa card users, which involves contactless payment with Apple devices, and at the same time as this campaign, a cash back campaign was launched, which allows users of this service to receive an appropriate refund when paying. This payment system is very important because the number of users of Apple devices is increasing. Following the trends, Halkbank is among the first few banks in Serbia to offer this service to its clients.

During October, the new branch in Vranje started working. In order to start a good cooperation with clients from that region, a special welcome loan offer has been made.

In October, we launched a campaign of special interest rates for term deposits in euros for individuals .

In the economy segment, a campaign for SEF loans for current and fixed assets was launched with the aim of mitigating the consequences of the COVID-19 virus pandemic. The SEF Covid-19 line is part of the program of German cooperation in Serbia.

NOVEMBER

During November, the Bank successfully unified all digital wallets for Visa users, which includes Apple Pay, Google Pay and Garmin Pay services, Visa card users have the option of contactless payment at all points of sale that support contactless payment, as well as online points of sale.

The Garmin Pay service has been introduced for MasterCard users, which means contactless payment with Garmin watches.

In November, a new branch was opened in Sremska Mitrovica. In order to start a good cooperation with clients from that region, a special welcome loan offer has been made.

In the retail segment, a new product was introduced and a campaign was started for cash loans with a fixed interest rate, which include a very attractive interest rate, as well as an unchanged amount of the monthly installment during the entire repayment period.

DECEMBER

Halkbank has introduced Google Pay and Garmin Pay services for all MasterCard card users, which include contactless payment using Android devices and Garmin watches.

III KEY STAKEHOLDERS AND MATERIAL TOPICS

KEY STAKEHOLDERS		
STAKEHOLDER GROUP	COMMUNICATION AND ENGAGEMENT CHANNELS	STAKEHOLDER AREA OF INTEREST
CUSTOMERS	Branches	Timely, accessible and reliable information about products and services
Natural persons	Bank website	Continuous improvement of support
Small and Medium-Sized Enterprises	Call centre	Responsible advertising
Big Corporate Clients	Print and digital media	Flexible products and services
	Meetings	
SHAREHOLDERS AND INVESTORS	General meetings	Transparent management
Majority	Annual reports	Business results
	Bank website	
EMPLOYEE	Official Executive Board decisions	Opportunities for development and improvement
Bank Executive Board and Management	Meetings	internal communication improvement
Business Network employee	Trainings	Employee satisfaction
Other employees	Intranet	
Union		

STATE-OWNED INSTITUTIONS	Annual reports	Transparent management
Regulatory Bodies	Meetings and consultations	Business results
Ministries and Government Institutions	Conferences	Regulatory compliance
LOCAL COMMUNITY	Annual reports	Investment in local community development
Local Self-Government	Meetings and consultations	Partneship projects
	Donations and sponsorship procedures	
BUSINESS COMMUNITY	Annual reports	Partneship projects
Business Associations	Meetings and consultations	Supplier selection transparency
Suppliers	Involvement in business association work groups and boards	
Business Partners		
MEDIA	Press conferences	Timely and open comunication
National	Press releases	Business results
Local	Print and digital media	Investing in Local community
CIVIL SECTOR	Meetings and consultations	Partneship projects
Non-governmental organisations	Donations and sponsorship procedures	Investing in community
Non-profit organisations	Annual reports	Promotion od Corporate Social Responsibility
		Volunteering promotion

Material topics

Material topics are defined in accordance with the GRI guidelines and represent issues of importance to our stakeholders in the context of the Bank's impact on the environment in which it operates.

- Safety and health at work, training and education, equal opportunities for promotion and rewards
- Compliance with business standards, laws and regulations
- Responsible resource management, respect for the principles of "green procurement", recycling, energy management
- Responsible financing
- Marketing and communication with clients
- Contribution to the local community through continuous development of products and services available to all clients, donations and support for youth employment through the program "moja prva plata".

IV CORPORATE MANAGEMENT

Halkbank, like all its employees, adheres to the highest standards of corporate governance, which is the foundation of responsible and sustainable business. The Bank is fully committed to complying with all legal provisions and regulatory frameworks relevant to our operations, which together with our management and control system ensures that the interests of all stakeholders are fully protected.

The Supervisory Board strives to continuously improve management processes in order to ensure business coherence, transparency and accountability in decision-making, as well as to ensure a healthy corporate culture.

The Supervisory Board of the Bank has adopted a Corporate Governance Code whose main goal is to present in a transparent and efficient manner the corporate governance system established in the Bank and the introduction of good business practices in the field of corporate governance, which should balance the influence of its holders , all in order to ensure the long - term business development of the Bank.

In its operations, the Bank, through internal acts and the work process, ensures the avoidance of conflicts of interest between members of management bodies and persons related to them, taking into account the law and good corporate governance practice. The Code of Business Conduct and Ethical Principles consolidates general and specific rules and guidelines for ethical business conduct and conduct, while a number of other individual policies strengthen the system of governance and internal controls.

Management structure, mandate and composition of management bodies

The bodies of the Bank are: the Assembly, the Supervisory Board and the Executive Board.

The Assembly consists of the Bank's shareholders, i.e. Türkiye Halk Bankası A.Ş., Barbaros Mahallesi, Sebboy Sk. No.4,3 4746 Atasehir, Istanbul Turkey, indentification number 862070 (hereinafter: shareholder) who, as the only one shareholder, performs the functions of the Bank's Assembly according to applicable regulations, Foundation Decision and Statute. Assembly is the highest body since the most important issues related to the Bank's operations are decided at its sessions. Assembly adopts the Business policy and strategy of the Bank, defining operation targets of the Bank for the period of minimum three years, adopts the financial reports of the Bank and adopts the decision on use and distribution of profits i.e. covering of losses, decides on capital increasing, on investments of capital in other bank or other legal entity, decides the amount on investment in fixed assets, adopts the Statute and amendments and supplements to the Foundation Decision and the Statute of the Bank and decides on other issues in accordance with the law and Statute. One of the important issues within the scope of the Bank's Assembly is the appointment and dismissal of the President and members of the Supervisory Board in accordance with regulations.

The Shareholders' Assembly may have regular or extraordinary meetings. A regular meeting is held minimum on a yearly basis within the deadline in accordance with the law.

The Supervisory Board shall inform National Bank of Serbia of the date and agenda of the Bank's Assembly meeting within the timeframe stipulated for notifying shareholders.

Issues related to the Assembly - composition, compentence, regular and extraordinary session, conference session, quorum, repeated session, President of the Assembly, shareholders' day and invitation to the session are regulated by the Statute of the Bank. Unless otherwise stipulated by the Law on Bank, provisions of the law on companies relating to the assembly of a joint-stock company shall apply to the procedure of convening, notification and proceedings in meetings of the Bank's assembly.

