BANCA INTESA A.D. BEOGRAD

SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

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

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF BANCA INTESA A.D. BEOGRAD

Opinion

We have audited the financial statements of **Banca Intesa a.d. Beograd** (the Bank), which comprise the balance sheet as at **31 December 2023**, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of material accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2023 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion

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

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

Other information included in the Bank's Annual Business Report

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

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

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

Based on the procedures undertaken, to the extent we are able to assess it, we report that:

1. the other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and

2. the other information is prepared in accordance with requirements of the Law on Accounting of Republic of Serbia.

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

Responsibilities of management and Audit Committee for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

Auditor's responsibilities for the audit of the financial statements (continued)

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

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

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

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

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

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

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

Belgrade, 28 February 2024

PREDUZEĆE ZA REVIZIJU Ernst & Young II d.o.o. BEOGRAD

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

SEPARATE BALANCE SHEET as at 31 December 2023

in RSD thousand	Note	December 31, 2023	December 31, 2022
ASSETS			
Cash and assets held with the central bank	15, 2.14	145,416,663	153,092,550
Receivables under derivatives	16, 2.10	80,353	468,597
Securities	16, 2.9	57,722,864	61,269,872
Loans and receivables from banks and other financial organisations	17, 2.8	157,125,902	70,294,972
Loans and receivables from clients	17, 2.8	534,022,332	513,000,029
Investments in associated companies and joint ventures	16, 2.7	1,199,472	1,199,472
Intangible investments	18, 2.15	3,994,303	4,602,701
Property, plant and equipment	19, 2.16	10,403,122	9,996,392
Deferred tax assets	14, 2.21	151,812	402,963
Non-current assets held for sale and discontinued operations		14,267	15,795
Other assets	20	15,897,063	10,490,465
TOTAL ASSETS		**926,028,153**	**824,833,808**
LIABILITIES			
Liabilities under derivatives	21, 2.10	1,586	8,305
Deposits and other liabilities to banks, other financial organisations and central bank	22, 2.11	68,454,547	92,094,541
Deposits and other financial liabilities to clients	22, 2.11	709,686,211	612,850,509
Subordinated debts	22, 2.11	11,769,379	-
Provisions	23, 2.3	2,765,116	2,620,445
Current tax liabilities	14, 2.21	1,085,472	505,457
Other liabilities	24	21,447,641	18,985,690
TOTAL LIABILITIES		**815,209,952**	**727,064,947**
CAPITAL			
Share capital	25, 2.19	41,748,469	41,748,469
Retain earnings	25, 2.19	21,040,170	12,727,009
Reserves	25, 2.19	48,029,562	43,293,383
TOTAL CAPITAL		**110,818,201**	**97,768,861**
TOTAL LIABILITIES AND CAPITAL		**926,028,153**	**824,833,808**

Belgrade, 28 February 2024

Nevena Novaković	Dragica Mihajlović	Darko Popović
Head of Accounting Department	Member of the Executive Board / CFO	President of the Executive Board / CEO

SEPARATE INCOME STATEMENT in the period from 1 January to 31 December 2023

in RSD thousand	Note	2023	2022
Interest income	3, 2.4	46,871,922	26,688,694
Interest expenses	3, 2.4	(8,957,016)	(2,404,544)
Net interest gains		**37,914,906**	**24,284,150**
Income from fees and commissions	4, 2.5	26,181,184	25,287,972
Expenses on fees and commissions	4, 2.5	(11,958,751)	(11,898,220)
Net gains from fees and commissions		**14,222,433**	**13,389,752**
Net gains from change in fair value of financial instruments	5, 2.7	100,594	1,336,767
Net gains / (losses) from derecognition of the financial instruments measured at fair value	6, 2.7	-	(2,372)
Net exchange rate gains and gains from agreed currency clause	7, 2.6	(2,295)	(559,883)
Net expenses on impairment of financial assets not measured at fair value through income statement	8, 2.7	(7,241,683)	(4,849,217)
Net gains / (losses) on derecognition of financial instruments carried at amortized cost	6, 2.7	29,554	130,057
Other operating income	9	247,067	177,996
Total net operating income		**45,270,576**	**33,907,250**
Salaries, salary compensations and other personal expenses	10, 2.20	(8,510,974)	(7,493,706)
Depreciation costs	11, 2.16	(2,482,631)	(2,440,635)
Other income	12	491,910	747,694
Other expenses	13	(10,914,896)	(9,888,427)
Profit before tax		**23,853,985**	**14,832,176**
Profit tax	14, 2.21	(2,815,106)	(2,152,837)
Profit after tax		**21,038,879**	**12,679.339**

Belgrade, 28 February 2024

Nevena Novaković
Head of Accounting Department

Dragica Mihajlović
Member of the Executive Board / CFO

Darko Popović
President of the Executive Board / CEO

SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME in the period from 1 January to 31 December 2023

in RSD thousand	**2023**	**2022**
Profit for the period	**21,038,879**	**12,679,339**
Components of other comprehensive income which cannot be reclassified to profit or loss:		
Increase/ (decrease) in revaluation reserves based on intangible assets and fixed assets	510,346	(5,471)
Negative effects of change in value of equity instruments measured at fair value through other comprehensive income	(1,638)	(1,624)
Components of other comprehensive income that may be reclassified to profit or loss:		
(Negative) / positive effects of change in value of debt instruments measured at fair value through other comprehensive income	1,278,257	(2,081,540)
Loss/ (income) from tax relating to the comprehensive income of the period	(268,290)	313,052
Total (negative) / positive comprehensive income for the period	1,518,675	(1,775,583)
Total positive comprehensive income for the period	**22,557,554**	**10,903.756**

Belgrade, 28 February 2024

Nevena Novaković	Dragica Mihajlović	Darko Popović
Head of Accounting Department	Member of the Executive Board / CFO	President of the Executive Board / CEO

SEPARATE STATEMENT OF CHANGES IN EQUITY in the period from 1 January to 31 December 2023

in RSD thousand	Share capital and other equity	Premium on issue of shares	Reserves from profit and other reserves	Revaluation reserves	Retain earnings	Total
Opening balance as at 1 January, 2022	**21,315,900**	**20,432,569**	**43,488,903**	**1,580,063**	**32,224,574**	**119,042,009**
Increase in revaluation reserves based on intangible assets and fixed assets	-	-	-	(4,650)	-	(4,650)
Negative effects of change in value of equity instruments measured at fair value through other comprehensive income	-	-	-	(1,624)		(1,624)
Negative effects of change in value of debt instruments measured at fair value through other comprehensive income	-	-	-	(1,769,309)	-	(1,769,309)
Profit for the current year	-	-	-	-	12,679,339	12,679,339
Dividends paid					(32,182,375)	(32,182,375)
Other	-	-	-	-	5,471	5,471
Balance as at 31 December, 2022	**21,315,900**	**20,432,569**	**43,488,903**	**(195,520)**	**12,727,009**	**97,768,861**
Opening balance as at 1 January, 2023	**21,315,900**	**20,432,569**	**43,488,903**	**(195,520)**	**12,727,009**	**97,768,861**
Increase (decrease) in revaluation reserves based on intangible assets and fixed assets	-	-	-	433,794	-	433,794
Negative effects of change in value of equity instruments measured at fair value through other comprehensive income	-	-	-	(1,638)	-	(1,638)
Negative effects of change in value of debt instruments measured at fair value through other comprehensive income	-	-	-	1,086,519	-	1,086,519
Profit for the current year	-	-	-	-	21,038,879	21,038,879
Dividends paid				-	(9,509,504)	(9,509,504)
Distribution of profit	-	-	3,217,504	-	(3,217,504)	-
Other	-	-	-	-	1,290	1,290
Balance as at 31 December, 2023	**21,315,900**	**20,432,569**	**46,706,407**	**1,323,155**	**21,040,170**	**110,818,201**

Belgrade, 28 February 2024

Nevena Novaković
Head of Accounting Department

Dragica Mihajlović
Member of the Executive Board / CFO

Darko Popović
President of the Executive Board / CEO

SEPARATE CASH FLOW STATEMENT in the period from 1 January to 31 December 2023

in RSD thousands	2023	2022
Cash inflow from operating activities	**72,096,012**	**52,808,058**
Interest	44,879,066	26,414,136
Fees	26,183,221	25,327,134
Other operating income	1,028,588	1,064,363
Dividends and profit sharing	5,137	2,425
Cash outflow from operating activities	**(37,916,070)**	**(30,214,787)**
Interest	(7,052,435)	(1,604,403)
Fees	(11,929,832)	(11,818,385)
Gross salaries, salary compensations and other personal expenses	(8,350,959)	(7,567,679)
Taxes, contributions and other duties charged to expenses	(254,277)	(147,011)
Other operating expenses	(10,328,567)	(9,077,309)
Net cash inflow from operating activities before an increase or decrease in financial assets and financial liabilities	**34,179,942**	**22,593,271**
Inflow from financial assets and increase in financial liabilities	**49,067,438**	**114,118,344**
Inflow from receivables under securities and other financial assets not intended for investment	5,280,519	20,058,743
Inflow from deposits and other financial liabilities to banks, other financial organisations, central bank and clients	43,786,919	94,059,601
Outflow from financial assets and decrease in financial liabilities	**(23,757,517)**	**(122,523,602)**
Outflow from loans and receivables from banks, other financial organisations, central bank and clients	(23,757,517)	(122,523,602)
Net cash inflow from operating activities before profit tax	**59,489,863**	**14,188,013**
Profit tax paid	(2,252,230)	(1,757,052)
Dividends paid	(9,509,504)	(32,182,375)
Net cash inflow / outflow from operating activities	**47,728,129**	**(19,751,414)**
Cash inflow from investing activities	**14,027**	**29,634**
Sale of intangible investments, property, plant and equipment	14,027	29,634
Cash outflow from investing activities	**(1,010,296)**	**(1,273,774)**
Purchase of intangible investments, property, plant and equipment	(1,010,296)	(1,273,774)
Net cash inflow from investing activities	**(996,269)**	**(1,244,140)**

SEPARATE CASH FLOW STATEMENT in the period from 1 January to 31 December 2023 (continued)

Cash inflow from financing activities	**64,501,938**	**21,330,736**
Cash inflow from subordinated liabilities	11,767,210	-
Loans taken	52,734,728	21,330,736
Cash outflow from financing activities	**(25,050,276)**	**(19,327,112)**
Cash outflow from subordinated liabilities	(49,840)	-
Loans taken	(24,378,572)	(18,685,360)
Other outflow from financing activities	(621,864)	(641,752)
Net cash outflow / inflow from financing activities	**39,451,662**	**2,003,624**
Total cash inflow	**185,679,415**	**188,286,772**
Total cash outflow	**(99,495,893)**	**(207,278,702)**
Total cash inflow / outflow	86,183,522	(18,991,930)
Cash and cash equivalents at the beginning of the year	**107,151,619**	**125,858,083**
Exchange rate gains	5,430,673	8,032,083
Exchanges rate losses	(6,572,281)	(7,746,617)
Cash and cash equivalents at end-period (Note15)	**192,193,533**	**107,151,619**

Belgrade, 28 February 2024

Nevena Novaković
Head of Accounting Department

Dragica Mihajlović
Member of the Executive Board / CFO

Darko Popović
President of the Executive Board / CEO

Banca Intesa Beograd

NOTES
TO THE SEPARATE FINANCIAL STATEMENTS

For the Year Ended 31 December 2023

CONTENT

1. CORPORATE INFORMATION

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

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

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

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

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

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

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

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

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

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

As of 31 December 2023, the Bank operated through its Head Office located in Belgrade, Milentija Popovića 7b. The Bank network consists of associated organizational units as follows: 4 regional centres and 143 branches.

The Bank had 3,079 employees as of 31 December 2023 (31 December 2022: 3,061 employees).

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

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

The separate financial statements of the Bank for the year ended 31 December 2023 (hereinafter: the "financial statements") have been prepared in accordance with International Financial Reporting Standards (IFRSs).

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

(a) Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following IFRS amendments which have been adopted by the Bank as of 1 January 2023:

- **IFRS 17: Insurance Contracts**
  The standard is effective for annual periods beginning on or after 1 January 2023. This is a comprehensive new accounting standard for insurance contracts, covering recognition and measurement, presentation and disclosure. IFRS 17 applies to all types of insurance contracts issued, as well as to certain guarantees and financial instruments with discretional participation contracts. The Bank does not issue contracts in scope of IFRS 17; therefore its application does not have an impact on the Bank's financial performance, financial position or cash flows. As a consequence, this standard had no impact on the financial statements of the Bank.

- **IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)**
  The Amendments are effective for annual periods beginning on or after January 1, 2023. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. The amendments had no impact on the financial statements of the Bank.

- **IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)**
  The amendments become effective for annual reporting periods beginning on or after January 1, 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty, if they do not result from a correction of prior period error. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The amendments had no impact on the financial statements of the Bank.

- **IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)**
  The amendments are effective for annual periods beginning on or after January 1, 2023. The amendments narrow the scope of and provide further clarity on the initial recognition exception under IAS 12 and specify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement, having considered the applicable tax law, whether such deductions are attributable for tax purposes to the liability or to the related asset component. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. The amendments had no impact on the financial statements of the Bank.

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

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

(a) Changes in accounting policies and disclosures (continued)

- **IAS 12 Income taxes: International Tax Reform - Pillar Two Model Rules (Amendments)**
  The amendments are effective immediately upon issuance, but certain disclosure requirements are effective later. The Organisation for Economic Co-operation and Development's (OECD) published the Pillar Two model rules in December 2021 to ensure that large multinational companies would be subject to a minimum 15% tax rate. On 23 May 2023, the IASB issued International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12. The amendments introduce a mandatory temporary exception to the accounting for deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules and disclosure requirements for affected entities on the potential exposure to Pillar Two income taxes. The Amendments require, for periods in which Pillar Two legislation is (substantively) enacted but not yet effective, disclosure of known or reasonably estimable information that helps users of financial statements understand the entity's exposure arising from Pillar Two income taxes. To comply with these requirements, an entity is required to disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. The disclosure of the current tax expense related to Pillar Two income taxes and the disclosures in relation to periods before the legislation is effective are required for annual reporting periods beginning on or after 1 January 2023, but are not required for any interim period ending on or before 31 December 2023. The amendments had no impact on the financial statements of the Bank.

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

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

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

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

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

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

- **IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments Disclosure - Supplier Finance Arrangements (Amendments)**
  The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The amendments supplement requirements already in IFRS and require an entity to disclose the terms and conditions of supplier finance arrangements. Additionally, entities are required to disclose at the beginning and end of reporting period the carrying amounts of supplier finance arrangement financial liabilities and the line items in which those liabilities are presented as well as the carrying amounts of financial liabilities and line items, for which the finance providers have already settled the corresponding trade payables. Entities should also disclose the type and effect of non-cash changes in the carrying amounts of supplier finance arrangement financial liabilities, which prevent the carrying amounts of the financial liabilities from being comparable. Furthermore, the amendments require an entity to disclose as at the beginning and end of the reporting period the range of payment due dates for financial liabilities owed to the finance providers and for comparable trade payables that are not part of those arrangements. The amendments have not yet been endorsed by the EU. The requirements of this standard are not expected to have a material impact on the Bank's financial statements.

- **IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability (Amendments)**
  The amendments are effective for annual reporting periods beginning on or after January 1, 2025, with earlier application permitted. The amendments specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. A currency is considered to be exchangeable into another currency when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations. If a currency is not exchangeable into another currency, an entity is required to estimate the spot exchange rate at the measurement date. An entity’s objective in estimating the spot exchange rate is to reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions. The amendments note that an entity can use an observable exchange rate without adjustment or another estimation technique. The amendments have not yet been endorsed by the EU. The requirements of this standard are not expected to have a material impact on the Bank's financial statements.

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

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

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

The accompanying financial statements are separate financial statements, since they include unconsolidated captions of receivables, liabilities, operating results, changes in equity and cash flows of the Bank, excluding its subsidiaries – Intesa Leasing d.o.o. Belgrade and Intesa Invest, which are 100% owned by the Bank. The Bank recognizes its investment in this subsidiary at cost. Total asset of subsidiary Intesa Leasing is 3.56% (31.12.2022:3.57%), while total assets of subsidiary Intesa Invest is 0.04% (31.12.2022: 0.04%) of the total Bank`s assets as at 31 December 2023.

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

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

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

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

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

2.2. Comparative data

Accounting policies and estimates relating to recognition and measurement of assets and liabilities, applied in the preparation of these financial statements, are consistent with those applied in the preparation of the annual financial statements of the Bank for the year31 December 2022.