The manner of work and other issues of importance for the work of the Assembly shall be regulated by the Rules of Procedure of the Assembly.

The governing bodies of the Bank are the Supervisory Board and the Executive Board.

Supervisory Board

The members of the Supervisory Board have a good business reputation, rich experience in the field of finance and appropriate qualifications in accordance with the regulations of the National Bank of Serbia.

The term of office of the members of the Supervisory Board is four years with the possibility of re-election. At the end of 2022, the Supervisory Board of the Bank consisted of 7 (seven) members, including the President, of which two were independent members with active knowledge of the Serbian language and residing in the territory of the Republic of Serbia.

The Supervisory Board of the Bank meets at least once every three months, and more often if necessary. One of the most important duties of the Supervisory Board is to provide strategic direction to the Bank's management, harmonization of operations with laws, regulations and acts of the National Bank of Serbia, as well as internal acts of the Bank and the Group's guidelines, in achieving long-term goals.

During 2022, 20 sessions of the Supervisory Board was scheduled. Within the total number of scheduled sessions, 19 were held, 16 regular and 3 extraordinary (written) sessions. One session (scheduled for December 12, 2022) was not held, it was postponed. The subject of consideration and decision-making at these sessions, in the context of strategic and business decisions, were: regular monitoring of financial and business performance of the Bank, risk management, internal system control, business compliance and internal audit, reviewing and/or adopting a strategy and policy for risk management, giving prior approval for the Bank's exposure to any individual or group of related parties that exceeds 10% of the Bank's capital, i.e. for increasing this exposure to more than 20% of the Bank's capital, deciding on placements, reviewing decisions on approved exposures, adoption of the Bank's general business conditions, i.e. its amendments and supplements, as well as other important issues within the compentence of the Supervisory Board.

Issues related to Supervisory Board – composition, appointment and dismissal, mandate, meetings, quorum, compentence and other issues are regulated by the Law on Banks, Statute of the Banke and relevant decisions of the National Bank of Serbia.

The manner of work and other issues of imporatnce for the work of the Supevisory Board are more detailed regulated by the Rules of Procedure of the Supervisory Board.

Executive Board

The members of the Executive Board of the Bank are dismissed and appointed by the Supervisory Board for a period of 4 years with the possibility of re-election. In accordance with the adopted amendments to the Statute, starting from February 15, 2023, the mandate of the President and the Members of the Executive Board who will be appointed or reappointed will be 2 years. The Executive Board consists of 3 members, including the President.

The Executive Board of the Bank organizes and supervises business acitivites of the Bank on a daily basis and is responsible for implementation and efficient functioning of the system of internal controls in the Bank. The Executive Board shall: carry out decisions of the Bank's Shareholders' Assembly and the Supervisory Board, proposes to the Supervisory Board the Business Policy and Strategy of the Bank, as well as the Risk Management Strategy and Policy and Capital Management Strategy of the Bank, implement the Business Policy and Strategy of the Bank by enacting relevant business decisions, analyse the risk management system and at least on a quarterly basis report to the Supervisory Board of the level of risk exposure and risk management, inform the Supervisory Board of all activities which are not in compliance with regulations and other enactments of the Bank and perform all other duties within its compentence.

One of the basic competencies of the Executive Board is to supervise the day-to-day business activities of the Bank and to ensure that the overall organization of the Bank adequately supports the implementation of the business strategy and the achievement of the Bank's planned business objectives.

During 2022, the Executive Board of the Bank held a total of 50 sessions – one was written.

Issues related to the Executive Board – composition and quorum, appointment and dismissal, mandate, compentence and other issues are regulated by the Law on Banks, Statute of the Banke and relevant decisions of the National Bank of Serbia.

The manner of work and other issues of imporatnce for the work of the Supevisory Board are more detailed regulated by the Rules of Procedure of the Supervisory Board.

In order to improve operations and more adequate supervision, the Bank has other committees in accordance with applicable regulations: the Business Monitoring Committee (Audit Committee), the Credit Committee and the Assets and Liabilities Management Committee.
These committees ensure that the Bank operates in accordance with applicable regulations and are committed to reviewing issues in the field of risk management and internal control systems, business compliance and prevention of money laundering and terrorist financing, adequacy and efficiency of the Bank's procedures and security systems, all types of placements, as well as other issues important for the work of the Bank, each board within its scope.

The Audit Committee shall assist the Bank's Supervisory Board in supervising the activities of the Bank's Executive Board and Bank's employees.The Audit Committee consists of minimun three members, at least two of which are members of the Bank's Supervisory Board who have the appropriate expirience in the field fo finance. At least one memember must be person independent of the Bank.

The Credit Committee of the Bank performs the following activities: makes decisions on approving all types of dinar and foreign currency loans, quarantees, bill quarantees, letters of credit and other wararanties, as well as othter placement of the Bank, and performs other activities in accordance with the Bank's acts, law and regulations and performs other activities by order of the Supervosory Board.

The Assets and Liabilities Management Committee monitors the Bank's exposure to risks resulting from the structure of its balance sheet obligations and receivables and off-balance sheet items, on the basis of the received information proposes measures at its meetings for managing interest rate risk and liquidity risk in the manner that it makes concrete conclusions and/or decisions, or clear guidelines to organisational units of the Bank and its employees that should ensure appropriate management of the above mentioned risks and perform other activities established by the Bank's acts.

The Assets and Liabilities Management Committee members are appointed by the Supervisory Board from the Executive Board members and the Bank employees.

Issues related to the Audit Committee, Credit

Committee and Assets and Liabilities Management Committee – composition and quorum, appointment and dismissal, mandate, compentence and other issues are regulated by the Law on Banks, Statute of the Banke and relevant decisions of the National Bank of Serbia.

The manner of work and other issues of importance for the work of the Audit Committee, Credit Committee and Assets and Liabilities Management Committee are more detailed regulated by the Rules of Procedure on the work of each of the mentioned committees.

SUPERVISORY BOARD
1. Osman ARSLAN, President 2. Hasan TUNCAY , Member 3. Altan TAŞKIRAN, Member 4. Hamdi COŞGUN, Member 5. Güvenç USTA, Member 6. Dr Jasmina BOGIĆEVIĆ, Independent Member 7. Vesna VUKOVIĆ, Indenepndent Member

EXECUTIVE BOARD
1. Aziz Arslan, President 2. Ertürk Sümer, Member 3. Dušica Erić, Member

AUDIT COMMITTEE
1. Hasan TUNCAY, President 2. Hamdi COŞGUN, Member 3. Dr Jasmina BOGIĆEVIĆ, Member

CREDIT COMMITTEE
Members of the Credit Committee are elected in accordance with the Decision on establishing Credit Committee and appointement members of the Credit Committee

ASSETS AND LIABILITY MANAGEMENT COMMITTEE
Members of the Assets and Liability Management Committee are appointment in accordance with the Decision on establishing and appointment President and Members of the Assets and Liability Management Committee Members of the Assets na Liability Management Committee are the following: 1. The President of the Executive Board, president 2. Members of the Executive Board, members 3. The Head of the Credit Division, member 4. The Head of the Treasury Division, member 5. The Head of the Financial Management and Budgeting Division, member 6. The Head of the Corporate and SME Marketing Division , member 7. The Head of the Retail Marketing Division, member

Code of Business Conduct

The Code of Business Conduct and Ethical Principles is a set of principles and working rules that employees of the Bank should adhere to its work and serve as a reminder of certain standards they need to meet. The purpose of this Code is to establish general ethical principles and norms of professional banking behavior in order to prevent all disputes and conflicts that may arise between employees, clients and the Bank, but also contribute to the success and reputation of the Bank.

The Code is based on the vision, mission and corporate values of the bank: trust, discipline, efficiency, honesty, quality and professionalism. The Code of Business Conduct directs us to act responsibly, respectfully and sustainably in all aspects of business, protect and further strengthen our good reputation and build trust among our stakeholders.

Activities by which the Bank supports the goals of sustainable development of the United Nation

1 NO POVERTY	- Providing financial services to vulnerable groups through the development of special products, market presence and adjustment of branches - Contribution to the local community
2 ZERO HUNGER	- Contribution to the local community
3 GOOD HEALTH AND WELL-BEING	- Implementation of safety measures at work - Voluntary health insurance program - Free systematic examinations for employees - Working conditions adapted to epidemiological measures
4 QUALITY EDUCATION	- Training program for employees - Possibility of youth employment through the program "Moja prva plata"
5 GENDER EQUALITY	- The employment policy and procedure gives employment opportunities to anyone who meets the criteria
6 CLEAN WATER AND SANITATION	- Responsible treatment of the environment
7 AFFORDABLE AND CLEAN ENERGY	- Loans intended for households for energy efficiency - Waste, energy and recycling management
8 DECENT WORK AND ECONOMIC GROWTH	- Contribution to the social product - Contribution to the local community - A wide range of bank products available to everyone
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	- Contribution to the local community - Accessibility of branches and sub-branches - Product development and improvement and digital services
10 REDUCED INEQUALITIES	- A wide range of bank products available to everyone
11 SUSTAINABLE CITIES AND COMMUNITIES	- Contribution to the local community - Donations
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	- Providing clear and transparent product information. - Respect for the principle of "green procurement"
13 CLIMATE ACTION	- Recycling - Waste management - Energy management
14 LIFE BELOW WATER	- Responsible treatment of the environment
15 LIFE ON LAND	- Responsible treatment of the environment
16 PEACE, JUSTICE AND STRONG INSTITUTIONS	- Compliance of business with relevant legal and other regulations, business standards, procedures on prevention of money laundering and terrorist financing
17 PARTNERSHIPS FOR THE GOALS	- Cooperation with EIB, SEF, GGF, EFSE, ITL, DHB, FRK

V ALTERNATIVE DISTRIBUTION CHANNELS

At the beginning of the year , the replacement of the remaining obsolete ATMs located outside the Bank's business units was completed. In a total of nineteen locations, the old ATMs were replaced with completely new devices manufactured by Diebold Nixdorf series CINEO and DN. The novelty compared to the previous period is that at four locations, which are located outside the Bank's business units, a multi-functional ATM has been installed that has the ability to withdraw and deposit money.

Implementation of the VISA VTS system that enables the use of wallet solutions such as Apple Pay and Garmin Pay flowed at an orderly pace and in accordance with the project frameworks that were defined. The development and implementation of the solution included the delivery of the solution for the processor host, which will be used for official certification (testing) at the VISA card organization. At the same time, the steps related to the implementation of the Google Pay solution were started, which was planned to be put into production, within the same project at VISA, slightly after the production of Apple Pay and Garmin Pay services.

In order to achieve the greatest possible efficiency in communication with clients and to establish the best possible user experience, the Bank implemented the new Viber Business Messages communication channel . It is a solution that allows using the Viber platform to send messages to clients instead of SMS. In addition to being more cost-effective for the Bank, Viber messages offer much greater potential because they can contain multimedia content, information on receipt, view of message attachments, etc.

During the second quarter of 2022, the implementation of the VISA VTS system took place in accordance with the previously defined plan. The team at the bank, which is in charge of implementation, successfully completed the official certification of the Apple Pay solution at the end of June . Also, significant progress has been made in the development of the Google Pay digital wallet. In accordance with the original plan, the Bank was ready to 28.08.2022. year, when Google officially announces the availability of the Google Pay digital wallet on the territory of the Republic of Serbia, customers will be able to use Google Pay for Halkbank VISA cards. In addition to Apple Pay and Google Pay , the Bank had planned to enable VISA card users to digitize on Garmin and Fitbit devices that are equipped with NFC technology.

After the approval of the new product by the National Bank of Serbia, at the beginning of September the Bank has included in its offer a modern solution for accepting payments by payment cards at merchants' online stores. As online payments are becoming more and more popular and preferred by consumers, the Bank has offered all interested merchants the possibility of accepting all types of payment cards at online stores, including advanced functionalities such as the option of saving cards for future payments (card on file), the option of automatic recurring payments (recurring payment), payment option via link (pay by link) and 3DSecure technology of the last generation.

At the end of August, after successful implementation and certification, the Bank has offered clients a new modern digital service related to the possibility of using the Google Wallet digital wallet . With Google Wallet , the Bank's clients, who have any Visa card issued by the Bank, are enabled to use the Google Pay service for digitizing their payment card. Thus Halkbank is one of only five banks that made the service available. At the same time, all clients who have any Visa card issued by the Bank and a Garmin device that supports payment, are enabled to digitize payment cards and make payments through the device. In accordance with the plans, preparatory actions for the launch of the Apple Pay service for Visa card users of the Bank continue according to plan, and at the beginning of October, Apple Pay will become available to clients. Development to support Mastercard cards in digital wallets is ongoing.

At the beginning of October, the Bank successfully completed the third phase of the Digital Wallet project, which is related to Visa Apple Pay . In order to activate and promote the new service as best as possible, the Bank organized a trickle with cash-back rewards. In the period from 04.10.2022. – 04.11.2022. Apple Pay users are rewarded with cashback of 20% of total spending, i.e. a maximum of RSD 5,000.