2.3. Significant accounting estimates and judgments

Use of estimates

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

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

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

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

2.3. Significant accounting estimates and judgments (continued)

Impairment of financial assets

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

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

Classification of financial assets

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

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

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

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

Impairment of non-financial assets

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

Provisions for litigations

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

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

A provision for litigation is recognized when it is probable that an obligation exists for which a reliable estimation can be made of the obligation after careful analysis of the individual matter (Note 23). The required provision may change in the future, due to new developments and as additional information becomes available. Commitments, as well as positions that do not meet the criteria for provision are disclosed, unless the possibility of transferring economic benefits is remote.

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

2.3. Significant accounting estimates and judgments (continued)

Deferred tax assets

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

Retirement and other post-employment benefits

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

Leasing

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

Impact of climate risks on accounting estimates and judgements

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

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

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

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

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

2.4. Interest income and interest expenses

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

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

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

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

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

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

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

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

2.5. Fee and commission income and fee and commission expenses

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

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

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

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

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

2.6. Foreign currency translation

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

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

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

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

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

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

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

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

2.7. Financial instruments

2.7.1. Initial recognition of financial instruments

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

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

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

2.7.2. Classification

Financial assets

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

Financial asset is measured at amortized cost if it meets both of the following conditions and is designated as at FVTPL:

- Asset is held within a business model whose objective is to hold assets to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified fates to cash flows that are solely payments of principal and interest

Debt instrument is measured as FVOCI only if it meets both the following conditions and is not designated as at FVTPL:

- The assets is held within the business model whose objective is achieved by both collecting contractual cash flows and selling contractual assets, and
- The contractual terms of the financial asset give rise on specified fates to cash flows that are solely payments of principal and interest

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

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

2.7. Financial instruments (continued)

2.7.2. Classification (continued)

Financial assets (continued)

On initial recognition of an equity instrument that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value through OCI, at the level of particular equity instrument. As of 31 December 2023, the Bank opt for FVOCI accounting of equity investment, other than investment in subsidiaries, since these instruments are not held for trading. This choice is made based on the each particular instrument in the moment of initial recognition and cannot be recalled.

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

Business model assessment

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

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

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

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

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

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

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

2.7. Financial instruments (continued)

2.7.2. Classification (continued)

Reclassifications

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

Financial liabilities are not reclassified.

Financial liabilities

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

2.7.3. Derecognition of financial assets and financial liabilities

Financial assets

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

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

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

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

Financial liabilities

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

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

2.7. Financial instruments (continued)

2.7.3. Derecognition of financial assets and financial liabilities (continued)

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

2.7.4. Modification of contractual cash flows

Financial assets

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

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

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

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

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

2.7. Financial instruments (continued)

2.7.5. Impairment of financial assets and provisions for risks

Financial liabilities

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

Recognition of expected credit losses

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

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

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

Loss allowances is measured on either of the following bases:

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

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

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

Uncollectable receivables write-off

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

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

2.7. Financial instruments (continued)

2.7.6. Renegotiated loans

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

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

Loans and receivables include:

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

As of 31 December 2023, the Bank's portfolio does not include loans that meet the criteria to be valued at fair value through profit or loss.

2.9. Securities

Securities caption in the Statement of financial position includes:

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

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

- Debt securities measured at amortized cost

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

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

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

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

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

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

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

2.9. Securities (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.12. Other liabilities

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

2.13. Offsetting financial instruments

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

2.14. Cash and balances with central bank

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

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

2.15. Intangible assets

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

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

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

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

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

2.15. Intangible assets (continued)

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

	2023	2022
Licenses and similar rights	10% - 20%	10% - 20%
Software except Core Information System	20% - 50%	20% - 50%
Core information system	10% - 14.29%	10% - 14.29%

Compared to 2022, there were no changes in the estimated useful life of intangible assets.

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

2.16. Property, plant, equipment and leased assets

(a) Property, plant and equipment

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

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

Property, plant and equipment are recognized as an asset:

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

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

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

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

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

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

As of 31 December 2023 the revaluation model (fair value) was used for the subsequent measurement of real estate, while other tangible assets were subsequently measured at cost.

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

2.16. Property, plant, equipment and leased assets (continued)

(b) Leased assets

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

Bank acting as lessee

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

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

Besides, cost of right-to-use asset also includes:

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

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

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

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

2.16. Property, plant, equipment and leased assets (continued)

(b) Leased assets (continued)

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

Lease payments included in the measurement of the lease liability at commencement of lease comprise the following payments related to right-of-use assets during lease term, which are not settled by the commencement date:

- fixed payments, reduced by eventually received incentives in relation to lease;
- variable payments that depend on certain index or rate and which are initially measured using index or rate at the commencement date.
- amounts expected to be payable under residual value guarantee;
- the exercise price under a repurchase option that the Bank is reasonably certain to exercise;
- penalties for early termination of a lease, if lease term shows that the lessee used such option

After initial recognition, lease liabilities are subsequently measured in a way to:

- increase their carrying value, so that interest on lease liability is included
- decrease their carrying value by the amounts paid on leasing; and
- remeasure carrying value with the aim to include all eventual reassessments or changes in lease relevant for its reassessment

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

Lessee remeasures lease liability by discounting of revised lease payments at revised discount rate (for the remaining lease term) in case of one of the following:

- change in lease maturity
- change in the repurchase option of leased asset

Lease modifications

Lease modification is treated as separate lease when:

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

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

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

2.16. Property, plant, equipment and leased assets (continued)

(b) Leased assets (continued)

In case of modification that are is treated as separate lease, lease liability is remeasured in a way to:

- decrease carrying value of right-to-use asset, in order to reflect partial or complete termination of lease for those modifications which decrease the scope of lease. Any gain or loss in respect to partial or full lease termination is recognized in income statement;
- adjust right-to-use asset for all other lease modifications

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

(c) Depreciation

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

	2023	2022
Buildings	3-%-5%	3% - 5%
Computer equipment	20%	20%
Furniture and other equipment	7% - 25%	7% - 25%

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

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

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

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

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

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

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

2.17. Impairment of non-financial assets

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

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

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

2.18. Provisions and contingencies

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

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

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

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

2.19. Equity

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

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

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

2.20. Employee benefits

(a) Employee taxes and contributions for social security

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

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

(b) Termination benefits arising from restructuring

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

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

(c) Other employee benefits - retirement benefits

In accordance with the Labor Law and Article 34 of the General Collective Agreement and with Executive Board Decision, the Bank is obligated to pay retirement benefits. The entitlement to these benefits usually depends on the employee remaining in service up to retirement age and/or the completion of a minimum service period. The expected costs of these benefits are accumulated over the period of employment.

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

2.21. Taxes and contributions

(a) Income tax

Current income tax

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

In order to determine the amount of taxable income, accounting profit is adjusted for certain permanent differences, as defined by the tax regulations through Tax balance, which is to be submitted within 180 days after the end of the period for which the tax liability is determined, except in the case of status changes:

- of status changes resulting with taxpayer termination, when tax return is submitted within 60 days from the date of status change
- Bankruptcy debtor or legal entity in liquidation, under which bankruptcy proceeding has been suspended due to sell of bankruptcy debtor as legal entity, or liquidation procedure has been terminated – tax return is submitted within 15 days from the date of the decision on termination of bankruptcy/liquidation proceedings validity.

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

2.21. Taxes and contributions (continued)

(a) Income tax (continued)

Deferred income tax

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

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

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

Deferred income tax (continued)

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

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

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

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

Transfer pricing

Up to the date of Bank's financial statements, Tax balance for 2023 has not been submitted, considering that deadline for its submission is 180 days from the date for which the tax is determined. Bank has calculated tax effects in accordance with provisions of corporate income tax law. Bank has not yet finished transfer pricing study, however, the management believes that there will not be material effects on 2023, since so far there were no or minimal corrections based on related parties transactions, and there was no significant changes of services types in 2023, compared to the previous year.

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

2.21. Taxes and contributions (continued)

(b) Taxes and contributions not related to operating result

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

2.22. Funds managed on behalf of third parties

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

3. INTEREST INCOME AND INTEREST EXPENSES

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

In RSD thousand

	2023	2022
Interest income		
– Central bank and other banks	4,243,797	891,232
– Corporate customers	15,035,370	7,891,579
– Retail customers	23,318,086	16,201,011
– Public sector	3,509,697	1,469,755
– Foreign banks and financial organizations	535,717	74,497
– Foreign entities	89,547	51,350
– Other customers	139,708	109,270
Total	**46,871,922**	**26,688,694**
Interest expenses		
– Central bank and other banks	(931,718)	(236,820)
– Corporate customers	(3,248,704)	(904,943)
– Retail customers	(1,714,655)	(329,335)
– Public sector	(697,169)	(236,755)
– Foreign banks and financial organizations	(1,678,263)	(626,497)
– Foreign entities	(555,058)	(2,167)
– Other customers	(131,449)	(68,027)
Total	**(8,957,016)**	**(2,404,544)**
Net interest income	**37,914,906**	**24,284,150**

Total interest income on impaired loans for the year ended 31 December 2023 amounts to RSD 1.926 thousand (2022: RSD 3,027 thousand).

3. INTEREST INCOME AND INTEREST EXPENSES (continued)

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

In RSD thousand

	2023	2022
Interest income		
Loans	39,597,198	24.087.840
REPO transactions	2,773,172	361,662
Obligatory reserves	375,001	196,450
Deposits	1,370,516	334,660
Securities	2,166,332	1,426,599
Other placements	589.703	281.483
Total	**46,871,922**	**26,688,694**
Interest expenses		
Loans	(1,428,495)	(392,768)
Subordinated loans	(489,679)	-
Deposits	(6,937,085)	(1,967,471)
Leasing	(87,688)	(44,305)
Other interest expenses	(14,069)	-
Total	**(8,957,016)**	**(2,404,544)**
Net interest income	**37,914,906**	**24,284,150**

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

In RSD thousand

	2023	2022
Interest income		
Financial assets at amortized cost	45,187,721	25,553,319
Financial assets fair value through OCI	1,669,738	1,135,375
Financial assets fair value through profit and loss	14,463	-
Total	**46,871,922**	**26,688,694**
Interest expenses		
Financial assets at amortized cost	(8,942,947)	(2,404,544)
Financial assets fair value through profit and loss	(14,069)	-
Total	**(8,957,016)**	**(2,404,544)**
Net interest income	**37,914,906**	**24,284,150**

Interest income calculated using the effective interest method as of 31 December 2023 is RSD 46,871,922 thousand (2022: RSD 26,688,694thousand).

4. FEE AND COMMISSION INCOME AND EXPENSES

In RSD thousand

	RETAIL		CUSTOMERS (except retail)		UKUPNO	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**
Fee and commission income						
Fee for banking services:						
– Domestic payment transaction services	1,083,309	1,073,206	2,235,280	2,161,185	3,318,588	3,234,392
– International payment transaction services	313,245	289,947	1,103,464	1,080,739	1,416,709	1,370,686
– Loan operations	118,007	147,908	311,005	400,515	429,012	548,423
– Cards operations	1,581,184	1,430,030	7,308,522	5,779,944	8,889,707	7,209,973
Total	**3,095,745**	**2,941,092**	**10,958,271**	**9,422,383**	**14,054,016**	**12,363,475**
Commissions related to issued guaranties and letter of credits	217,594	233,444	704,103	662,776	921,696	896,219
Current accounts maintenance	2,587,377	2,779,690	488,881	482,139	3,076,258	3,261,829
Fees slips, EDB and Telekom	81,275	93,653	-	-	81,275	93,653
Other fee and commission	295,488	301,639	341,611	265,831	637,099	567,470
Fees for the purchase and sale of foreign means of payment	1,687,298	1,523,165	5,723,541	6,582,161	7,410,839	8,105,326
Total	**7,964,777**	**7,872,682**	**18,216,407**	**17,415,290**	**26,181,184**	**25,287,972**
Fee and commission expenses						
Payment services fee:						
– Domestic	-	-	(263,104)	(253,365)	(263,104)	(253,365)
– International	-	-	(221,231)	(221,314)	(221,231)	(221,314)
National Bank of Serbia’s fee and commission	-	-	(92,423)	(95,052)	(92,423)	(95,052)
Credit Bureau’s fees	-	-	(132,530)	(125,132)	(132,530)	(125,132)
Cards operations fee	-	-	(6,835,664)	(5,699,804)	(6,835,664)	(5,699,804)
Other fees and commissions	(21)	-	(359,928)	(532,194)	(359,949)	(532,194)
Fees for the purchase and sale of foreign means of payment	(256,601)	(290,181)	(3,797,250)	(4,681,180)	(4,053,850)	(4,971,360)
Total	**(256,622)**	**(290,181)**	**(11,702,129)**	**(11,608,039)**	**(11,958,751)**	**(11,898,220)**
Net fee and commission income	**7,708,155**	**7,582,501**	**6,514,277**	**5,807,250**	**14,222,433**	**13,389,752**

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

In RSD thousand

	2023	2022
Gains from changes in value of:		
- currency swap	66,881	1,611,533
- interest rate swap	2,367	
- forward	11,105	3,854
- financial instruments measured at fair value through profit and loss account- Securities	13,622	44,842
- gold and silver	17,945	14,776
- liabilities at arising from purchased shares-ISP	61	36
Total	**111,981**	**1,675,041**
Losses from changes in value of:		
- currency swap	(159)	(328,179)
- interest rate swap	(1,427)	-
- gold and silver	(9,801)	(10,095)
Total	**(11,387)**	**(338,274)**
Net gains	**100,594**	**1,336,767**

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

a) Measured at fair value

In RSD thousand

	2023	2022
Gains arising from derecognition of:		
- financial instruments measured at fair value through profit and loss	-	1,117
Total	**-**	**1,117**
Losses arising from derecognition of:		
- financial instruments measured at fair value through profit and loss	-	(3,489)
Total	**-**	**(3,489)**
Net gains/(losses)	**-**	**(2,372)**

b) Measured at amortized cost

In RSD thousand

	2023	2022
Gains arising from derecognition of:		
- financial instruments measured at amortized cost	29,554	130,057
Total	**29,554**	**130,057**
Net gains/(losses)	**29,554**	**130,057**

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

In RSD thousand

	2023	2023
Net foreign exchange gains	423,339	152,822
Net negative effects of contracted foreign currency clause application	(425,634)	(712,705)
Net gains	**(2,295)**	**(559,883)**

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

a) Overview by classes

	2023	2022
Revenue from reversal of impairment of financial assets at amortized cost	5,025,521	6,010,232
Revenue from reversal of provisions from off-balance sheet items	444,912	613,045
Revenues from collected written-off financial assets at amortized cost	577,463	345,785
Revenue from reversal of impairment of financial assets at fair value through OCI	229,293	151,577
Total	**6,277,189**	**7,120,639**
Impairment losses of financial assets at amortized cost	(9,068,812)	(11,020,088)
Provisions losses from off-balance sheet items	(385,486)	(873,545)
Written-off uncollectible financial assets at amortized cost	(74,492)	(43,161)
Impairment losses on financial assets at fair value through OCI	(120,867)	(33,062)
Modification losses of financial assets at amortized value	(3,869,215)	-
Total	**(13,518,872)**	**(11,969,856)**
Net impairment loss	**(7,241,683)**	**(4,849,217)**

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

a) Overview by classes (continued)

In September 2023, the National Bank of Serbia issued the Decision on temporary measures for banks relating to natural persons' housing loans (RS Official Gazette, No 78/2023), with the aim to ensure certainty of the housing loans repayment by clients, in circumstances of increased reference interest rates. The Decision relates to the temporary suspension of interest rate increase, and is applicable for the first loan of the client in the Bank that is approved for purchase of residential real estate with variable nominal interest rate, in the amount of up to 200.000 EUR in RSD equivalent at the middle exchange rate of the National Bank of Serbia on the day of disbursement of the loan, secured by a mortgage on residential real estate. For such loans, increase in nominal interest rate is temporarily suspended for the period of 15 months, starting from the October's installment up to the 31 December 2024. Specifically, the nominal interest rate on variable-rate housing loans granted until 30 July 2022 will be no higher than 4.08% for the term of the Decision, while the beneficiaries of housing loans granted starting from 31 July 2022 will pay the reduced installment in accordance with the original repayment plan. In addition, if a variable-rate loan was granted in the period from 31 July 2022 with a nominal variable interest rate that was lower than 4.08% at the time of approval - the nominal interest rate cannot be higher than 4.08%.