In the middle of November, the SmartHALK platform for natural persons was upgraded. The new version of the SmartHALK platform brought significant improvements such as new functionalities, refreshed design and fixes for known bugs.

At the beginning of December, the Bank provided its users with the Mastercard Garmin service Pay and Google Pay . Also, in order to promote new services, the Bank organized a cash-back campaign. In the period from 07.12.2022. – 07.01.2023. users of Garmin Pay and Google Pay are rewarded with cash back of 20% of total spending, i.e. a maximum of RSD 5,000.

SmartHALK The Pro e-Banking and m-Banking solution was implemented and presented to the sales network in mid-November. SmartHALK Pro is an internal e - banking and m- banking solution intended for legal entities and entrepreneurs. By applying for this product, the client can simultaneously use electronic banking (using Internet browsers) and mobile banking (using the mbank application).

VI COMPLIANCE AND AML DEPARTMENT

The Compliance and AML Department was established in accordance with the Law on Banks. The Head of the Department is appointed by the Supervisory Board of the Bank and reports directly to him.

The part of the Department that prevents money laundering and terrorism financing is independent of other business activities of the Bank. The member of the Executive Board who is responsible for the implementation of the Law on Prevention of Money Laundering and Terrorism Financing (hereinafter: the Law) is appointed by the Supervisory Board of the Bank. The Authorized Person and his Deputy shall be appointed by the Executive Board of the Bank in accordance with the Law. Authorized persons of the Bank report directly to the Executive Board and are independent in their work.

Within the Department, there is also a function related to the protection of personal data and the application of the Personal Data Protection Law.

The main goal of the Department is to support the establishment of an appropriate system of internal controls at the Bank level, which

allows it to operate in accordance with the set of ethical values contained in the Code of Conduct and ethical principles and in accordance with applicable laws, regulations and internal acts and international best practice.

In order to preserve independence in the work of the Department, the Head and Authorized persons periodically report to the Bank's Audit Committee, the Supervisory Board and the Executive Board on the activities of the Department and issues related to compliance risk and money laundering and terrorism financing risk.

The scope of work of the Department is as follows:

- Controls the compliance of operations with relevant legal and other regulations and takes care of the application of binding provisions on the prevention of money laundering and terrorism financing;
- Monitors regulations, informs the competent organizational units of the Bank on innovations and changes in regulations and controls their implementation in procedures, instructions and other acts of the Bank;
- Controls the compliance of procedures and instructions with laws and other regulations, business standards, procedures on prevention of money laundering and terrorism financing, as well as with other acts regulating the Bank's operations;
- Prepares, updates and harmonizes internal acts of the Department;
- Prepares the Operational Annual Plan for Monitoring the Compliance of the Bank's Operations;
- Prepares regular reports on performed controls of compliance with operations;
- Prepares annual reports on performed controls of compliance with identified and assessed main compliance risks and risk management plan;
- Reports to the Executive Board and the Audit Committee on the determined results of compliance control in accordance with the Compliance Monitoring Program and the Procedure, and reports on deficiencies related to the identified compliance with legal regulations and internal acts regularly to the Executive Board and the Audit Committee at least once a year Supervisory Board of the Bank;
- Prepares annual reports on the performed internal control and measures taken in connection with the implementation of the Law on Prevention of Money Laundering and Terrorism Financing;

- Prepares an annual assessment of the bank's exposure to the risk of money laundering and terrorism financing in accordance with the Decision on Guidelines for the Application of the Law on Prevention of Money Laundering and Terrorist Financing for Obligors overseen by the National Bank of Serbia;
- Prepares an annual risk analysis of money laundering and terrorism financing;
- Preparation of six-monthly reports for the National Bank of Serbia on the activities undertaken by the Bank in the field of prevention of money laundering and terrorism financing;
- Ensures proper and timely submission of data to the Anti-Money Laundering Administration in accordance with legal regulations;
- Obtains, controls, analyzes and forms reports to Anti-Money Laundering Administration on cash transactions in the amount of EUR 15,000 and more in dinar equivalent at the middle exchange rate of the NBS in accordance with regulatory regulations;
- Analyzes clients and transactions on their accounts, makes official notes and reports suspicious clients and transactions to the Anti-Money Laundering Administration;
- Forms and submits data upon requests of the Anti-Money Laundering Administration, the Financial Investigation Unit and the Anti-Corruption Agency;
- Acts on the orders of the competent authority to suspend transactions or monitor the financial operations of the party;
- Develops the annual Plan and training program for employees in order to implement regulations in the field of prevention of money laundering and terrorism financing and implements its implementation;
- Manages risks arising from omissions or non-compliance with laws, business standards, anti-money laundering and anti-terrorism financing procedures, as well as non-compliance with other acts, which ensure the Bank's operations;
- Actively cooperates with all organizational units of the Bank as well as the National Bank of Serbia, the Anti-Money Laundering Administration and the Association of Serbian Banks in obtaining views and opinions for the application of certain regulations and resolving disputes in their application;
- Monitors the implementation of the provisions of the Law governing the protection of personal data, other laws and internal regulations relating to the protection of personal data, including issues of division of responsibilities, awareness raising and training of employees in processing operations, as well as control;
- Takes all other measures for the protection of personal data in accordance with the Law, especially taking into account the legality, expediency and proportionality of the processing of personal data;
- Cooperates with the Commissioner for Information of Public Importance and Personal Data Protection, is a contact point for cooperation with the Commissioner and consults with him on issues related to processing, including informing and obtaining opinions on the obligation to assess the impact on protection of personal data;
- Performs other tasks ordered by the Bank's management.

In addition to the above activities, in the field of compliance risk management, the Bank pays special attention to the fight against corruption, according to which it applies the principle of zero tolerance.

The Bank bases its activities on the prevention of behaviors that may lead to corruption.

The Bank has adopted the Anti-Corruption Policy and the Code of Business Conduct and ethical principles according to which any type of corrupt behavior is strictly prohibited.

The Bank's internal acts regulating the area of anti-corruption are available to all employees through the Bank's internal portal, and it is the obligation of all employees to be regularly informed about newly adopted documents.

Raising employee awareness and targeted training are an extremely important part of the corruption risk management system. As one of the ways of risk mitigation in this area, the Compliance and Anti Money Laundering Deraptment conducts regular training of employees.

Training in the field of business compliance "Corruption Prevention Policy" was organized by the Department in December 2022, in the form of a presentation that was delivered to all employees of the Bank via e-mail. The training covered general topics related to corruption and business ethics. The result of the training is to familiarise employees with zero tolerance, risks, ways of recognizing, ways of reporting and escalating cases related to this risk, relevant acts that need to be known and contact persons for any question in this area.