As the mentioned bylaw lead to the change in the contractual terms of the financial asset (primarily change in dynamics of the contractual cash flows), i.e. their modification, which in this case is not significant, i.e. does not lead to derecognition of the financial asset, the Bank, in accordance with the IFRS 9 requirements, recorded modification loss in the amount RSD 3.869.215 thousand which reduces amortized cost of existing financial assets that continue to recognize.

The amount of modification is amortized through the interest income starting from October 2023, up to and including December 2024, or to the date of full repayment of the loan, if shorter.

By 31 December 2023, the modification is amortised through interest income in the amount RSD 795.189 thousand.

Modified financial assets

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

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

The gross book value of financial assets which were modified in 2020, while the expected credit losses were valued at Lifetime ECL, as on 31st December 2023, is RSD 13.720.279 (in thousands). Out of that amount, RSD 8.641.852 (in thousands) refers to the receivables for which the expected losses are valued on 31st December 2023 and onwards for the entire Lifetime of the financial instrument.

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

a) Overview by classes (continued)

Modified financial assets (continued)

	In thousands RSD 2023
Financial assets modified since initial recognition	
Gross carrying amount of financial assets previously modified for which loss allowance has changed during the period to an amount equal to 12 month ECL from lifetime	3,297,643

The gross book value of financial assets which were modified in 2023, while the expected credit losses were valued at Lifetime ECL, as on 31st December 2023, is RSD 103,344,201 (in thousands). Out of that amount, RSD 17,437,950 (in thousands) refers to the receivables for which the expected losses are valued on 31st December 2023 and onwards for the entire Lifetime of the financial instrument

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

Movements in the allowance for impairment of balance-sheet items and provisions during the years ended 31 December 2023 and 2022 were as follows:
:

Movements in the allowance for impairment and provisions in 2023	In RSD thousand
Opening balance – 1st January 2023	**20,290,127**
Charge for the year	9,454,298
Reversal of impairment losses and release of provisions during the year	(5,470,432)
Increase in provisions due to exchange rate changes	12,036
Reversal of provisions due to exchange rate changes	(19,293)
Transfer to off-balance sheet items	(1,824,597)
Sale (transfer) of receivables	(38,681)
Reversal of provisions due to passage of time (unwinding)	(1,926)
Closing balance - 31 December 2023	**22,401,532**

Off-balance exposure that are written-off during 2023 amount 1,82525 million dinars as of 31 December 2023 and are still subject of collection techniques.

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

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

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

9. OTHER OPERATING INCOME

		In RSD thousand
	2023	**2022**
Property rental income	27,704	26,959
Reimbursed expenses	6,316	795
Income from dividends and equity interests	5,137	2,425
Income from fees from Credit biro	32,706	32,088
Income from IT services from foreign banks	33,996	27,499
Other income	141,208	88,230
Total	**247,067**	**177,996**

10. SALARIES, COMPENSATIONS AND OTHER PERSONAL EXPENSES

		In RSD thousand
	2023	**2022**
Net salaries	5,247,667	4,548,413
Tax on employee benefits	643,282	556,195
Contributions on employee benefits	2,480,058	2,176,735
Expenses for temporary and occasional work	56,324	52,041
Other personal expenses	60,855	123,462
Provisions for retirement benefits and other employee benefits	22,788	36,860
Total	**8,510,974**	**7,493,706**

11. DEPRECIATION AND AMORTIZATION

In RSD thousand

	2023	2022
Depreciation and amortization:		
– Amortization of intangible assets (Note 18)	1,080,854	987,037
– Depreciation of fixed assets (Note 19)	1,401,777	1,453,598
Total	**2,482,631**	**2,440,635**

12. OTHER INCOME

In RSD thousand

	2023	2022
Release of unused provisions of liabilities	420,732	600,847
Gains from sales of fixed assets	5,944	19,680
Income from changes in the value of fixed assets	5,362	-
Gains from use of write-offs assets and variable lease payments	57	7,014
Income from variable lease payments	579	725
Surpluses	9,793	59,269
Other income	49,443	60,159
Total	**491,910**	**747,694**

13. OTHER EXPENSES

	2023	2022
Material, energy and spare parts	532,899	454,119
IT costs	2,641,145	2,324,334
Maintenance of software	578,729	575,937
Professional services	246,821	396,613
Advertising, marketing and entertainment expenses	453,090	295,250
Mail and telecommunication expenses	378,851	394,095
Insurance premiums	2,791,672	2,527,291
Maintenance of property, plant and equipment	357,967	269,637
Rental cost	88,951	79,012
Fees and commissions	357,822	229,892
Taxes and contributions	95,716	110,359
IFRS 16 tax expenses	138,063	131,631
Physical-technical security	221,264	197,942
General and administrative expenses	416,827	430,560
Expenses for provisions for liabilities	863,723	821,853
Expenses from changes in the value of fixed assets and intangible assets	12,531	-
Losses from write-off property with right of use and variable lease payments	15,670	2,275
Other expenses	723,155	647,627
Total	**10,914,896**	**9,888,427**

14. INCOME TAXES

a) Components of income taxes

The components of income taxes are:

In RSD thousand

	2023	2022
Current income tax	2,832,246	1,906,312
Income from deferred tax assets and reduction of deferred tax liabilities	(52,503)	(27,023)
Expenses from reduction of deferred tax assets and creation of deferred tax liabilities	35,363	273,548
Total income tax expense	**2,815,106**	**2,152,837**

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

In thousand RSD

	2023.	2022.
Profit before tax	**23,853,984**	**14,832,176**
Income tax at the rate of 15%	**3,578,098**	**2,224,826**
Tax effects of expense reconciliation	(18,008)	(23,840)
Tax effects of revenue reconciliation	(727,852)	(295,415)
Temporary differences on the basis of:		
Depreciation differences recognized for tax and statutory reporting	35,154	113,203
Other Payment to employees	41	(4,084)
Unpaid and paid taxes and similar tax duties	(711)	7,491
Changes within real estate properties	(1,712)	-
Created and used provisions for liabilities and charges	(49,912)	(13,052)
The first-time IFRS9 adoption	-	142,967
Other adjustments	8	741
Effects of temporary differences	-	-
Current income tax stated in the income statement	**2,815,106**	**2,152,837**
Effective tax rate	***11.80%***	***14.51%***

For the purpose of determining legal obligations arising from income tax for the period 1 January - 31 December 2023, the Bank has adjusted expenditure and income reported in the income statement in accordance with the legal provisions.

The most significant amount is tax exemption of interest income generated from debt securities issued by the Republic, local governments and the National Bank of Serbia, and they are excluded from the tax base in the total amounting to RSD 4.442.909 thousand, which resulted in a tax effect in the amount of RSD 666.436thousand, for 2023 (31 December, 2022, tax base: RSD 1,497,037 thousand; tax effect RSD 224,555thousand).

14. INCOME TAXES (continued)

c) Deferred Tax Assets and Liabilities

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

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

Components of deferred tax assets / (liabilities):

In RSD thousand

	31.12.2023	31.12.2022
DTL based on the difference between the net accounting and tax value of fixed assets	(201,770)	(90,064)
DTA in respect to payment to employees and provision	18,963	15,586
Temporary differences based on unpaid and paid taxes and similar tax duties	13,744	13,033
DTA based on provisions	299,591	253,097
DTA based on real estate property impairment	11,888	10,176
DTA based on impairment of other assets	402	402
Deferred tax liabilities based on gains/losses from debt instruments - FV OCI	8,994	200,732
Net balance of deferred tax assets / (liabilities)	**151,812**	**402,962**

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

In RSD thousand

2023.	**Balance as of 1 January**	**Recognized to income statement**	**Recognized to OCI**	**Balance as of 31 December**
DTL based on the difference between the net accounting and tax value of fixed assets	(90,064)	(35,154)	(76,552)	(201,770)
DTA in respect to payment to employees and provision	15,586	3,377	-	18,963
Temporary differences based on unpaid and paid taxes and similar tax duties	13,033	711	-	13,744
DTA based on provisions	253,097	46,494		299,591
DTA based on real estate property impairment	10,176	1,712	-	11,888
DTA based on impairment of other assets	402	-		402
Deferred tax liabilities based on gains/losses from debt instruments - FV OCI	200,732	-	(191,738)	8,994
Total	**402,962**	**17,140**	**(268,290)**	**151,812**

14. INCOME TAXES (continued)

c) Deferred Tax Assets (continued)

Movements in deferred tax assets were as follows:

In RSD thousand

2022.	**Balance as of 1 January**	**Recognized to income statement**	**Recognized to OCI**	**Balance as of 31 December**
Temporary differences of depreciation recognized for tax and statutory reporting	190,578	(113,203)	820	(90,064)
DTL based on the difference between the net accounting and tax value of fixed assets	(168,260)	-	-	-
DTA in respect to payment to employees and provision	10,028	5,558	-	15,586
Temporary differences based on unpaid and paid taxes and similar tax duties	20,524	(7,491)	-	13,033
DTA based on provisions	241,519	11,578		253,097
DTA based on real estate property impairment	10,176	-	-	10,176
DTA based on impairment of other assets	402	-		402
Tax effects of the first-time IFRS9 adoption	142,968	(142,968)	-	-
Deferred tax liabilities based on gains/losses from debt instruments - FV OCI	(111,499)	-	312,231	200,732
Total	**336,437**	**(246,526)**	**313,051**	**402,962**

14. INCOME TAXES (continued)

d) Final current tax liability

Bank has finally calculated current tax liability reported in the balance sheet at 31 December 2023 amount to RSD 1,085,472 thousand (31 December 2022: RSD 505,457 thousand, current tax assets), and has been created by decreasing the amount of current income tax liability by the amount of prepaid income taxes for 2023, paid during 2023.

15. CASH AND BALANCES WITH CENTRAL BANK

a) Cash and balances with central bank

In RSD thousand

	2023	2022
In RSD		
Gyro account	74,365,329	47,433,927
Cash on hand	17,675,248	17,147,575
Deposits of surplus liquid assets	-	30,000,000
Accruals on cash and cash equivalents with Central Bank	46,243	9,223
	92,086,820	**94,590,725**
In foreign currency		
Cash on hand	12,654,437	11,321,748
Other monetary assets	22,209	31,446
Obligatory reserves with the National Bank of Serbia	40,556,609	47,060,187
	53,233,255	**58,413,381**
Gold and precious metals	96,588	88,444
Balance as of 31 December	**145,416,663**	**153,092,550**

15. CASH AND BALANCES WITH CENTRAL BANK (continued)

b) Overview of the differences between cash stated in the Statement of Cash Flows and Balance Sheet as of 31 December 2023 and 2022:

In RSD thousand

	Balance sheet	Cash flows*	Difference
In RSD			
Gyro account	74,365,329	74,365,329	-
Cash on hand	17,675,249	17,675,249	-
Accruals on cash and cash equivalents with Central Bank	46,243	-	46,243
Total	**92,086,821**	**92,040,578**	**46,243**
In foreign currency			
Cash on hand	12,654,437	12,654,437	-
Other monetary assets	22,209	22,209	-
Obligatory reserve with the NBS	40,556,608	-	40,556,608
Foreign currency accounts (Balance-sheet item Loans and receivables from banks and other financial organizations/customers)	-	87,357,938	(87,357,938)
Cheques in foreign currency (Balance-sheet item Loans and receivables from banks and other financial organizations/customers)	-	21,782	(21,782)
Total	**53,233,254**	**100,056,366**	**(46,823,112)**
Gold and other precious metals	96,588	96,588	-
Balance as of 31 December	**145,416,663**	**192,193,532**	**(46,776,869)**

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

15. CASH AND BALANCES WITH CENTRAL BANK (continued)

c) Changes on financing activities, received loans

		In RSD thousand
	2023	2022
Opening balance 1 January	**35,261,833**	**29,643,082**
Inflow from borrowings	35.160.508	8,603,056
Outflow from borrowings	(6.776.432)	(5,053,061)
Exchange Rate Effect	(27.921)	8,380
Closing balance - 31 December	**63,617,988**	**33,201,457**

16. FINANCIAL ASSETS CLASSIFICATION

a) Receivables from derivatives

		In RSD thousand
	2023	2022
In RSD		
Financial derivatives- FX swap	77,986	468,597
Financial derivatives-interest rate swap	2,367	-
Balance as of 31 December	**80,353**	**468,597**

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

16. FINANCIAL ASSETS CLASSIFICATION (continued)

b) Investments in subsidiaries and securitites

In RSD thousand

	2023					2022				
	Securities carried at fair value through Profit and Loss	**Securities carried at fair value through OCI**	**Securities carried at amortized cost**	**Investments in subsidiaries**	**Total**	**Securities carried at fair value through Profit and Loss**	**Securities carried at fair value through OCI**	**Securities carried at amortized cost**	**Investments in subsidiaries**	**Total**
– Shares and equity investment	81,761	10,089	-	1,199,472	1,291,322	46,689	11,727	-	1,199,472	**1,257,888**
– Debt securities issued by the Republic of Serbia	-	50,300,550	-	-	50,300,550	-	54,306,402	-	-	**54,306,402**
- Accrued interest on debt securities issued by the Republic of Serbia	-	1,624,877	-	-	1,624,877	-	1,053,649	-	-	**1,053,649**
-Corporate bonds	-	-	5,705,587	-	5,705,587	-	-	5,851,405	-	**5,851,405**
Balance as of 31 December	**81,761**	**51,935,516**	**5,705,587**	**1,199,472**	**58,922,336**	**46,689**	**55,371,778**	**5,851,405**	**1,199,472**	**62,469,344**

16. FINANCIAL ASSETS CLASSIFICATION (continued)

c) Securities and investments per share

In RSD thousand

	2023	2022
Investment in subsidiaries		
– Intesa Leasing d.o.o., Beograd share 100%	962,496	962,496
– Intesa Invest, Beograd share 100%	236,976	236,976
Total	**1,199,472**	**1,199,472**
Debt securities carried at fair value through profit and loss		
INTESA SANPAOLO	81,761	46,689
Total	**81,761**	**46,689**
Debt securities carried at fair value through OCI		
BONDS OF THE MINISTRY OF FINANCE OF THE REPUBLIC OF SERBIA	51,925,427	55,360,051
Other	10,089	11,727
Total	**51,935,516**	**55,371,778**
Debt securities carried at amortized cost		
Corporate bonds	5,875,000	5,875,000
Allowance for impairment	(169,413)	(23,595)
Total	**5,705,587**	**5,851,405**
Balance as of 31 December	**58,922,336**	**62,469,344**

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

a) Loans and receivables from banks and other financial organizations

In RSD thousand

	2023	2022
In RSD		
Loans under reverse repo transactions	60,000,000	20,000,000
Receivables for calculated interest	-	172
Liquidity and current assets loans	5,332,674	4,855,549
Investment loans	-	18,508
Other loans	7,542	7,342
Receivables based on factoring without the right of recourse and reverse factoring	84,608	91,950
Other placements (a)	1,757,930	5,749,380
Deferred income on receivables carried at amortized cost using the effective interest rate	(701)	(4,956)
Accrued interest calculated on the basis of loans, deposits and other placements	14,528	12,339
Total in RSD	**67,196,581**	**30,730,284**
In foreign currency		
Foreign currency accounts	87,362,338	31,114,844
Cheques	21,782	15,966
Other loans	3,103	3,090
Other non-purpose deposits	-	6,879,589
Special-purpose deposits	4,687	4,693
Other purpose deposits	255,439	255,763
Other placements (a)	2,316,592	1,374,284
Accrued interest calculated on the basis of loans, deposits and other placements	1,055	73,793
Total in foreign currency	**89,964,996**	**39,722,022**
Gross loans and receivables	**157,161,577**	**70,452,306**
Less: Allowance for impairment		
– in RSD	(31,212)	(151,003)
– in foreign currency	(4,463)	(6,331)
	(35,675)	**(157,334)**
Balance as of 31 December	**157,125,902**	**70,294,972**

Other placements in as at 31 December 2023 in amount of RSD 1,757,930thousand (31 December 2022: RSD 5,749,380thousand) and in foreign currency as at 31 December 2023 RSD 2,316,592 (31 December 2022: RSD 1,374,284 thousand) refers to the purchase and sale of foreign currency.

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

b) Loans and receivables from customers

		In RSD thousand
	2023	2022
In RSD		
Current account loans	5,451,905	4,656,483
Consumer loans	3,944,141	2,984,253
Liquidity and current assets loans	150,373,958	154,567,431
Loans for export	11,717	-
Investment loans	130,711,225	110,512,547
Mortgage loans	123,790,344	128,726,898
Cash loans	90,302,269	79,567,953
Other loans	17,561,253	21,628,335
Receivables based on purchased placements - forfeiting	284,764	548,319
Receivables based on factoring without the right of recourse and reverse factoring	8,354,359	7,692,426
Receivables based on factoring with the right of recourse	938,368	563,481
Placements based on acceptances, endorsements and payments made under guarantees	17,559	18,073
Placements on ceded receivables on other grounds	1,829,182	1,725,252
Accrued income on receivables carried at amortized cost using the effective interest rate	(1,000,096)	(974,046)
Accrued interest income calculated on the basis of loans, deposits and other placements	3,003,317	1,614,152
Accrued other income calculated on the basis of loans, deposits and other placements	2	-
Total in RSD	**535,574,267**	**513,831,556**
In foreign currency		
Loans for payment of import of goods and services in foreign currency	15,889,473	15,875,698
Loans for the purchase of immovable property in the country approved to a natural person	-	13,847
Other loans	2,812,602	1,202,190
Receivables from factoring without recourse factoring and reverse	505,099	1,038,007
Accrued interest calculated on the basis of loans, deposits and other placements	69,385	46,538
Total in foreign currency	**19,276,559**	**18,176,280**
Gross loans and receivables	**554,850,826**	**532,007,836**
Less: Allowance for impairment		
– in RSD	(20,296,768)	(18,461,749)
– in foreign currency	(531,726)	(546,058)
	(20,828,494)	**(19,007,807)**
Balance as of 31 December	**534,022,332**	**513,000,029**

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

c) Overview by type of client

In RSD thousand

	2023			**2022**		
	Short-term (up to one year)	**Long-term (more than one year)**	**Total**	**Short-term (up to one year)**	**Long-term (more than one year)**	**Total**
In RSD						
– Central bank, banks and other financial sector and insurance	62,442,934	4,753,646	67,196,580	28,663,749	1,597,536	30,261,285
– Corporate customers	52,093,596	176,951,624	229,045,220	59,949,383	175,871,666	235,821,049
– Retail customers	2,939,422	257,979,997	260,919,419	4,451,905	249,683,595	254,135,500
– Public sector	793,957	41,347,580	42,141,537	133,383	20,078,238	20,211,621
– Foreign banks and financial organizations	-	-	-	469,000	-	469,000
– Foreign entities	21,454	281,572	303,026	891	285,694	286,585
– Other customers-non-profit institutions	269	12,529	12,798	662	15,421	16,083
– Other customers non-budgeted legal entities and institutions	50,476	1,225,624	1,276,100	33,671	1,201,601	1,235,272
– Other customers- companies and other legal entities in bankruptcy	1,725,720	150,448	1,876,168	1,975,928	149,519	2,125,447
Total in RSD	**120,067,828**	**482,703,020**	**602,770,848**	**95,678,572**	**448,883,270**	**544,561,842**
In foreign currency						
– Central bank, banks and other financial sector and insurance	1,762,292	3,103	1,765,395	1,298,150	3,091	1,301,241
– Corporate customers	475,352	15,652,439	16,127,791	93,838	15,922,656	16,016,494
– Retail customers	40,226	1,183,202	1,223,428	31,390	1,003,288	1,034,678
– Public sector	612	55,471	56,083	1,281	113,524	114,805
– Foreign banks and financial organizations	88,199,601	-	88,199,601	38,420,780	-	38,420,780
– Foreign entities	1,863,455	2,892	1,866,347	991,189	15,230	1,006,419
– Other customers-non-profit institutions	7	1,475	1,482	-	3,204	3,204
– Other customers non-budgeted legal entities and institutions	-	1,421	1,421	-	672	672
– Other customers- companies and other legal entities in bankruptcy	7	-	7	7	-	7
Total in foreign currency	**92,341,552**	**16,900,003**	**109,241,555**	**40,836,635**	**17,061,665**	**57,898,300**
Gross loans and receivables	**212,409,380**	**499,603,023**	**712,012,403**	**136,515,207**	**465,944,935**	**602,460,142**
Less: Allowance for impairment - banks and other financial organizations	(33,917)	(1,758)	(35,675)	(143,911)	(13,423)	(157,334)
Less: Allowance for impairment- customers	(2,397,969)	(18,430,525)	(20,828,494)	(2,370,677)	(16,637,130)	(19,007,807)
	(2,431,886)	(18,432,283)	(20,864,169)	(143,911)	(13,423)	(157,334)
As of 31 December	**209,977,494**	**481,170,740**	**691,148,234**	**134,000,619**	**449,294,382**	**583,295,001**

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

Short-term loans have been granted to companies for funding business activities within the following sectors: trade and services, manufacturing, construction, agriculture and food industry, as for the other purposes, with interest rates ranging at the moment of disbursement from 3.30% and 13.08% per annum on RSD loans, and from 1.90% and 10.92% per annum on loans with the foreign currency clause and foreign currency loans.

Interest rates on the long-term loans to legal entities in RSD range at the moment of disbursement from 4.20% and 10.96%, and on RSD long-term loans with the foreign currency clause, as well as on foreign currency loans, from 1.30% and 10.92% per annum.

Short-term loans to retail customers, have been approved with interest rates ranging from 10.45% to 18.95% per annum for loans with no currency clause.

Short-term loans to small business customers, have been approved with interest rates ranging from 7.50% to 16.00% per annum for loans with no currency clause, and from 2.50% do 14.00% per annum for loans with the foreign currency clause.

Interest rates on overdrafts on retail current accounts range from 23.88% to 29.85% per annum and for small corporate customers from 8.00% to 24% per annum.

Short-term loans to registered agriculture farmers have been approved with interest rates ranging from 7.50% to 16.00% per annum for loans with no currency clause, and from 3.50% to 10.67% per annum for loans with the foreign currency clause.

Long-term loans to retail customers have been granted as non-purpose loans, consumer goods purchase loans, renovation, adaptation and the purchase of the residential and business space for the period from 13 months to 30 years with interest rates ranging from 3.83% to 10.00% per annum for loans with the foreign currency clause, as well as from 8.99% to 18.95% for the loans with no currency clause.

Long-term loans to small businesses have been granted as non-purpose loans, consumer goods purchase loans, for the period from 13 to 36 months with interest rate ranging from 6.90% to 16.00% per annum on loans without the foreign currency clause and from 2.20% to 14.00% per annum on loans with the foreign currency clause, while long-term investment loans for adaptation and the purchase of the residential and business space for the period from 13 months to 10 years with interest rates ranging from 2.14% to 7.70%+3M EURIBOR per annum for loans with the foreign currency clause.

Long-term loans to registered agriculture farmers have been granted as purpose loans (loans for fixed assets) and non-purpose loans (for the period from 12 months to maximum 36 months), and for working capital. Loans with a term of repayment over 36 months have been approved with interest rates ranging from 4.13% to 9.00%+6m EURIBOR, for loans with the foreign currency clause, i.e. from 5.95% to 14.71% for loans with no currency clause. The interest rate for loans with a repayment term of 12 to 36 months ranged from 4.50% to 12.00% per year with a currency clause, i.e. from 6.95% to 16.00% without a currency clause, while variable interest rates on loans with the specified repayment term ranged from 3.13% to 13.07%+6M EURIBOR for dinar loans with a currency clause, and from 3.30% to 8.00+3M BELIBOR for loans in RSD currency.

18. INTANGIBLE ASSETS

In RSD thousand

	Licenses	Software	Intangible assets under construction	Total
COST				
Balance as of 1 January 2022	**482.612**	**9,564,738**	**189,972**	**10,237,322**
Additions during the year	-	-	734,266	734,266
Transfers	-	726,188	(726,188)	-
Disposals and write offs	-	(1,874,072)		(1,874,072)
Balance as of 31 December 2022	**482,612**	**8,416,854**	**198,050**	**9,097,516**
Additions during the year	-	-	**472,804**	**472,804**
Transfers	-	395,408	(395,408)	-
Disposals and write offs	-	(242,417)	-	(242,417)
Balance as of 31 December 2023	**482,612**	**8,569,844**	**275,446**	**9,327,902**
ACCUMULATED AMORTIZATION				
Balance as of 1 January 2022	**482,612**	**4,895,544**	**-**	**5,378,156**
Amortization charge (Note 11)	-	987,037	-	987,037
Disposals and write offs	-	(1,870,378)	-	(1,870,378)
Balance as of 31 December 2022	**482,612**	**4,012,203**	**-**	**4,494,815**
Amortization charge (Note 11)	-	1,080,854,	-	(1,080,854)
Disposals and write offs	-	(242,070)	-	(242,070)
Balance as of 31 December 2023	**482,612**	**4,850,987**	**-**	**5,333,599**
Carrying value as of:				
– 31 December 2023	**-**	**3,718,857**	**275,446**	**3,994,303**
– 31 December 2022	**-**	**4,404,651**	**198,050**	**4,602,701**

The largest part of the investment in software in 2023 relates to software Digital integration RSD 104,248.

19. PROPERTY, PLANT AND EQUIPMENT AND RIGHT OF USE ASSETS

a) Property, plant and equipment

In RSD thousand

	Land and buildings	Equipment and equipment under finance lease	Leasehold improvements	Construction in progress	Right of use assets	Total property, plant and equipment
COST/REVALUATION						
Balance as of 1 January 2022	**6,851,160**	**4,096,127**	**1,136,844**	**41,142**	**3,178,230**	**15,303,503**
Additions during the year				1,594,771		1,594,771
Transfers from construction in progress	28,783	345,913	135,911	(1,481,674)	971,067	-
Disposals and write offs	-	(379,358)	(114,484)		(175,827)	(669,669)
Balance as of 31 December 2022	**6,879,943**	**4,062,682**	**1,158,271**	**154,239**	**3,973,470**	**16,228,605**
Balance as of 1 January 2023	**6,879,943**	**4,062,682**	**1,158,271**	**154,239**	**3,973,470**	**16,228,605**
Additions during the year				1,310,840	-	1,310,840
Transfers from construction in progress	120,860	501,046	118,043	(1,407,547)	667,598	-
Disposals and write offs	-	(417,634)	-	-	(186,785)	(604,419))
Effects of fair value appraisal as of 31 December 2023	(230,558)	-	-	-	-	**(230,558)**
Balance as of 31 December 2023	**6,770,245**	**4,146,094**	**1,276,314**	**57,532**	**4,454,283**	**16,704,468**
ACCUMULATED DEPRECIATION						
Balance as of 1 January 2022	**243,237**	**2,866,303**	**853,745**	-	**1,404,470**	**5,367,755**
Depreciation charge (Note 11)	245,266	375,218	117,080	-	716,034	**1,453,598**
Disposals and write/offs		(377,402	(111,306)	-	(100,432)	(589,140)
Balance as of 31 December 2022	**488,503**	**2,864,119**	**859,519**	-	**2,020,072**	**6,232,213**
Depreciation charge (Note 11)	246,522	392,169	131,772	-	631,314	1,401,777
Disposals and write/offs	-	(414,406)	-	-	(183,213)	(597,619)
	(735,025)	-	-	-	-	-
Balance as of 31 December 2023	-	**2,841,882**	**991,291**	-	**2,468,173**	**6,301,346**
Effects of fair value appraisal as of 31 December 2023						
Carrying value as of:						
– 31 December 2023	**6,770,245**	**1,304,212**	**285,023**	**57,532**	**1,986,110**	**10,403.122**
– 31 December 2022	**6,391,440**	**1,198,563**	**298,751**	**154,239**	**1,953,398**	**9,996,391**

Net effect of the changes on the carrying amount of buildings based on the fair value assessment as at 31 December 2023 in amount of RSD 504,467 thousand recorded as a positive changes based on decrease accumulated depreciation in the amount of RSD 735,025 thousand and negative changes based on decrease of costs in amount of RSD 230,558 thousand .

19. PROPERTY, PLANT AND EQUIPMENT AND RIGHT OF USE ASSETS (continued)

a) Property, plant and equipment (continued)

As of 31 December 2023, the Bank has title deeds for property it owns and has no buildings pledged as collateral.

In accordance with the accounting policies changes from 2017 (passage from the cost model to the redetermination of value for measurement subsequent to initial disclosure of functional property; passage from accounting at cost to accounting at fair value for investment property), Parent bank has engaged the authorized appraisal company to assess fair value of the properties, at the level of the Intesa Sanpaolo Group, including Banca Intesa a.d. Beograd. On 31 December 2023, the authorized appraiser carried out the assessment of the properties fair value that Banca Intesa ad Beograd uses for its own business.

Considering the change in the valuation criterion occurred at the end of the business year, depreciation for 2023 has been calculated using the preceding cost criterion, therefore, all property has been amortised up to 31 December 2023.

The posting of the effects of the fair value revaluation in the Bank's business books was carried out through derecognition of accumulated depreciation, i.e. the fer value was posted as the new cost of the real estate.

Total net effect at fair value assessment of property as at 31 December 2020 in amount of RSD 504,467 thousand based on:

- Net positive change in reserves as a part of the Bank's capital in amount of RSD 511,637 thousand (positive revaluation effects of RSD 552,331 thousand and negative revaluation effects in amount of RSD 40,694 thousand),
- Other income in amount of RSD 5,362 thousand and Other expenses in the amount of RSD 12,531 thousand in profit and loss

If the Bank continued to apply cost model for real estate valuation, net present value would amount to RSD 4,623,555 thousand, at December 31, 2023 (31 December 2022: RSD 4,764,600 thousand).

b) Right of use assets

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

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

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

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

Information about right of use assets, amounts recognized in the income statement and cash flow are shown as follows:

19. PROPERTY, PLANT AND EQUIPMENT AND RIGHT OF USE ASSETS (continued)

b) Right of use assets (continued)

In RSD thousand

	Automobile	Real estate	Equipment	Total
COST				
Balance as of 1 January 2022	**234,390**	**2,932,273**	**11,567**	**3,178,230**
Additions during the year	38,066	109,392	823,610	971,068
Disposals during the year	(3,783)	(172,045)	-	(175,828)
Balance as of 31 December 2022	**268,673**	**2,869,620**	**835,177**	**3,973,470**
Additions during the year	**130,711**	**403,534**	**133,354**	**667,599**
Disposals during the year	**(89,378)**	**(85,840)**	**(11,568)**	**(186,786)**
Balance as of 31 December 2023	**310,006**	**3,187,314**	**956,963**	**4,454,283**
ACCUMULATED DEPRECIATION				
Balance as of 1 January 2022	**126,360**	**1,272,054**	**6,056**	**1,404,470**
Depreciation charge (Note 11)	53,552	479,017	183,466	716,035
Contracts ending and disposals	(2,332)	(98,101)	-	(100,433)
Balance as of 31 December 2022	**177,580**	**1,652,970**	**189,522**	**2,020,072**
Depreciation charge (Note 11)	54,705	406,633	169,976	631,314
Contracts ending and disposals	(88,640)	(83,005)	(11,568)	(183,213)
Balance as of 31 December 2023	**143,645**	**1,976,598**	**347,930**	**2,468,173**
Carrying value as of:				
– 31 December 2023	**166,360**	**1,210,716**	**609,033**	**1,986,110**
– 31 December 2022	**91,092**	**1,216,650**	**645,655**	**1,953,398**

Amount recognized in profit and loss

Leases under the IFRS 16

In RSD thousand

	2023.	2022.
Interest on lease liabilities (Note 3b)	87,688	44,305
Expenses relating short-term leases (exempt from the IFRS16, Note 13)	42,931	25,387
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets (exempt from the IFRS16, Note 13)	55,030	53,625
Tax expenses – IFRS 16 (Note 13)	138,063	131,631
Net effects (gain) relating to variable payments and right of use assets disposals (Note 12 and 13)	(15.034)	(5,464)
Total amount recognized in profit and loss	**308,678**	**249,484**

Amounts recognized in statement of cash flows

In RSD thousand

	2023.	2022.
Total cash outflow for leases IFRS 16	**619,725**	**503.205**

20. OTHER ASSETS

In RSD thousand

	2023	2022
Trade receivables	209	201
Receivables from employees	3,694	4,413
Receivables for overpaid taxes, except income tax	1,997	123
Advances paid	117,703	141,821
Other receivables from operating activities (a)	14,649,800	8,711,624
Assets received through collection of receivables	151,262	152,690
Other assets (b)	568,041	956,207
Fee and commission receivables related to other assets:		
– in RSD	372,257	373,276
– in foreign currency	49,807	22,900
Accrued interest expenses:		
– in RSD	539,988	391,266
Accrued other expenses:		
– in RSD	181,132	149,364
– in foreign currency	-	4
Total other assets	**16,635,890**	**10,903,889**
Less: Allowance for impairment	(738,827)	(413,424)
Balance as of 31 December	**15,897,063**	**10,490,465**

Other receivables from operating activities in amount of RSD 14,649,800 thousand as of 31 December 2023 (31 December 2022: RSD 8,711,624 thousand) mostly relate to receivables in RSD with respect to payment cards from other cards issuers -, and debit cards in the amount of RSD 13,417,583thousand (31 December 2022: RSD 7,639,4711thousand).