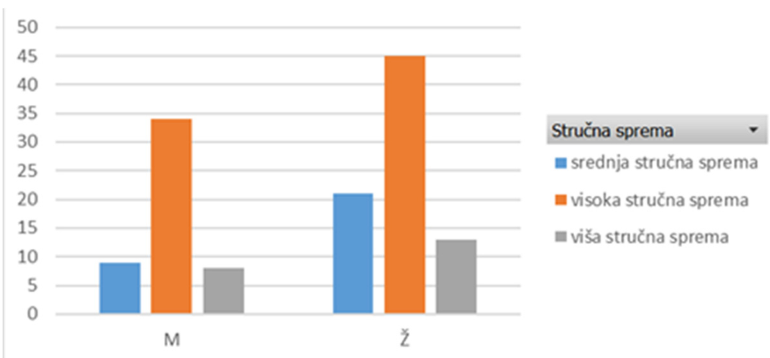
VII HUMAN RESOURCES

During 2022, the Bank continued to maintain a high level of care for employees, facing challenges in the labor market of the Republic of Serbia. At the end of the 2022, the Bank had 657 employees comapred to end of 2021 when number of employees was 589 which represents a growth of 11,5%, Table below provides overview of new employees in 2022 and total number of employees in Head office and branch network.

Number of employees	new employees	31.12.2022
Headquarter	35	306
Branches	33	351
Total	**540**	**657**

During the selection and recruitment process, one of the criteria on which the Bank focuses is the higher education of employees. Despite the challenge that there is a decreasing number of candidates interested in working in banking sector, the Bank managed to maintain the mentioned trend.

The following graph show the qualification structure of new employees:



The age and qualification structure of employees at the end of 2022 is shown in the table below:

Godine starosti (Age) / Stručna sprema (Qualification)	Do 30 godina (Up to 30 years)	31-40 godina (31-40 years)	41-50 godina (41-50 years)	51-60 godina (51-60 years)	Preko 60 godina (Above 60 years)	**Ukupno (Total)**	
I-NK (Elementary School)				2		2	(0.30%)
II-PK						0	(0.00%)
III-KV, SSS						0	(0.00%)
IV-SSS (High School)	27	27	41	25	8	128	(19.48%)
V-VKV						0	(0.00%)
VI/1-VŠS (College degree)	8	26	39	13	3	89	(13.55%)
VII/1-VS (University degree)	54	173	173	26	9	435	(66.21%)
VII/2 - Magistar, spec (Master)		1	1	1		3	(0.46%)
VIII – Doktor nauka (PhD)						0	(0.00%)
Ukupno (Total)	89 (13.55%)	227 (34.55%)	254 (38.66%)	67 (10.20%)	20 (3.04%)	657 (100.00%)	(100.00%)

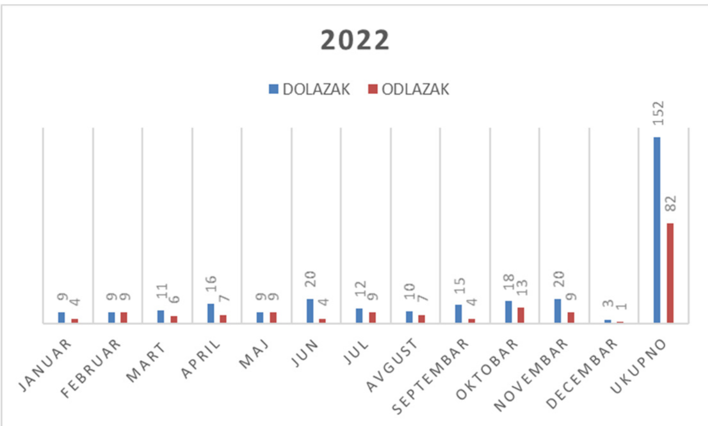
In the qualification structure of employees at the end of the 2022, the share of employees with high education was 66,7%, while the participation of younger than 40 years was 48.1%. .

Expenses for salaries in 2022 were EUR 10.909 thousand, i.e EUR 800 thousand more than in 2021, that is adequate for the growth in the number of employees.

Working at the Bank

One of the challenges we faced in 2022 is high turnover of employees caused by changes in the labor market. New ways of working, hibrid, working from home, as well as the entry of new companies from the IT industry into our market, led to the fact that in 2022 the process of retaining employees in the Bank was quite dynamic and demanding.

In accordance with the business plans in 2022, the number of employees was increased for 11,5% (657 employees in 2022 compared to 589 employees in 2021). The business plan for 2023 foresees 730 employees, i.e. a growth of 11%, i.e. an approximate growth trend.



The average age of Halkbank employees in 2022 was 41,15 years of which 89 employees are younger than 30, 481 are between 30 and 50, while 87 are older than 50. Compared to the previous year, the differences are not significant: in the group up to 30 years of age in 2021 there were 81 employees, between 30 and 50 years were 430, and over 50 there were 76..

In accordance with modern trends in the provision of financial services, in the total number of employees, women predominate in relation to the number of men employed in the Bank – 67,28% of women and 32,72% of men.

The tables and graphs below represent the structure of employees at the end of 2022 by various categories

Age structure		
Year	2021	2022
Up to 30 years old	83 (14.09%)	89 (13.55%)
31 -50 years old	430 (73.01%)	481 (73.21%)
Above 50 years old	76 (12.90%)	87 (13.24%)

Age / type of position structure			
Type of position	Up to 30 years	31-50 years	Above 50 years
Total	89 (13,55%)	481 (73,21%)	87 (13,24%)
Managerial position	1 (0,92%)	83 (76,85%)	25 (23,14%)
Operational position	67 (12,20%)	411 (74,86%)	71 (12,93%)

Gender/type of position structure				
Type of position	Male 2021	Female 2021	Male 2022	Female 2022
Total	184 (31.24%)	405 (68.76%)	215 (32.72%)	442 (67.28%)
Managerial position	49 (46.67%)	56 (53.33%)	53 (49.07%)	55 (50.93%)
Operational position	135 (27.89%)	349 (72.11%)	162 (29.50%)	387 (70.50%)

Total number and turnover rate of employees

›Retirement: 20220- 2 compared to 2021 - 1

›Employed: 2022 – 152 comapred to 2021 - 135; 2020 - 78

›Termination of employment: 2022 – 82, 2021 - 86; 2020 - 63

Employment selection process

In accordance with the regulation on achieving gender equality, during 2022 the Bank tried to maintain an equal position for both sexes. The percentage of employed women in 2022 is 67% compared to 33% of employed men.