Other assets as at 31 December 2023 in amount of RSD 568,041thousand (31 December 2022: 956,207thousand) mostly consist of transient account for payment cash on ATM which as at 31 December 2023 in amount of RSD 563,076thousand (31 December 2022: RSD 915,722 thousand) mostly consist of transient account for payment cash on ATS.

21. LIABILITIES BASED ON DERIVATIVES

In RSD thousand

	2023	2022
Liabilities based on derivatives - swap	159	8,305
Liabilities based on derivatives-interest rate swap	1,427	-
Balance as of 31 December	**1,586**	**8,305**

22. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, CUSTOMERS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK

a) Deposits and other liabilities due to banks, other financial organizations and Central Bank

In RSD thousand

	2023	2022
In RSD		
Transaction deposits	1,790,372	2,259,061
Deposits underlying granted loans	4,296	7,433
Special-purpose deposits	367,301	557,112
Other deposits	13,855,895	11,221,471
Received loans	585,000	585,000
Interest payable	237,463	113,456
Accrued expenses for liabilities at amortized value, by applying the effective interest rate method	(4,304)	(5,282)
Fee and commission payable	19	19
Total in RSD	**16,836,042**	**14,738,270**
In foreign currency		
Transaction deposits	404,173	1,165,461
Deposits underlying granted loans	1,640	1,643
Special-purpose deposits	338,052	251,282
Other deposits	9,552,919	37,372,536
Received loans (a)	37,655,304	34,971,695
Other financial liabilities (b)	3,456,160	3,427,431
Interest payable	448,190	343,920
Accrued expenses for liabilities at amortized value, by applying the effective interest rate method	(237,933)	(177,697)
Total in foreign currency	**51,618,505**	**77,356,271**
Balance as of 31 December	**68,454,547**	**92,094,541**

(a) During 2023 received loans in foreign currency increased in the amount of RSD 2,683,609thousand (31 December 2022 RSD 2,232,727thousand) due to new credit lines withdrawn from international financial institutions

(b) Other financial liabilities in amount of RSD 3,456,160 thousand as of 31 December 2023 (31 December 2022 RSD 3,427,431 thousand) mostly related to liabilities for outstanding payments received from foreign country in foreign currency in amount of RSD 3,448,323thousand (31 December 2022 RSD 3,420,548 thousand).

22. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, CUSTOMERS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK (continued)

b) Deposits and other liabilities due to customers

In RSD thousand

	2023	2022
In RSD		
Transaction deposits	231,707,815	193,172,588
Savings deposits	12,168,720	6,847,967
Deposits underlying granted loans	1,777,598	2,099,842
Special-purpose deposits	10,103,597	8,773,482
Other deposits	45,501,056	36,084,042
Deposits and loans due within one day (overnight)	3,454,383	1,551,693
Interest payable	1,015,119	539,321
Total in RSD	**305,728,288**	**249,068,935**
In foreign currency		
Transaction deposits	267,161,907	282,108,033
Savings deposits	79,172,315	53,953,743
Deposits underlying granted loans	5,863,391	5,656,007
Special-purpose deposits	2,839,111	3,025,903
Other deposits	21,623,081	18,374,961
Received loans (a)	25,962,684	290,138
Interest payable	1,335,434	372,789
Total in foreign currency	**403,957,923**	**363,781,574**
Balance as of 31 December	**709,686,211**	**612,850,509**

Received loans in foreign currency during 2023 increased in the amount of RSD 25,672,546 thousand due to a new credit line drawn by a related party.

22. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, CUSTOMERS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK (continued)

c) Deposits and other liabilities to banks, customers, other financial organizations and Central Bank by contractual maturity

In RSD thousand

	2023			2022		
	Short-term (up to one year)	Long-term (more than one year)	Total	Short-term (up to one year)	Long-term (more than one year)	Total
In RSD						
Transaction deposits	233,498,186	-	233,498,186	195,431,650	-	195,431,650
Saving deposits	9,714,527	2,454,193	12,168,720	4,617,112	2,230,855	6,847,967
Deposits related to granted loans	389,585	1,392,309	1,781,894	166,774	1,940,501	2,107,275
Special-purpose deposits	9,772,713	698,185	10,470,898	8,374,472	956,122	9,330,594
Other deposits	55,497,477	3,859,475	59,356,952	46,962,304	343,208	47,305,512
Overnight deposits and loans	3,454,383	-	3,454,383	1,551,693	-	1,551,693
Received loans	-	585,000	585,000	-	585,000	585,000
Interest payable	1,252,582	-	1,252,582	652,778	-	652,778
Accrued expenses for liabilities at amortized value, by applying the effective interest rate method	-	(4,304)	(4,304)	-	(5,282)	(5,282)
Fee and commission payable	19	-	19	19	-	19
Total in RSD	**313,579,472**	**8,984,858**	**322,564,330**	**257,756,802**	**6,050,404**	**263,807,206**
In foreign currency						
Transaction deposits	267,566,080	-	267,566,080	283,273,494	-	283,273,494
Saving deposits	60,191,637	18,980,678	79,172,315	39,029,263	14,924,480	53,953,743
Deposits related to granted loans	1,402,849	4,462,182	5,865,031	1,709,904	3,947,746	5,657,650
Special-purpose deposits	2,804,690	372,473	3,177,163	2,959,046	318,139	3,277,185
Other deposits	21,470,775	9,705,224	31,175,999	52,654,697	3,092,799	55,747,496
Received loans	-	63,617,988	63,617,988	-	35,261,833	35,261,833
Other financial liabilities	3,456,161	-	3,456,161	3,427,431	-	3,427,431
Interest payable	1,783,623	1	1,783,624	716,709	-	716,709
Accrued expenses for liabilities at amortized value, by applying the effective interest rate method	-	(237,933)	(237,933)	-	(177,697)	(177,697)
Total in foreign currency	**358,675,815**	**96,900,613**	**455,576,428**	**383,770,544**	**57,367,300**	**441,137,844**
Balance as of 31 December	**672,255,287**	**105,885,471**	**778,140,758**	**641,527,346**	**63,417,704**	**704,945,050**

22. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, CUSTOMERS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK (continued)

d) Deposits and other liabilities to banks, customers, other financial organizations and Central Bank by type of customers

In RSD thousand

	2023			2022		
	Short-term (up to one year)	Long-term (more than one year)	Total	Short-term (up to one year)	Long-term (more than one year)	Total
In RSD						
– Central bank, banks and other financial sector and insurance	13,593,287	2,253,464	15,846,751	12,919,968	341,000	13,260,968
– Holding companies	19	-	19	81	-	81
– Corporate customers	147,298,783	3,598,321	150,897,104	124,709,675	2,861,488	127,571,163
– Retail customers	127,925,663	2,497,732	130,423,395	101,424,650	2,245,961	103,670,611
– Public sector	7,483,935	2,205	7,486,140	6,084,025	2,208	6,086,233
– Foreign banks and financial organizations	408,595	580,696	989,291	897,585	579,718	1,477,303
– Foreign entities	430,057	12,574	442,631	353,927	12,323	366,250
– Other customers – non-profit institutions	7,930,434	-	7,930,434	7,381,799	-	7,381,799
– Other customers – banks in bankruptcy	1,712,836	29,366	1,742,202	1,625,266	7,706	1,632,972
– Other customers non-budgeted legal entities and institutions	346,306	-	346,306	350,411	-	350,411
– Other customers- companies and other legal entities in bankruptcy	5,397,570	10,500	5,408,070	1,967,253	-	1,967,253
– Other customers-entrepreneurs in bankruptcy	9	-	9			
– Other customers –other financial organization in bankruptcy	13,095	-	13,095	1,256	-	1,256
– Other customers – public sector in bankruptcy	1,038,883	-	1,038,883	40,906	-	40,906
Total in RSD	**313,579,472**	**8,984,858**	**322,564,330**	**257,756,802**	**6,050,404**	**263,807,206**
In foreign currency						
– Central bank, banks and other financial sector and insurance	8,869,068	1,643,244	10,512,312	2,769,550	829,423	3,598,973
– Corporate customers	74,660,935	11,083,907	85,744,842	80,550,599	4,738,487	85,289,086
– Retail customers	262,767,690	20,384,130	283,151,820	253,388,804	16,605,526	269,994,330
– Public sector	1,190,434	298,540	1,488,974	1,164,673	291,113	1,455,786
– Foreign banks and financial organizations	3,688,823	37,417,371	41,106,194	38,963,299	34,793,998	73,757,297
– Foreign entities	4,941,196	25,991,048	30,932,244	4,545,740	108,284	4,654,024
– Other customers - non-profit institutions	1,989,344	32,691	2,022,035	1,862,540	469	1,863,009
– Other customers - non-budgeted legal entities and institutions	315,359	45,698	361,057	321,244	-	321,244
– Other customers- companies and other legal entities in bankruptcy	252,966	3,984	256,950	204,095	-	204,095
Total in foreign currency	**358,675,815**	**96,900,613**	**455,576,428**	**383,770,544**	**57,367,300**	**441,137,844**
Balance as of 31 December	**672,255,287**	**105,885,471**	**778,140,758**	**641,527,346**	**63,417,704**	**704,945,050**

22. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, CUSTOMERS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK (continued)

On the corporate transaction deposits, the Bank pays interest at rates up to of the annual reference interest rate depending on the currency and the amount of deposit.

On term deposits in RSD and foreign currency (new deposits), the Bank pays interest at rates ranging up to 7.95% per annum (interest rate at the moment of contracting),, depending on the maturity period and the currency.

On special-purpose deposits of natural persons the Bank does not pay interest. On special-purpose deposits of customers Bank pays interest at rates ranging up to 6.50% per annum (interest rates at the moment of contracting), depending on currency.

On short-term retail deposits in RSD the interest is paid at rates ranging from 0.00 % to 1.75% per annum, depending on the maturity period, Interest rates on short-term retail deposits in foreign currency range from 0,00% to 0.30%% per annum, depending on the maturity period and the currency.

On short-term small business client deposits in RSD the interest is paid at rates ranging from 0.45 % to 5.70% per annum, depending on the maturity period, Interest rates on short-term small business deposits in foreign currency range from 1.41% to 4.20% per annum, depending on the maturity period and the currency.

Long-term retail deposits in foreign currency are deposited at interest rates ranging from 0.01% to 0.70% per annum, depending on the maturity period and the currency. Long-term retail deposits in RSD are deposited at interest rates ranging from 2.00% to 3.00% per annum, depending on the maturity period.

(e) Subordinated debt

In RSD thousand

	2023	2022
In foreign currency		
Liabilities in foreign currency for subordinated loans	11,717,370	-
Accruals for liabilities based on interest and other accrued expenses on subordinated liabilities	52,009	-
Balance as of 31 December	**11,769,379**	**-**

Name of client	Currency	Subordinated loan	Maturity
Intesa Sanpaolo Holding International S.A. Luksemburg	EUR	100,000,000.00	09.06.2033.
Balance as of 31 December	EUR	**100,000,000.00**	

23. PROVISIONS

In RSD thousand

	2023	2022
Provisions for off-balance sheet items (a)	630,362	689,968
Provisions for employee benefits:		
– restructuring (b)	124,757	86,352
– long-term retirement benefits and unused days of vacation (c)	316,921	294,133
Provisions for litigations (Note 29 (a))	1,693,076	1,549,992
Balance as of 31 December	**2,765,116**	**2,620,445**

In RSD thousand

	2023	2022
Movements in provisions for off-balance sheet items		
Opening balance	**689,968**	**429,353**
Release of provisions	(444,912)	(613,045)
Release of provisions - exchange rate	(887)	(1,427)
Increase of provisions	(385,486)	873,670
Increase of provisions – exchange rate	(706)	1,417
Balance as of 31 December	**(630,362)**	**689,968**
Movements in provisions for restructuring		
Opening balance	86,352	152,264
Release of provisions directly from provisions	(66,301)	(125,310)
Increase of provisions	104,706	59,398
Balance as of 31 December	**124,757**	**86,352**
Movements in provisions for employee retirement benefits and unused days of vacation		
Opening balance	294,133	257,273
Increase of provisions	22,788	36,860
Balance as of 31 December	**316,921**	**294,133**
Movements in provisions for litigations		
Opening balance	1.549.992	1,562,375
Release of provisions through profit and loss	(420,733)	(600,847)
Release of provisions directly from provisions	(195,200)	(173,991)
Increase of provisions	759,017	762,455
Balance as of 31 December (Notes 29)	**1,693,076**	**1,549,992**

23. PROVISIONS (continued)

(a) According to the Bank's internal policy, provisioning for off-balance sheet items exposed to risk is performed in the same manner as for balance sheet assets, i,e, off-balance sheet items are classified into recoverability categories based on the estimation of the recoverable amount of receivables when it comes to outflow of resources and probability of outflow of resources,

(b) The project of considering and analysing efficiency of business processes, which may lead to restructuring and decrease in number of employees (redundancies), which started, but is still not fully completed, therefore, the Bank made provisions in the same manner as in previous years, based on estimated number of employees that potentially could be redundant, For the purpose of estimate, available laws and regulations, as well as internal acts have been observed (Labour Law and Collective agreement),

(c) Long-term provision for retirement benefits has been recognized on the basis of an independent actuary's calculation at the balance sheet date in the amount of present value of estimated future cash outflows, The present value of estimated future cash outflows is calculated using the discount rate of 6.30% per annum, which reflects the long-term rate of return on high quality debt securities, Republic of Serbia bonds and treasury bonds of the Ministry of Finance Republic of Serbia,

The provision was determined in accordance with the Bank's Collective Agreement, using the assumption of average salary increase rate of 7.00% per annum over the period for which the provision has been formed,

The provision for unused days of vacation is calculated on the basis of an independent actuary's report at the balance sheet date, In accordance with article 114 of the Labour Law in Republic of Serbia, during vacation an employee is entitled to compensation in the amount of average salary for the last twelve months, When calculating the provision for unused vacation days, the following factors are significant:

- average gross salary in the Bank, and
- number of unused days of vacation,

24. OTHER LIABILITIES

In RSD thousand

	2023	2022
Net salaries and compensations	605,591	499,172
Taxes, VAT, contributions and other duties payable,		375,810
excluding income tax payable	446,842	
Vendor liabilities	873,347	873,481
Advances received	168,097	75,746
Other liabilities (a)	11,180,114	6,526,450
	13,273,991	**8,350,659**
Accruals and deferred income		
Accrued liabilities for other expenses:		
– in RSD	95	116
Deferred interest income:		
– in RSD	65,336	30,621
Other deferred income:		
– in RSD	81,624	75,490
Other deferrals (b)		
– in RSD	3,415,229	2,454,740
– in foreign currency	2,433,180	5,948,401
	5,995,464	**8,509,368**
Lease liabilities	2,076,354	2,032,438
Total	**21,345,809**	**18,892,465**
Other tax liabilities	101,832	93,225
Balance as of 31 December	**21,447,641**	**18,985,690**

(a) Other liabilities in 2023 and 2022 mostly consist of payment for credit card obligations and liabilities in RSD for calculated payment orders - payment cards.

(b) Other accruals in foreign currency in 2023 and 2022 mostly consist of accruals accounts balances – buy or sales of foreign currency.

24. OTHER LIABILITIES (continued)

(c) Liabilities from long-term real-estate, vehicles and equipment leases in accordance with IFRS 16, as of December 31, 2023 and 2022 are shown as follows:

		2023.		2022.
Minimal lease payments	**Present value**	**Contractual undiscounted cash flows**	**Present value**	**Contractual undiscounted cash flows**
Up to 1 year	596,073	680,839	67,791	68,494
From 1 to 5 years	1,385,146	1,499,454	1,496,405	1,644,384
Over 5 years	95,135	103,083	468,242	507,225
Balance as of 31 December	**2,076,354**	**2,283,376**	**2,032,438**	**2,220,103**

(e) Changes on liabilities in accordance IFRS 16, are shown as folow:

In RSD thousand	2023.	2022.
	2,032,438	**1,788,118**
Increase during the year	667,598	832,483
Decrease during the year	(2,506)	(82,405)
Payments	(707,413)	(547,510)
Interest	87,688	44,305
Changes in the value of liabilities - exchange rate difference	(1,451)	(2,553)
Balance as of 31 December	**2,076,354**	**2,032,438**

25. EQUITY

a) Equity structure

The Bank's equity as of 31 December 2023 consists of shares capital, share premium, reserves, revaluation reserves and current and previous year profit.

Structure of the Bank's equity is presented in table below:

In RSD thousand

	2023	2022
Share capital – ordinary shares	21,315,900	21,315,900
Share premium	20,432,569	20,432,569
Reserves from profit	46,706,407	43,488,903
Fair value reserves of securities	(59,460)	(1,144,341)
Revaluation reserves arising from changes in fair value of buildings	1,382,615	948,821
Retained earnings	1,291	47,670
Current year profit	21,038,879	12,679,339
Balance as of 31 December	**110,818,201**	**97,768,861**

/i/ Share capital

As of 31December 2023, the Bank's registered share capital consists of 213,159 ordinary shares with nominal value of RSD 100 thousand per share.

The Bank's shareholder as of 31 December 2023 and 2022 is presented in the table below:

Shareholder	Number of shares	Nominal share value (RSD thousand)	Share in %
ntesa Sanpaolo Holding International S,A,, Luxembourg	213,159	21,315,900	100,00
Total	**213,159**	**21,315,900**	**100,00**

The amount of paid dividend during the period as well as related dividend per share are presented as follows:

/ii/ Share premium

Share premium amounting to of RSD 20,432,569 thousand as of 31 December 2023 (31 December 2022: RSD 20,432,569 thousand) is the result of the Bank's status change, i.e., the merger of Panonska banka a,d, Novi Sad in the amount of RSD 2,989,941 thousand in 2007, as well as the result of the 4th, 5th and 6th issues of ordinary shares without public offer for the purpose of share capital increase.

/iii/ Reserves

In RSD thousand

	2023	2022
Other reserves from profit	46,706,407	43,488,903
Losses from the change in the value of equity instruments	(8,496)	(6,858)
Gains/losses from the change in the value of debt instruments	(50,964)	(1,137,483)
Revaluation reserves arising from changes in fair value of buildings	1,382,615	948,821
Total	**48,029,562**	**43,293,383**

25. EQUITY (continued)

b) Performance indicators – compliance with legal requirements

The Bank is required to reconcile the scope and the structure of its operations and risk placements with performance indicators prescribed by the Law on Banks and relevant decisions of the National Bank of Serbia passed on the basis of the aforementioned Law.

As of 31December 2023, the Bank was in compliance with all prescribed performance indicators.

Performance indicators	Prescribed	Realized	
		31 December 2023	31 December 2022
Regulatory capital	Minimum EUR 10 million	EUR 689 millions	EUR 693 millions
Minimum ratio of the adequacy of the basic share capital specified by the bank	Minimum 4,5%	17,07%	17.30%
Minimum ratio of the adequacy of the basic capital specified by the bank	Minimum 6%	17,07%	17.30%
Minimum ratio of the adequacy of the capital specified by the bank	Minimum 8%	19,41%	17.30%
Permanent investments indicator	Maximum 60%	10.70%	12.37%
Indicator of large and the largest permissible loans	Maximum 400%	124.92%	113.87%
Liquidity ratio	Minimum 0,8	2.24	1.88
Acid-test ratio (quick ratio)	Minimum 0,5	1.65	1.47
Liquidity coverage ratio – LCR	Minimum 1,0	4.11	2.22
Foreign currency risk indicator	Maximum 20%	0.46%	0.81%
Exposure to a single entity or to a group of related parties	Maximum 25%	22.56%	22.24%
Bank's investment in non-financial legal entity	Maximum 10%	0.01%	0.01%
Risk concentration ratio	Maximum 30%	6.10%	7.27%

26. OFF-BALANCE SHEET ITEMS

a) Classification of off-balance sheet items by the classification category

In RSD thousand

	Off-balance sheet items to be exposed to credit risk 2023,	Provisions for Off-balance sheet items to be exposed to credit risk
Guarantees and other irrevocable commitments	106.396.076	(501,928)
Other off-balance sheet items	102,647,850	(128,434)
Balance as of 31 December	**209,043,926**	**(630,362)**

In RSD thousand

	Off-balance sheet items to be exposed to credit risk 2022.	Provisions for Off-balance sheet items to be exposed to credit risk
Guarantees and other irrevocable commitments	106,098,193	(610,096)
Other off-balance sheet items	91,511,329	(79,873)
Balance as of 31 December	**197,609,522**	**(689,969)**

b) Guarantees and other irrevocable commitments

In RSD thousand

	2023	2022
Financial guarantees:		
– in RSD	13,032,872	10,493,566
– in foreign currency	12,515,877	13,794,245
	25,548,749	**24,287,811**
Commercial guarantees:		
– in RSD	14,960,092	13,122,357
– in foreign currency	20,665,571	19,634,540
	35,625,663	**32,756,897**
Uncovered letters of credit in foreign currency	460,438	423,257
Sureties and Acceptances	-	-
Sureties*	177,030	177,255
Irrevocable commitments for undisbursed loans	43,659,126	46,913,661
Other irrevocable commitments	925,070	1,539,312
	45,221,664	**49,053,485**
Balance as of 31 December	**106,396,076**	**106.098.193**

c) Other off-balance sheet items

In RSD thousand

	2023	2022
Revocable commitments for undisbursed loans	102,647,850	91,511,329
Balance as of 31 December	**102,647,850**	**91,511,329**

27. RELATED PARTY DISCLOSURES

A number of banking transactions are entered into with the shareholder and other related parties in the ordinary course of business. The Bank realizes business transactions with its shareholder and other related party. The Bank enters into business relationship with Parent company and other members of Intesa Sanpaolo Group. Outstanding balances of receivables and liabilities as of 31 December 2023 and 2022, as well as income and expenses for the years then ended, resulting from transactions with the shareholder and other Bank's related parties within Intesa Sanpaolo Group, stated in RSD thousand, are presented as follows:

2023	Intesa Sanpaolo S.p.A., Italy,USA, England,Germany, Shanghai, Hong Kong	Privredna banka d.d., Zagreb,Croatia	Intesa Leasing d.o.o.,Belgrade	Vseobecna Uverova banka A.S., Slovakia	Banka Koper d.d., Slovenia	Intesa Sanpaolo Banka Bosnia and Herzegovina	Intesa Sanpaolo Holding International S.A., Luxemburg	Ogranak ISP International Value Service doo Belgrade	Eurizon Capital SGR S.p.a.	Bank of Alexandria	Intesa Sanpaolo Romania S.A. Commercial Bank	Intesa Sanpaolo Albania SH.A.	CIB Bank, Hungary
Loans and receivables from banks and other financial organisations	19,672,366	74,988	5,027,288	62,309	74,068	19,779	-	341	-	-	-	-	-
Receivables from derivatives	66,880	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	5,413		24,454					1,009	251	-		3,356	-
Total assets	**19,744,659**	**74,988**	**5,051,742**	**62,309**	**74,068**	**19,779**		**1,350**	**251**	**-**		**3,356**	
Deposits and other liabilities due to banks, other financial organisations, Central bank and customers	1,245,764	215,373	4,956,917	-	-	9,361	25,835,311	192,228	-	-	-	-	-
Obligations of derivatives intended for risk protection	1,586	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilites	74,682	615	-	-	-	-	-	95,204	-	-	-	-	-
Subordinated liabilities	-	-	-	-	-	-	11,769,378	-	-	-	-	-	-
Total liabilities	**1,322,032**	**215,988**	**4,956,917**			**9,361**	**37,604,689**	**287,432**		**-**			
Interest income	453,897	-	117,430	-	-	-	-	-	-	-	-	-	-
Fee and commission income	32,014	7	18,908	47	-	19	45	759	-	-	-	-	-
Net profit from changes in fair value of financial instruments	65,294	-	-	-	-	-	-	-	-	-	-	-	-
Other income	16,830	1,006	26,076		-	-	-	10,084	-	8,042	-	8,118	-
Total income	**568,035**	**1,013**	**162,414**	**47**		**19**	**45**	**10,843**		**8,042**		**8,118**	
Interest expense	(368,755)	-	(116,444)	-	-	-	(546,340)	-	-	(865)	-	-	-
Fee and commission expenses	(176,112)	(800)	-	-	(18)	(25)	-	-	-	-	-	-	-
Other expenses	(305,320)	(7,496)						(1,840,991)		-	(2,934)		(2,967)
Total expenses	**(850,186)**	**(8,297)**	**(116,444)**		**(18)**	**(25)**	**(546,340)**	**(1,840,991)**		**(865)**	**(2,934)**		**(2,967)**
Off-balance sheet items - derivatives FX SWAPs	35,685,951	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet items - derivatives interest rate SWAPs	312,463	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet items - guarantees	424,457		1,632,062	15,165						-			
Total off-balance sheet items	**36,422,872**		**1,632,062**	**15,165**						**(865)**	**(5,868)**		**(5,934)**

27. RELATED PARTY DISCLOSURES (continued)

2022

	Intesa Sanpaolo S.p.A., Italy,USA, England,Germany	Privredna banka d.d., Zagreb, Croatia	Intesa Leasing d.o.o., Belgrade	Vseobecna Uverova bank A.S., Slovakia	Banka Koper d.d., Slovenia	Intesa Sanpaolo Banka Bosnia and Herzegovina	Sanpaolo Holding International S.A., Luxemburg	ISP International Value Service doo Belgrade	Eurizon Capital SGR S.p.a.	ISP Innovation center SPA	Sanpaolo Romania S.A. Commercial Bank	Intesa Sanpaolo Albania SH.A.
Loans and receivables from banks and other financial organisations	15,658,728	281,563	4,045,862	197,075	84,110	3,443	-	198	-	-	-	-
Receivables from derivatives	462,171	-	-	-	-	-	-	-	-	-	-	-
Other assets	8,377	-	19,851	-	-	-	-	1,009	251	48	-	2,367
Total assets	**16,129,276**	**281,563**	**4,065,713**	**197,075**	**84,110**	**3,443**	**-**	**1,207**	**251**	**48**	**-**	**2,367**
Deposits and other liabilities due to banks, other financial organisations and Central bank	36,854,561	4,502	5,078,690	-	-	7,799	481	327,855	-	-	-	-
Obaveze derivata namenjenih zaštiti od rizika	8,305	-	-	-	-	-	-	-	-	-	-	-
Other liabilites	84,787	-	-	-	-	-	-	2,332	-	-	-	-
Total liabilities	**36,947,653**	**4,502**	**5,078,690**	**-**	**-**	**7,799**	**481**	**330,187**	**-**	**-**	**-**	**-**
Interest income	77,554	-	30,088	-	-	-	-	-	-	-	-	-
Fee and commission income	35,466	32	10,646	-	3	15	134	416	-	-	-	-
Net profit from changes in fair value of financial instruments	453,866	-	-	-	-	-	-	-	-	-	-	-
Other income	14,541	-	25,927	-	2,694	5,532	-	10,103	-	-	2,366	2,367
Total income	**581,428**	**32**	**66,661**	**-**	**2,697**	**5,546**	**134**	**10,519**	**-**	**-**	**2,366**	**2,367**
Interest expense	(248,139)	-	(49,308)	-	-	-	-	-	-	-	-	-
Fee and commission expenses	(169,834)	(6,295)	-	-	(189)	(12)	-	-	-	-	-	-
Other expenses	(257,369)	(3,422)	-	-	-	-	-	(1,683,584)	-	-	-	-
Total expenses	**(675,342)**	**(9,717)**	**(49,308)**	**-**	**(189)**	**(12)**	**-**	**(1,683,584)**	**-**	**-**	**-**	**-**
Off-balance sheet items - derivatives FX SWAPs	33,235,444	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet items - guarantees	623,913	-	2,287,787	-	-	-	-	-	-	-	-	-
Total off-balance sheet items	**33,859,357**	**-**	**2,287,787**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

27. RELATED PARTY DISCLOSURES (continued)

The above stated receivables and liabilities at the balance sheet date, as well as income and expenses arising from transactions with the related parties from the Intesa Sanpaolo Group, are the result of ordinary business activities.

Interest on the Bank's receivables and payables is calculated at the usual rates.

(a) Gross salaries and other benefits of the Executive Board's members and other key management personnel of the Bank, including the Board of Directors' members, during 2023 and 2022, are presented as follows:

		In RSD thousand
	2023	**2022**
Remunerations to the members of the Executive Board, Board of Directors and other key management of the Bank	227,030	556,716
Total	**227,030**	**556,716**

(a) Loans and receivables from the members of the Executive Board and the Board of Directors and other key management personnel of the Bank, are presented as follows:

		In RSD thousand
	2023	**2022**
Loans	34,122	108,040
Total allowances for impairment	(28)	(59)
Balance as of 31 December	**34,094**	**107,981**

28. RISK MANAGEMENT

Risk is an inherent part of the Bank's activities and cannot be eliminated completely. It is important to manage risks in such a way that they can be reduced to limits acceptable for all interested parties: shareholders, creditors, depositors, regulators. Risk management is the process of permanent identification, assessment, measurement, monitoring and controlling of the Bank's exposure to risks. An important part of risk management is reporting and mitigating risk. An adequate system of risk management is a critical element in ensuring the Bank's stability and profitability of its operations.

The Bank is exposed to the following major risks: credit risk, liquidity risk, interest rate risk, foreign currency risk, operational risk, risk of exposure toward a single entity or a group of related entities (concentration risk), risk of permanent investments, risk related to the country of origin of the entity to which the Bank is exposed and other risks.

The Board of Directors and the Executive Board are responsible for implementation of an adequate risk management system and for its consistent application.

The Bank's Board of Directors adopts the procedures for identification, measurement and assessment of risks, and is responsible for implementing a unique risk management system and supervision over that system.

The Bank's Executive Board is responsible for identifying, assessing and measuring risks the Bank is exposed to in its operations, and applies the principles of risk management approved by the Bank's Board of Directors. The Executive Board approves internal acts which define risk management and proposes strategies and policies for risk management to Audit Committee and Board of Directors.

28. RISK MANAGEMENT (continued)

The Committee for monitoring business activities (Audit Committee) analyses and adopts proposals of policies and procedures with respect to risk management and internal controls, which are submitted to the Board of Directors for consideration and adoption. Furthermore, the Committee analyses and monitors the application and adequate implementation of adopted policies and procedures for risk management, and recommends new ways for their improvement, if necessary.

The Risk Management Department has been established in the Bank in order to implement a special and unique system for risk management, as well as to enable functional and organizational segregation of risk management activities from regular business activities. This department is directly responsible to the CRO.

The Bank has developed the comprehensive risk management system by introducing policies and procedures, as well as limits for risk levels acceptable for the Bank.

The Bank's organizational parts authorized for risk management constantly monitor changes in regulations, while analysing their influence on the risks at entity level of the Bank. They take necessary measures to make the Bank's business activities and procedures fully compliant with new procedures within the scope of controlled risk. In addition, introduction of new services is followed by necessary market and economic analysis in order to optimize the relation between income and the provision for estimated risks.

28.1. Credit risk

Credit risk is the possibility of occurrence of negative effects on the bank's financial results and capital due to non-fulfilment of the debtor's obligations to banks.

Through its internal acts, policies and procedures, the Bank has implemented an adequate system of credit risk management, thus reducing credit risk to an acceptable level. The Bank manages credit risk through setting credit risk limits, establishing acceptable credit limits for individual customers or for groups of customers.

Credit risk is managed by the Bank at a counterparty specific level, group of related parties, and at total credit portfolio level. For the purpose of implementing the policy of optimal credit risk exposure, the Bank evaluates creditworthiness of each client, both at the moment of loan application, as well as through subsequent regular and continuous performance analysis.

Analysis of the client's creditworthiness, timely settlement of liabilities in the past, value of collateral at customer level and at transaction level, is performed within the Credit Management Department.