The branch network in 2022 was expanded for 2 branches and 1 sub-branch, which represents a total of 39 branches/sub-branches/counters in several cities throughout Serbia. New branches were opened in Vranje and Sremska Mitrovica with 11 new employees. A new sub-branch was opened in Preševo for 4 new employees.

For the second time, Halkbank took part in the state program "My first salary". In 2021, 5 young candidates gained their work experience in the Bank through the mentioned program, out of which 4 candidates continued to work in the Bank as regular employees. As part of the program that started at the end of 2022, 11 candidates decided to gain their experience at the Bank. The program will last until September 2023.

The bank has a plan to retain the best candidates, i.e. offer them the possibility of starting an employment after the end of the program.

Employee training and development

Internal training

During 2022, Halkbank continued with continuous training of its employees. Internal trainings are organized throughout the year and cover the areas of Anti Money Laundering Prevention, Code of Business Conduct, Compliance of the Bank's Operations, Cashier Operations.

External, in-house trainings, specialist seminars and certifications

The Bank also enables its employees to take professional certificates, which are important both for the employee and for the Bank itself. In 2021, the Bank enabled employees to be certified by the ACCA (Association of Chartered Certified Accountants), CIA (Certified Internal Auditor) and certificates required for colleagues in the IT sector.

Employee rights

The right to associate is guaranted to employees of the Bank, without discrimination on the basis of membership in associations or trade unions.

The rights of all employees are regulated by the Labor Rulebook, which is fully in accordance with the Labor Law.

The employee has the right to healthy and safe work. Halkbank complies with all legal regulations related to safety and health at work, organizes first aid training, regular ophthalmological examination for all employees who work at a computer for more than 4 hours a day.

During 2022, there were no deaths related to accidents at work, nor occupational diseases that would result in a longer absence from work,

Compensation (cash benefits) and other benefits

As part of the employee benefits, cooperation with Wiener Stadtische osiguranje continued in 2022 related to obligatory insurance. . Private health insurance is agreed with Milenijum Insurance company and all employees are insured with private health insurance.

All employees of the Bank are insured in cases of surgery and / or serious illness, in case of injury and / or current or permanent incapacity for work and in case of accidents in accordance with the insurance policy paid by the Bank.

Complaints mechanisms

Employees of the Bank have the opportunity to send their complaints to the competent colleagues in accordance with internal policies and procedures and related to **- the Law on Prevention of Harassment at Work, the Law on Protection of Whistleblowers, the Rulebook on the Procedure of Internal Alarm.**

Employees are free to contact their manager or the Human Resources and Organization Department and submit any type of application or complaint, which is resolved in accordance with the Bank's capabilities.

During 2022, no complaints regarding human rights violations were filed through the above proceduresthere were no complaints from our employees, ie identified cases related to discrimination based on race, gender, religion and etc.

Achieved in 2022:

- Improvement of benefits for employees, inclusion of all employees in additional health insurance
- Reducing the percentage of fluctuation in critical limiting units (Information Technology Division)

Goals for 2023:

- Development of a benefit system for employees
- Participation in fairs, programs with aim to attract candidates without experience
- Work on improving the mental and physical health of employees by introducing various types of workshops/support programs

VIII RESPONSIBILITY TOWARDS CLIENTS

Customer support

The bank is committed to social responsibility, primarily through supporting the development of entrepreneurship and strengthening the entrepreneurial spirit in Serbia. Halkbank was among first banks on the market to initiate cooperation with the Serbian Entrepreneurship Foundation (SEF), established by the German Development Bank KfW and the Serbian Chamber of Commerce. It is a non-profit, non-governmental organization founded to achieve socially useful goals, based in Belgrade. The main goals of the SEF Foundation are to facilitate access to financial products for start-up clients, SME clients, entrepreneurs and registered agricultural holdings, through cooperation with financial institutions.

The bank cooperates with SEF through two guarantee lines, Covid-19 and Start-up. The Covid-19 guarantee line is designed to support small and medium-sized companies, entrepreneurs and AGRO clients whose businesses are directly or indirectly affected by the Covid-19 pandemic. Support to clients is reflected in easier access to financial resources, in order to ensure business continuity in crisis conditions and thus preserve employment. The start-up guarantee line provides support to new SME clients, entrepreneurs and AGRO clients who have very difficult access to financial resources on the market. In this way Bank, in cooperation with the SEF foundation, provides true support to the development of entrepreneurship, self-employment and strengthening of private initiative in business.

Customer care

Halkbank, guided by the slogan People first and foremost, always puts clients first and in the focus of all its activities. As clients satisfaction is the foundation of our business success, the Bank within the Corporate Communications and Quality Management Department is continuously working to improve the quality of service we provide to clients.

The quality management system is incorporated in the procedures Quality Management and Complaints of the Clients.

Respecting the quality management procedure, we strive for client satisfaction, trust and loyalty. One of our main goals is performance consistency - we want every branch or employee who serves the client to provide the same service. With regular branch visits, we want to ensure the speed of service, process efficiency as well as the kindness of employees and a friendly attitude towards customers. In order to provide the best possible services to clients, we try to make our branches accessible and in accordance with the most modern market standards. In the previous year, we opened three new branches and relocated one existing one. Through continuous research and monitoring, we strive to achieve better, faster and simpler processes without unnecessary steps.

Listening clients needs through suggestions, praise, questions and complaints, the Bank is always available to clients with maximum commitment. Quick and efficient resolving of complaints as well as prevention of complaints are aimed at raising the quality of services provided by the Bank to clients. The resolving of complaints process includes a number of activities, including cooperation with managers in the relevant organizational units of the Bank, depending on the nature of the complaint, in order to assess the complaint, analyze it, gather information and evidence and find solution. The Bank's response is always clear, complete and understandable to the client. The Corporate Communications and Quality Management Department also cooperates with the National Bank of Serbia in order to provide clients with transparent and timely information. In the total number of complaints Bank received during the previous year, there were no complaints regarding non-compliance with regulations in the field of marketing communications, as well as complaints that have a systemically significant risk to the Bank's operations. Through regular reporting and monitoring of complaints through the application Monitoring operational risk and clients complaints, the Bank aims to constantly improve and enhance its products and services, as well as quality.

IX LOCAL COMMUNITY

The foundations of Halkbank's socially responsible business are primarily in building and maintaining good relations with clients and employees, and therefore with the entire community. The motto "People First" is not just a sentence, but part of our corporate culture. We are proud of the relationships we build with our customers, because their satisfaction is a reflection of the Bank's efforts to achieve the best results. Establishing good relationships with clients, and therefore with the local and global community, is of great importance to us because creating these connections leads to building a better environment for joint growth and development.