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

Maximal exposure to credit risk

Maximal exposure to credit risk by the type of client as of 31 December 2023 and 2022 are presented as follows:

In RSD thousand

December 31st 2023	**Balance sheet assets to be exposed to credit risk**	**Allowances for impairment for balance sheet assets to be exposed to credit risk**	**Balance sheet assets not to be exposed to credit risk**	**Balance sheet as of 2023**
Cash and balances with Central Bank	114,990,389	-	30,426,274	145,416,663
Receivables from derivatives	-	0	80,353	80,353
Securities	57,892,277	(169,413)	-	57,722,864
Loans and receivables from banks and other financial organizations	157,161,577	(35,675)	-	157,125,902
Loans and receivables from banks	*151,440,490*	*(33,428)*	-	*151,407,062*
Loans and receivables from other financial organizations	*5,721,087*	*(2,247)*	-	*5,718,840*
Loans and receivables from customers	554,850,826	(20,828,494)	-	534,022,332
Investments in subsidiaries	-	-	1,199,472	1,199,472
Intangible assets	-	-	3,994,303	3,994,303
Property, plants and equipment	-	-	10,403,121	10,403,121
Deferred tax assets	-	-	151,812	151,812
Non-current assets held for sale and discontinued operations	-	-	14,267	14,267
Other assets	16,079,571	(737,588)	555,081	15,897,064
Total Balance assets	**900,974,640**	**(21,771,169)**	**46,824,683**	**926,028,153**
Off-Balance receivables from banks	2,604,961	(485)	-	-
Off-Balance receivables from customers	206,438,965	(629,877)	-	-
Total Off-Balance assets	**209,043,926**	**(630,362)**	**-**	**-**
Total assets	**1,110,018,567**	**(22,401,532)**	**46,824,683**	**926,028,153**

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

Maximal exposure to credit risk (continued)

In RSD thousand

December 31st 2022	Balance sheet assets to be exposed to credit risk	Allowances for impairment for balance sheet assets to be exposed to credit risk	Balance sheet assets not to be exposed to credit risk	Balance sheet as of 2022
Cash and balances with Central Bank	94,534,783	-	58,557,767	153,092,550
Receivables from derivatives	-	-	468,597	468,597
Securities	61,293,467	(23,595)	-	61,269,872
Loans and receivables from banks and other financial organizations	70,452,306	(157,334)	-	70,294,972
Loans and receivables from banks	*65,202,872*	*(142,732)*	-	*65,060,140*
Loans and receivables from other financial organizations	*5,249,434*	*(14,602)*	-	*5,234,832*
Loans and receivables from customers	532,007,835	(19,007,806)	-	513,000,029
Investments in subsidiaries	-	-	1,199,472	1,199,472
Intangible assets	-	-	4,602,701	4,602,701
Property, plants and equipment	-	-	9,996,392	9,996,392
Deferred tax assets	-	-	402,963	402,963
Non-current assets held for sale and discontinued operations	-	-	15,795	15,795
Other assets	9,903,615	(411,424)	998,274	10,490,465
Total Balance assets	**768,192,006**	**(19,600,159)**	**76,241,961**	**824,833,808**
Off-Balance receivables from banks	1,934,232	(493)	-	-
Off-Balance receivables from customers	195,675,290	(689,475)	-	-
Total Off-Balance assets	**197,609,522**	**(689,968)**	-	-
Total assets	**965,801,528**	**(20,290,127)**	**76,241,961**	**824,833,808**

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

Maximal exposure to credit risk (continued)

Classification of off-balance sheet items is shown in Note 26.

Permanent monitoring of a client's internal rating, the level of risk with respect to each client, the necessary amount of reserve for risk coverage, concentration risk (large exposures), portfolio credit risk, the level of capital necessary for coverage of all credit risks is performed by the Risk Management Department.

The Bank established a special organizational unit, the Delinquency Management Department, in order to manage receivables with a problem in collectability in a timely manner.

The Credit Management Department, the Risk Management Department and the Delinquency Management Department are independent units in the Bank.

Principles prescribed by the National Bank of Serbia, as well as the Bank's internal procedures are applied in these analyses in order to anticipate potential risks that can arise in terms of a client's inability to settle liabilities when they fall due and according to contracted terms.

In that sense, an assessment of the level of required reserves level for potential losses, both at the moment of approval of certain loan, as well as through a continuous, portfolio analysis on a monthly level, are carried out. The analysis entails measuring the adequacy of provision/reserves according to client type, risk type, according to sub-portfolios and total portfolio of the Bank.

Decision making on exposure to credit risk is performed based on proposals provided by the Credit Management Department. The terms for approval of each corporate loan are determined individually, depending on the client type, purpose of loan, estimated creditworthiness and current market position. Types of collateral that accompany each loan are also determined according to a client's creditworthiness analysis, type of credit risk exposure, term of placement, as well as the amount of a particular loan. Conditions for loan approvals to retail clients and entrepreneurs are determined by defining standard conditions for different types of products.

Risk price for standard types of products is calculated according to the analysis of credit costs which the Bank had in the past and historical probability of getting into default status per the same or similar type of product. Risk price for the SME and Corporate segment is calculated on the basis of the client's internal rating or historically adjusted probability of getting into default status per each rating category.

Considering the importance of credit risk, dispersion of authorizations was carried out in respect of the decision making process related to loan approval activities. This dispersion is provided with prescribed limits up to which an authorized person or management body can make loan approval decisions. Organizational parts making decisions with respect to loan approvals, with different levels of authorizations, are as follows: branch managers, regional managers, Credit Management Department, Credit Board, Credit Committee, Executive Board and Board of Directors. For credit exposures exceeding the determined limit, approval of the Parent Bank is necessary.

The Bank manages credit risk by setting up limits with respect to period, amount and results of an individual customer's creditworthiness, through diversification of loans to a larger number of customers and contracting foreign exchange clauses and index-linking to a consumer price index in order to maintain the real value of loans. Furthermore, the Bank manages credit risk through assessment and analysis of received collaterals, by providing allowances for impairment of financial assets, provisions for off-balance sheet items, reserves for estimated credit losses, as well as by determining the adequate price of a loan which covers the credit risk of a particular placement.

In addition to a clients' creditworthiness, risk limits are also set based on different types of collateral. Risk exposure toward a single debtor, including banks, is limited and includes balance sheet and off-balance sheet items exposures. Total risk exposure to a single customer (or a group of related parties) regarding exposure limits, is considered thoroughly and analysed before executing a transaction.

Decision making about credit risk exposure is performed on the basis of considering the proposal made by Credit Management Department.

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

Loan concentration risk

Loan concentration risk is the risk arising, directly or indirectly, from the Bank's exposure to the same or similar source or type of risk. The Bank controls loan concentration risk by limiting the exposure, which enables the diversification of the loan portfolio. In order to monitor more efficiently concentration risk, the Bank has determined three categories of limits: specific limits ("Top of the House"), credit risk propensity limits, general limits and regulatory limits.

Derivative financial instruments

Derivative financial instruments result in the Bank's exposure to credit risk when the fair value of such instruments is positive for the Bank. Credit exposure arising from derivatives is calculated using the current exposure method, i.e. the sum of the positive fair value of the contract and the nominal value of the derivative multiplied by a coefficient which depends on the type and maturity of the financial derivative, as prescribed by the National Bank of Serbia. The credit risk of derivatives is limited by determining maximum credit exposure arising from a derivative for each individual customer.

In accordance with the above mentioned, as of 31 December 2023 and 31 December 2022 the Bank has the following exposures to counterparties:

	Nominal value	Total exposure
Total 2023	**39,250,287**	**469,732**
Currency (FX) Swap	**35,616,641**	**423,047**
By currency:		
EUR	33,318,450	395,989
AUD	434,432	4,344
GBP	1,863,759	22,714
Interest rate Swap	**624,926**	**5,492**
By currency:		
EUR	624,926	5,492
Currency (FX) Forward	**3,008,720**	**41,193**
By currency:		
EUR	2,888,729	38,460
USD	119,991	2,733
In RSD thousand	**Nominal value**	**Total exposure**
Total 2022	37,172,025	840,318
Currency (FX) Swap	36,210,398	826,848
By currency:		
CHF	4,770,172	71,991
EUR	18,953,710	626,936
CAD	845,567	8,456
AUD	507,404	7,408
GBP	1,579,161	16,513
NOK	88,990	890
DKK	102,516	1,025
USD	9,362,878	93,629
Currency (FX) Forward	**961,627**	**13,470**
By currency:		
EUR	961,627	13,470

Stated amounts represent credit exposure on derivatives, calculated as the sum of the positive fair value of the contract and the nominal value of the derivative, multiplied by a coefficient prescribed by the National Bank Serbia.

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

Derivative financial instruments (continued)

The Bank calculates capital requirements for credit valuation adjustment (CVA), in accordance with the new Decision on Capital Adequacy of Banks published by the National Bank of Serbia.

Adjustment of credit exposure, calculated only for derivative instruments, represents an adjustment to the mid-market valuation of the portfolio of transactions with a counterparty. This adjustment reflects the market value of the credit risk of that counterparty to the Bank.

During 2023 the exposure to the CVA risk was negligible. As of 31 December 2023, the Bank has the following exposure to the CVA risk:

In RSD thousand

		Total exposure
	2023	**2022**
Total	**45,123**	**13,470**
Currency (FX) Forward	13,470	13,470
Interest rate Swap	3,930	0

Credit-related risks

The Bank issues guarantees and letters of credit to its clients, based on which the Bank commits to make payments on behalf of third parties. In this way the Bank is exposed to risks similar to credit risks, which can be mitigated by the same control processes and policies applied for credit risk.

Collaterals and other instruments of credit risk protection

The amount and type of the collateral required depends on an assessment of credit risk of each customer. Terms of collateral with respect to each placement are determined by the analysis of a customer's creditworthiness, type of exposure to the credit risk, placement's maturity, as well as the amount itself.

Contractual authorization, as well as bills of exchange are provided by customers as standard collaterals while, depending on the assessment, additional collaterals may be required, such as real estate mortgages, movable property pledges, partial or entire coverage of placements with deposits, state guarantees, guarantees issued by another bank or a legal entity, pledging of securities, or joint loan contracting with another legal entity which then becomes the joint debtor.

In cases of real estate mortgages or movable property pledges, the Bank always obtains valuation of the assets, carried out by an authorized appraiser, in order to minimize potential risk. Decisions on placements to retail clients and small business (entrepreneurs) are mostly based on appraisal of standardized, previously defined conditions, using a scoring model, with additional analysis by credit analysts.

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

Assessment of impairment of financial assets

Bank applies expected credit losses model for valuating financial assets measured at amortized cost or fair value through other comprehensive income (FVOCI), except equity instruments. Banks performs this valuation on individual and collective basis.

- *Individual assessment of impairment*

The Bank performs an individual assessment of impairment i.e. impairment financial assets for each individually materially significant exposure (exposure the amount over EUR 250,000) if it is in the status of default (materially significant amount overdue more than 90 days, i.e. if there is objective evidence that the loan has been impaired) and if it belongs to the credit risk class “Unlikely to Pay” and “Doubtful”.

The level of impairment of loans is determined based on the projection of expected cash flows which shall be collected pursuant to contracts with clients, taking into consideration the assessment of financial position and creditworthiness of the client, the realizable value of collateral, as well as the timing of the expected cash flows from realization of collaterals, etc. In order to calculate expected credit loss different scenarios have been introduced (weighted by different probabilities) to assess future cash flows, with additional correction which take into consideration assessed macroeconomic impact (add-on).

Projected cash flows are discounted to their present value using the effective interest rate. Impairment loss is measured as the difference between the carrying amount of a loan and its estimated recoverable amount, being the present value of expected future cash flows. Individual assessment of the impairment of placements is performed at least semi-annually.

If new information becomes available that, as estimated by credit analysts, have an effect on the client’s creditworthiness and the value of collateral, as well as the certainty of settling the liabilities toward the Bank, an extraordinary assessment of the impairment of a loan is performed.

- *Collective assessment of impairment*

The Bank has defined the criteria for classifying financial instruments into corresponding impairment stages (Stage 1, 2 and 3), depending on the level of increase in credit risk since initial recognition. The subject of the classification are financial instruments that are measured at amortized cost, as well as financial instruments valued at fair value through other comprehensive income (FVOCI).

Stage 2 relates to exposures with a significant increase in credit risk (compared to the moment of initial recognition). The criteria defined by the Bank for detecting a significant increase in credit risk are:

1.) Days past due over 30 days,
2.) Forborne status,
3.) Significant increase in PD (*Probability of Default*)
4.) PM (Proactive Management) status - includes clients with active PM status and adopted action plan that relates to keeping the client in PM status.

Stage 3 consists of loans, where objective or subjective evidence that the loan has been impaired exists. Objective evidence of impairment implies a continuous delay in payment of more than 90 days in a materially significant amount. The relative materiality threshold is 1% of total balance sheet exposure, while the absolute threshold differs depending on the exposure class (RSD 1,000 for debtors in the retail exposure class, and RSD 10,000 for other debtors). Subjective proof of the existence of default status i s based on Bank's assessment that the client will not be able to fully settle its obligations to the Bank, without considering collection from the collateral realization. The subjective assessment of the default status is based on quantitative and qualitative, internal and externally obtained information about the debtor (for example: number of days of current account blocking, bankruptcy / liquidation, sue and other adverse events and negative signs identified in the subjective assessment that indicate a significant deterioration of the client's financial condition and inability to settle liabilities completely).

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

- *Collective assessment of impairment (continued)*

Assessment of impairment of financial assets (continued)

When the client ceases to meet all the criteria for obtaining the status of default, the Probation Period begins, which lasts at least 90 days. During this period, the regularity in setting the client's obligations and his financial situation is monitored, in order to determine the absence of any trigger/event for obtaining the status of default. Only after the expiration of the Probation Period Bank can reconsider the reclassification of the client to the Performing status.

In order to respond in a timely manner to the expected negative effects of the current economic crisis and uncertainties caused by the war in Ukraine as well as sanctions against Russia and Belarus, strong inflationary pressures and the energy crisis, and for the sake of prudent credit portfolio management, the Bank has conducted additional analyses and established additional evaluation criteria impact of this crisis on expected credit losses. Based on the assessment of the impact of the crisis on various industries and clients, therefore, it is justified to resort to a cautious and conservative approach when assessing the quality of the credit portfolio and the adequacy of provisions for credit losses.

In the case of legal entities, the bank analysed the impact of the crisis on the financial position of clients based on the estimated decline in turnover in the industries from which the clients originate. Based on the estimated decline in industry revenues, the financial position of clients and their debt servicing capacity was assessed. In the case of private individuals, two criteria have been established to identify clients particularly sensitive to the crisis. The first criterion is the level of indebtedness. The second criterion is the industry, ie the primary business activity of the legal entity in which a private individual is employed.

For all clients, legal entities and individuals who are assessed as sensitive to the crisis based on the criteria defined above, the rating is downgraded by one to two rating categories, for the purposes of calculating the expected credit loss and staging. The application of these rules led to the growth of balance assets classified in stage 2 as of 31 December 2023 in the amount of RSD 54.878.717 thousand and off-balance sheet assets in stage 2 as of 31 December 2023 in the amount of RSD 6.141.885thousand.

Different impairment stages result in different ways of calculating the expected credit losses:

- Stage 1 exposures the 12-month expected credit losses are calculated
- Stage 2 and Stage 3 exposures - *"lifetime"* expected credit losses

Bank has developed an internal methodology and calculated the risk parameters (EAD, PD, LGD, CCF) for purpose of calculating Expected Credit Losses in accordance with IFRS 9. The discount rate used in the calculation is the effective interest rate of the individual contract.

In the context of calculating the lifetime expected credit losses, the Bank has developed a methodology for determining EAD (Exposure at Default) for all periods until the final maturity of a financial instrument. For amortizing products for which repayment plans are available, the future EAD is determined on the basis of repayment plans. For other products, EAD on the reporting date is used, with the credit conversion factors applied. Credit conversion factors, depending on the type of products and segments, can be regulatory or internally calculated on the basis of historical data on usage of available limits.

As the basis for calculating the *"lifetime"* PD parameter, the existing (Basel II) PD models have been used. The models have been adjusted in accordance with the requirements of IFRS 9:

- transition from TTC (Through the cycle) to PIT (Point in time) concept,
- introduction of coefficients (as PD corrections) that reflect the macroeconomic impact on the parameter for future periods, using three scenarios (baseline, best, adverse),
- *"lifetime"* projection (Markovian approach is used).

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

- ***Collective assessment of impairment (continued)***

Assessment of impairment of financial assets (continued)

For segments not covered by PD models, the historical default rates have been used as approximation, with additional (above mentioned) adjustments.

For clients/exposures subject to collective assessment, the LGD (*Loss Given Default)* parameter is calculated on the basis of average historical loss rates for defined segments, whereby obtained values are additionally corrected by coefficients representing a measure of the estimated macroeconomic impact on LGD for future periods. For the purpose of macroeconomic adjustment of the LGD parameter, three scenarios are used (baseline, best, adverse).
The discounting of the LGD thus obtained is carried out using the effective interest rate of the individual contract.