The goal of the Bank is to positively influence the community that surrounds it, even during unforeseen, crisis geo-political situations. The bank constantly contributes to the local community through the realization of socially responsible initiatives, participates and contributes to the development of sports and recreation at the national level and strives to help those who need help the most on a daily basis. For the Bank's success as a stable and safe institution, apart from quality operations, it is equally important to take care of the community, without which no undertaking would be possible.

Support to culture

Sponsorship to the Organization of Music Authors of Serbia - SOKOJ for participation in the financing of the publication of the second updated edition of the book about the famous classical music author Josip Slavenski. This edition features the Halkbank logo.

Contribution to development to sport activities

Donation to the Wrestling Federation of Serbia for the organization of the Senior World Wrestling Championship, which was held in Belgrade in Stark Arena in the period from September 10 to September 18, 2022. With this gesture, the Bank, as a socially responsible company, continued the practice of helping and supporting the social community.

Celebrating the day of the Republic of Turkey

Sponsorship for participation in the celebration of the Republic of Turkey Day on October 31, 2022 at the Hyatt Belgrade hotel. At the ceremony itself, there was a Halkbank stand with prominent advertising material.

Serbian insurance days

Sponsorship for the organization of the conference "Serbian Insurance Days 2022", which took place in the period from November 15th, 2022. until November 18th. in the hotel Zlatibor Mountain Resort&Spa in Zlatibor. At the event itself, Halk animations were shown and the logo of the Bank was highlighted on all commercials, as well as on the website of the Association of Insurers of Serbia.

Support for education

The Bank donated furniture to the Trade and Hospitality School Leskovac. A certificate of appreciation was awarded for the contribution to the development of the school.

Environmental protection

In 2022, Halkbank, as a socially responsible company, implemented already established practice and measures in the field of environmental protection and thus mitigated the negative effects on the environment.

The fulfillment of the goals set, resulted in not having any penalties for non-compliance with environmental laws and regulations.

Procurement and supplier relationship

Procurement performed in the Bank is conducted in the spirit of good domestic business in order to ensure the quality of procurement while respecting ethical principles and professional standards.

Integrity, honesty, independence, objectivity, impartiality, political neutrality, prevention of conflicts of interest, confidentiality of information, competence and professional conduct are expected of employees participating in the procurement process.

The procurement process is defined by the Procedure which determines the authorizations in approval and verification depending on the value of the procurement. Limits have also been set for the selection of suppliers depending on the value of the procurement, and for all procurements over EUR 5,000, the Procurement Commission has significant role.

The Bank strives to be guided by the principles of "green procurement" at every opportunity, and to that end it procures and installs equipment with the highest energy efficiency, leases vehicles with the latest generation engines and uses exclusively PEFC (FSC) paper.

We build and nurture a professional relationship and encourage mutual cooperation with suppliers, equally valuing benefits and ethics. We strive to be a fair and honest partner and we firmly believe that a relationship based on trust and integrity will be sustainable and beneficial for all. We place the same demand on our suppliers, whom we expect to adhere to ethical standards, employment practices, environmental protection and occupational safety.

Environmental management system

The Bank uses resources responsibly and conscientiously, invests in sustainable development and thus strives to repay debt to society and communities. In order to protect the environment, it takes into account various aspects and continuously monitors key initiatives aimed at reducing the negative impact on the environment, such as:

- Rational consumption of energy and water
- Prevention of waste material generation
- Safe disposal of waste material
- Recycling

Conservation of natural resources

Indirect energy consumption refers to electricity used during the Bank's business activities, while direct energy consumption refers to the combustion of natural gas for heating purposes.
In 2022, electricity consumption was 1,013 MWh.

Energy management

By investing and installing modern electronic equipment, the Bank contributes to the application of clean technologies and technologies that save electricity and emit less noise.

Reducing energy consumption and implementing energy management programs is the ultimate goal that the Bank implements by performing the following activities:

- Installation of energy efficient lamps and bulbs (LED lamps and bulbs) in all new and renovated business premises;

- Installation of MOBOTIX cameras that saves energy and IT resources for many years;

- Replacement of exisisting equipment with new, more energy efficient equipment;

- Installation of energy efficient air conditioners in all new and renovated business premises;

- Gradual replacement of outdoor advertising with a new type of advertising that has LED lighting;

- Leasing of environmentally friendly vehicles with the latest generation engines;

- The use of video and telephone conferencing to reduce business travel and fuel consumption;

- Lease a printer with an advanced printing system to reduce energy, paper and toner consumption.

- Implementation of an application solution for managing invoices in accordance with the Law on electronic invoicing, which reduces paper consumption;

- Implementation of an application solution for document management in order to create electronic and digitized documents.

Activities related to the structure, construction and maintenance of electrical installations, safety measures and responsibilities of employees as well as control of electricity consumption are defined in the Procedure for electrical installations and control of electricity consumption.

Waste management

In waste management, the Bank acts in accordance with positive legal regulations and implements an integrated waste management system, which includes:

- Waste prevention

- Reduction of waste and its hazardous characteristics

- Planning and control of waste management activities and processes

- Transport and disposal of waste

- Education of employees regarding waste management

All activities, systems and obligations of the Bank related to waste management are defined in the Waste Management Plan, which includes measures for waste management within the collection, transport, storage, treatment and disposal of waste.

The Bank has established a waste management system based on the following principles:

1. Reduction of waste at source

2. Reuse

3. Recycling

4. The principle of sustainable development

5. Principle of the waste management hierarchy

6. The precautionary principle

7. The principle of proximity and regional approach to waste management

8. The principle of choosing the most optimal option for the environment

9. The „polluter pays“ principle

10. Principle of responsibility

By applying the stated principles in environmental protection and waste management, the Bank also achieves economic benefits which are manifested in the reduction of costs of storage, handling, transport, treatment and final disposal of waste materials.

Waste recycling

The Bank has concluded an agreement with an authorized operator for the transport, disposal and treatment of hazardous waste, as well as an agreement on the takeover of secondary raw materials of paper origin. Toner recycling is managed by a company that leases multifunctional devices to the bank.

In 2022, the Bank handed over 2,907 kg of hazardous electronic and electrical waste for destruction and recycling and 400 kg of paper.

GOALS FOR 2023:

In the implementation of business policy in the field of environmental protection, the Bank's goals for 2023 are:

-further improvement of the documentation management system in order to gradually switch to electronic business;

- replacement of existing video surveillance systems and installation of MOBOTIX cameras

- conducting training of employees in order to inform about the legal regulations related to environmental protection.

- continuation of activities on replacement of fluorescent lighting with LED lamps and light bulbs

- support to institutions and bodies of local self-governments in the creation and implementation of environmental policy, improvement of energy efficiency, preservation of natural resources and improvement of environmental financing.

X RISK MANAGEMENT

This chapter explains the risks, ie risk management mechanisms related to environmental issues, social and personnel issues, respect for human rights, corruption, in order to eliminate them completely.

Environmental risk management

The Bank recognizes that its operations can have direct or indirect impact on the environment and the community in which it operates. The bank's objective is to responsibly manage the environmental and social risks (hereinafter: E&S) associated with its operations in order to minimize E&S impacts and to enhance long-term returns to the Bank's shareholders.

Although the Bank's activity is classified in low E&S risk category, it is obliged to ensure that during its activities it will not take any actions that may jeopardise cultural and historical locations, natural resources, flora and fauna, or cause involuntary resettlement.

E&S risk is managed in the Bank in two ways:

- Directly through management E&S risks arising from the Bank's basic activity
- Through management E&S risk encountered by the Bank's clients

The following bodies are responsible for managing E&S risk in the Bank:

- Supervisory Board that establishes and at least once a year reviews E&S Risk Management Policy and identifies the need for any amendments,
- Executive Board that implements the adopted policy and establishes the E&S Risk Management Procedure,
- Credit Committee that monitors the Bank's exposure to E&S risk and proposes certain measures to be taken,

- Credit Division in charge of identification of E&S risk on the level of individual transaction

or client to which certain credit products are granted,

- The Risk Management Department that is responsible for operational implementation

of this Policy through monitoring and reporting of risk exposure to the bank's

management and relevant authorities.

Key employees in charge of managing E&S risk as well as continuity in carrying out environmental and social risk management policy are: president of the Executive Board and the member of the Executive Board in charge of risk management, director of Credit Division, employees in Corporate and SME Credit Department, Credit Analysis Department, Credit Monitoring Department, employees in Collection Unit and employees in Risk Management Department.

The Bank is particularly cautious to invest only in the projects that do not cause any environmental and social harm. Environmental and social (E&S) protection includes, besides ecological aspects, the issues of a local community and employee protection.

The aim of managing E&S risk is identification, assessment and control of the risks that may cause E&S harm and it is carried out in accordance with the E&S Risk Management Policy and the E&S Risk Management Procedure.
The following bodies are responsible for managing the E&S risk in the Bank:

- Board of Directors that establishes and at least once a year reviews E&S Risk Management Policy and identifies the need for any amendments,
- Executive Board that establishes and implements the E&S Risk Management Procedure,
- Credit Committees that make decisions on loan disbursement on the basis of the E&S information available and the opinion of the Corporate and SME Marketing Division,
- Credit Division that assesses the impact of the activity and the project during the process of appraising customers' creditworthiness,
- The Risk Management Department that monitors loans at the portfolio level by categories of E&S risks through the preparing and analysis of reports.

When processing individual clients' applications, E&S risk is classified for the basic activity of the client and the activity which is subject to financing.
There are the following E&S risk categories:
- High – Exclusion List;
- High – Category A;
- High;
- Medium and
- Low

Environmental risk

Overview of the Bank's exposures by environmental and social risk categories

(in RSD thousand)

Risk category	Number of clients		Amount of placements (balance and off-balance)		Increase/ decrease
	31.12.2021.	31.12.2022.	31.12.2021.	31.12.2022.	
High – Exclusion List	0	0	0	0	0
High – Category A	17	15	1,350,312	1,331,673	-18,639
High	408	446	17,006,278	20,108,661	3,102,283
Medium	2,809	3,065	29,215,628	29,848,286	632,658
Low	2,451	2,583	31,594,540	37,288,389	5,693,849
Total	5,685	6,109	79,166,758	88,577,009	9,410,251

*For the purpose of analisys of environmental risk, the Bank includes only relevant part of portfolio.

In the structure of exposures (balance sheet and off-balance sheet exposures) to clients, legal entities and entrepreneurs, as of December 31, 2022, the largest share was held by clients with activities with low environmental and social impact 42.10%, then exposures to clients with activities with medium impact participate with 33.70% activities with high impact participate 22.70% and activities with high risk category A participate with 1.50%.

Social and personnel issues, respect for human rights and prevention of corruption

As for the risks related to social and personnel issues as well as respect for human rights, the Bank hascompletely eliminated these risks through the introduction of policies, procedures and instructions, as well as through the obligation of all employees to implement them.
Current policies, procedures and instructions are:

Code of Business Conduct and Ethical Principles

All employees of the Bank are obliged to adhere to all principles and working rules defined by the Code of Business Conduct and Ethical Principles. In this way, all disputes and conflicts that may arise between employees, clients and the Bank are avoided, but also contribute to the success and reputation of the Bank.

Anti-Corruption policy

The Bank is obliged not to show tolerance for corruption in all its operations and to operate in accordance with laws and regulations, international laws, ethical and business principles for the prevention of corruption. The policy applies to all employees, as well as to the Board of Directors. The policy also defines the way of its implementation, procedures in case of bribery and corruption, obligations of training and informing all employees, clearly defines possible risks so that this policy could not be violated or disregarded in any case (gifts, donations).

Whistleblowing rulebook

The Whistleblowing rulebook regulates the whistleblowing process at the Bank in accordance with the provisions of the Law and the Rulebook. Whistleblowing is the disclosure of information related to violations of regulations, human rights violations, exercise of public authority contrary to the purpose for which it was entrusted, threaths to life, public health, safety, environment, as well as to prevent large-scale damage. All employees are familiar with the Rulebook.

Decision on the prevention of harassment at work

All employees of the Bank must be familiarised with the Decision on the prevention of harassment at work. The Rulebook prescribes the rules of conduct of employer and employees, ie other persons engaged by the Bank, in relation to the prevention and protection against harassment at work and in relation to work, ie sexual harassment.

The Labour rulebook regulates the rights, obligations and responsibilities arising from the work contract. The rulebook applies to all employees employed by the Bank.

An effective employee appraisal system is one of the key tools for achieving the bank's organizational goals, therefore **the Employee Appraisal System Procedure** precisely defines activities related to employee performance management and as such it is applied in all organizational parts of the Bank.

Establishment and termination of employment and keeping records of employees - which describes the process of establishment (selection), termination of employment, as well as induction training where the new employee is introduced to the rules, procedures of the bank and basic activities of all sectors in the bank.

Employee training procedure - this procedure defines the identification of needs and launching initiatives for training, training planning and type of training, evaluation of training to ensure that bank employees develop the required skills and knowledge to perform their jobs and activities.

HALKBANK A.D. BELGRADE

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