The Bank incorporates forward-looking information both into the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of Expected Credit Losses.

Inclusion of forward-looking information has been performed through the adjustment of PD and LGD values in order to consider the expectations of its change linked to macroeconomic environments that can occur in the future years with respect to reporting date.

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

Assessment of impairment of financial assets (continued)

The macroeconomic conditioning of PD is thus carried out by stress coefficients obtained by obtained through internal macroeconomic models. Internal PD rate as of 30 September 2022 was used as a foundation upon which the change of PDs was calculated based on stress parameters.

The table below shows the conditional default rates applied to the migration matrix to include elements relating to future events for the next 3 years from the reporting date:

			Conditioning								
			Adverse			*Baseline*			Best		
Stress test model	**Model**	**30.09.2023**	**t**	**t+1**	**t+2**	**t**	**t+1**	**t+2**	**t**	**t+1**	**t+2**
Corporate	SME&LC	*2.11%*	*2.11%*	*1.62%*	*1.38%*	*2.11%*	*1.57%*	*1.29%*	*2.11%*	*1.52%*	*1.22%*
	SME Retail	*2.65%*	*2.65%*	*2.68%*	*2.51%*	*2.65%*	*2.29%*	*2.09%*	*2.65%*	*2.28%*	*2.08%*
	CORPORATE-OTHER	*2.11%*	*2.11%*	*1.62%*	*1.38%*	*2.11%*	*1.57%*	*1.29%*	*2.11%*	*1.52%*	*1.22%*
	RETAIL - OTHER	*2.65%*	*2.65%*	*2.68%*	*2.51%*	*2.65%*	*2.29%*	*2.09%*	*2.65%*	*2.28%*	*2.08%*
Retail	*IDV-mortgage loans*	*0.58%*	*0.58%*	*0.53%*	*0.49%*	*0.58%*	*0.52%*	*0.47%*	*0.58%*	*0.52%*	*0.47%*
	IDV- retail other	*2.29%*	*2.29%*	*2.08%*	*1.92%*	*2.29%*	*2.05%*	*1.87%*	*2.29%*	*2.03%*	*1.85%*

				Conditioning								
				Adverse			*Baseline*			Best		
Stress test model	**EBA parameter**	**Model**	**prosečni PD**	**t**	**t+1**	**t+2**	**t**	**t+1**	**t+2**	**t**	**t+1**	**t+2**
Corporate	**NFC- RE-Related**	*SL*	*6.00%*	*5.43 %*	*4.61 %*	*5.10 %*	*5.33 %*	*4.44 %*	*4.9 %*	*5.25 %*	*4.32 %*	*4.82 %*

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

Assessment of impairment of financial assets (continued)

The macro-conditioning of LGD has been carried out by using EBA Stress Test Coefficients in the absence of internally developed stress satellite models. Since EBA releases only Baseline and Adverse coefficients, Best scenario coefficients have been calculated internally on the basis of Group's methodology defined for that purpose. The forward-looking elements are calculated for the next 3 years of the residual maturity with respect to the reporting date so that Baseline risk parameters are adjusted with Add-on which considers all three scenarios. EBA coefficients for Rest of the World have been used for macroeconomic conditioning of LGDs, since the coefficients are not available for the state of Serbia. The value of the coefficients varies depending on the exposure segment.

The table below shows the coefficients used for macroeconomic conditioning of LGD values as well as the value of the additional component (Add on) obtained on the basis of all three scenarios:

	Adverse scenario			***Baseline* scenario**			**Worst scenario**		
LGD segment	**t**	**t+1**	**t+2**	**t**	**t+1**	**t+2**	**t**	**t+1**	**t+2**
CONSUMER_LOANS	0.87	0.87	0.87	1.00	1.00	1.00	1.13	1.13	1.13
CORPORATE_<150000EUR	0.85	0.85	0.85	1.01	1.01	1.01	1.17	1.17	1.17
CORPORATE_>=150000EUR	0.84	0.84	0.84	1.01	1.01	1.01	1.18	1.18	1.18
CREDIT_CARDS	0.80	0.80	0.80	1.00	1.00	1.00	1.22	1.22	1.22
HOUSING_LOANS	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
OVERDRAFT	0.88	0.88	0.88	1.00	1.00	1.00	1.13	1.13	1.13
SME_RETAIL_<25000EUR	0.85	0.85	0.85	1.01	1.01	1.01	1.17	1.17	1.17
SME_RETAIL_>=25000EUR	0.89	0.89	0.89	1.00	1.00	1.00	1.13	1.13	1.13
SPECIALIZED LENDING	0.63	0.63	0.63	0.98	0.98	0.98	1.39	1.39	1.39

For exposures belonging to the segment "Low Default Portfolio" (states, local governments and banks), the parameters obtained internal models of Parent Bank, since the Bank in this part of the portfolio does not have enough historical data to make them herself charged.

In response to the crisis caused by the Covid-19 virus pandemic, the Bank implemented a set of measures adopted by the National Bank of Serbia with the aim of supporting citizens and the economy as well as preserving the stability of the financial system of the Republic of Serbia in the pandemic situation. Some of these measures included the obligation of commercial banks to offer their clients - individuals, farmers, entrepreneurs and companies a delay in repayment (moratorium).

The repayment delay was implemented during 2021 on the basis of the following decisions of the National Bank of Serbia:

- Decision on temporary measures for banks with the aim of facilitating the access to financing private individuals ("Official Gazette of RS" , No. 108/2020 and 119/2021)
- Decision on temporary measures for banks with the aim of adequate Credit Risk Management in the COVID-19 pandemic conditions ("Official Gazette of RS" No 150/2020 and 21/2021)

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

Assessment of impairment of financial assets (continued)

The following table shows the structure of the Bank's portfolio (gross exposures) to which the measures defined by the aforementioned decisions of the National Bank of Serbia were applied, as repayment delays (Moratorium 3), as of 31 December 2023:

In thousands of dinars

Gross exposures with agreed moratorium	Gross exposure	Allowances for impairment	Net exposure
Private individuals	**4,586,558**	**1,340,297**	**3,246,261**
Performing	2,805,345	136,409	2,668,936
Past Due	334,485	148,749	185,736
Unl,to Pay	216,225	113,775	102,450
Doubtful	1,230,503	941,364	289,139
Commercial entities	**465,727**	**210,814**	**254,913**
Performing	207,349	13,305	194,044
Past Due	390	224	166
Unl,to Pay	15,457	10,117	5,340
Doubtful	242,531	187,168	55,363
Total	**5,052,285**	**1,551,111**	**3,501,174**

The following table shows the structure of the Bank's portfolio (gross exposures) to which the measures defined by the aforementioned decisions of the National Bank of Serbia were applied, as repayment delays (Moratorium 3), as of 31 December 2022:

In thousands of dinars

Gross exposures with agreed moratorium	Gross exposure	Allowances for impairment	Net exposure
Private individuals	**5,615,180**	**1,297,180**	**4,318,000**
Performing	3,869,044	274,128	3,594,916
Past Due	468,874	213,915	254,959
Unl,to Pay	267,993	143,305	124,688
Doubtful	1,009,269	665,832	343,437
Commercial entities	**1,737,062**	**234,363**	**1,502,699**
Performing	1,505,778	59,292	1,446,486
Past Due	3,014	1,343	1,671
Unl,to Pay	65,842	42,976	22,866
Doubtful	162,428	130,752	31,676
Total	**7,352,242**	**1,531,543**	**5,820,699**

On 14 December 2020 the National Bank of Serbia has adopted a Decision on temporary measures for banks in order to adequately manage credit risk in the conditions of the COVID-19 pandemic ("Official Gazette of RS", No. 150/2020). This decision prescribes new measures and activities that banks are obliged to apply in order to adequately manage credit risk in the conditions of the COVID-19 pandemic, while enabling new repayment reliefs However, on December 31st 2020 the Bank did not have the implemented repayment reliefs defined by this decision, having in mind the short period of time between the decision adoption and the end of the calendar year.In that respect the Bank allowed reliefs during the period between January 1st and May 30th 2021.

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

Assessment of impairment of financial assets (continued)

As an additional incentive for measures to mitigate the negative effects of the pandemic, the Government of the Republic of Serbia passed on April 16th 2020. Decision on establishing a guarantee scheme as a measure of support to the economy to mitigate the consequences of the COVID-19 pandemic caused by the SARS-CoV-2 virus ("Official Gazette of RS", No. 57/2020, 62/20-dr. Regulation and 65/20-dr. regulation). The National Assembly of the Republic of Serbia is on December 17th 2020. adopted the Law on Determining the Guarantee Scheme as a Measure of Support to the Economy for Mitigating the Consequences of the COVID-19 Pandemic SARS-COV-2 (Official Gazette of the RS, No. 153/2020), which repealed the decision, thus supporting the economy continues to operate under the auspices of this Law. Afterwards, on April 22nd 2021 the National Assembly of the Republic of Serbia adopted the new Law on determining another guarantee scheme as a measure of additional support to economy due to prolonged negative effect of the COVID-19 pandemic caused by the SARS COV-2 virus ("Offical Gazette of RS", No 40/2021 and 129/2021). According to this Law the measures of support to economy were extended by June 30th 2022 (hereinafter: the guarantee scheme 2). Under the guarantee scheme, the Republic of Serbia has undertaken the obligation as a guarantor to settle future uncollected receivables of banks arising from loans approved for the purpose of financing liquidity and working capital of commercial entities, all with the aim of mitigating the negative economic and financial consequences of the pandemic.

Under the guarantee scheme, commercial banks provide loans to the commercial entities with a repayment period of no more than 36 months, including a grace period of 9 to 12 months. Under the guarantee scheme 2 the repayment period of maximum 60 months was envisaged with the grace period from 18 to 24 months. The maximum loan amount is an amount equal to less than two amounts:

- 25% for guarantee scheme 1 or 30% for guarantee scheme 2 of the loan client's income from 2019 according to the financial statements to the Business Registers Agency for statistical purposes for that year, or
- the amount of EUR 3,000,000

The maximum allowed amount of the Individual Guarantee provided by the State under the Law is calculated as the product of the insured portfolio of an individual bank, the coverage rate (80%) and the maximum guarantee rate (30% for guarantee scheme 1 or 32% for guarantee scheme 2). The maximum total amount of the guarantee at the level of the insured portfolio of the banking sector of the Republic of Serbia is EUR 480,000,000 for guarantee scheme 1 or EUR 128,000,000 for guarantee scheme 2.

The following table shows the structure of the Bank's portfolio (gross exposures) disbursed from the guarantee scheme with the Republic of Serbia, as of 31 December 2023 and 31 December 2022.

In thousands of dinars **31 December 2023**	**Gross Exposure**	**Allowances for Impairment**	**Net Exposure**
Performing	5,390,753	126,351	5,264,402
Past Due	6,012	3,403	2,609
Unl,to Pay	124,302	62,941	61,361
Doubtful	466,437	427,803	38,634
TOTAL	**5,987,504**	**620,498**	**5,367,006**

In thousands of dinars **31 December 2022** **Gross exposures from the guarantee scheme**	**Gross Exposure**	**Allowances for Impairment**	**Net Exposure**
Performing	23,192,135	378,517	22,813,618
Past Due	988	358	630
Unl,to Pay	348,046	195,757	152,289
Doubtful	230,159	197,692	32,467
TOTAL	**23,771,328**	**772,324**	**22,999,004**

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

a) Portfolio quality

The Bank manages the quality of its financial assets using the internal classification of placements, which is in compliance with the standards of the Parent Bank.

The following tables present the quality of the portfolio (gross balance exposure and off-balance sheet exposure) as of 31 December 2023 and 2022 based on the Bank's rating system:

	Balance sheet assets to be classified *						Off-Balance Sheet Items to be Classified				
	Loans to Customers			Loans to Banks						Total	Total
In thousands RSD	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	2023.*	2022.*
Class:											
Performing	454,422,511	110,949,552	-	266,430,879	-	-	194,058,917	14,388,426	-	1,040,250,286	894,127,660
Past Due	-	-	3,625,624	-	-	-	-	-	81,357	3,706,981	2,866,530
Unlikely to Pay	-	-	3,761,036	-	-	-	-	-	319,989	4,081,025	4,249,617
Doubtful	-	-	9,767,760	-	-	-	-	-	195,238	9,962,998	9,139,254
Total	**454,422,511**	**110,949,552**	**17,154,421**	**266,430,879**	-	-	**194,058,917**	**14,388,426**	**596,583**	**1,058,001,290**	**910,383,061**

	Allowances for impairment and provision customers			Allowances for impairment and provision banks				
In thousands RSD	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Total 2023.*	Total 2022.*
Class:								
Performing	3,104,108	7,193,439	-	33,903	10	-	10,331,461	9,678,787
Past Due	-	-	1,841,845	-	-	-	1,841,845	1,294,827
Unlikely to Pay	-	-	2,379,096	-	-	-	2,379,096	1,802,891
Doubtful	-	-	7,849,130	-	-	-	7,849,130	6,823,655
Total	**3,104,108**	**7,193,439**	**12,070,071**	**33,903**	**10**	-	**22,401,532**	**19,600,158**

**Total assets exposed to credit risk does not include securities relating to the bonds of the Republic of Serbia that are entirely classified as level 1.*
Categories Past due, Unlikely to pay and Doubtful are non-performing receivables (impaired receivables)

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

The following tables present the portfolio structure as od 31 December 2023 and 31 December 2022based on type of receivables and number of days in default (gross balance exposure and off-balance sheet exposure):

In RSD thousand	Large Corporate			SME and Entrepreneurs			Mortgage loans to natural persons			Other loans to natural persons			TOTAL		
31 December 2023	Gross exposure	Allowances of impairment and provision	Coverage ratio	Gross exposure	Allowances of impairment and provision	Coverage ratio	Gross exposure	Allowances of impairment and provision	Coverage ratio	Gross exposure	Allowances of impairment and provision	Coverage ratio	Gross exposure	Allowances of impairment and provision	Coverage ratio
Up to 90 days of default	459,111	141,804	31%	689,011	390,363	57%	758,454	284,159	37%	2,674,381	1,183,633	44%	4,580,957	1,999,958	49%
Over 90 days of default	582,393	534,786	92%	3,345,569	2,631,914	79%	2,154,900	1,216,111	56%	6,490,601	5,343,324	82%	12,573,464	9,726,135	79%
TOTAL	1,041,504	676,589	65%	3,034,581	3,022,276	75%	2,913,354	1,500,270	51%	9,164,982	6,526,957	71%	17,154,421	11,726,093	68%

In RSD thousand	Large Corporate			SME and Entrepreneurs			Mortgage loans to natural persons			Other loans to natural persons			TOTAL		
31 December 2022	Gross exposure	Allowances of impairment and provision	Coverage ratio	Gross exposure	Allowances of impairment and provision	Coverage ratio	Gross exposure	Allowances of impairment and provision	Coverage ratio	Gross exposure	Allowances of impairment and provision	Coverage ratio	Gross exposure	Allowances of impairment and provision	Coverage ratio
Up to 90 days of default	1,774,999	762,786	43%	715,712	368,064	51%	524,561	199,883	38%	2,097,738	864,603	41%	5,113,010	2,195,336	43%
Over 90 days of default	53,655	47,818	89%	3,333,255	2,338,720	70%	1,713,166	927,057	54%	6,042,315	4,713,080	78%	11,142,391	8,026,674	72%
TOTAL	1,828,654	810,604	44%	4,048,967	2,706,783	67%	2,237,727	1,126,939	50%	8,140,053	5,577,683	69%	16,255,401	10,222,010	63%

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

The following tables present the quality of the portfolio as of 31 December 2023 based on type of receivables:

In RSD thousand

Cash and balances with the central bank	Stage 1	Stage 2	Stage 3	Total
Bank account	74,433,781	-	-	74,433,781
Mandatory reserve with the NBS	40,556,609	-	-	40,556,609
Total	**114,990,389**	**-**	**-**	**114,990,389**
Securities				
Bonds of the Republic of Serbia	52,017,277	-	-	52,017,277
Other securities	5,875,000			5,875,000
Total	**57,892,277**	**-**	**-**	**57,892,277**
Loans to Customers				
Balance sheet assets to be classified	260,389,378	64,551,202	5,076,085	330,016,665
Off-balance sheet items to be classified	156,944,245	11,420,826	301,789	168,666,859
Total	**417,333,622**	**75,972,028**	**5,377,874**	**498,683,524**
Loans to Retail				
Balance sheet assets to be classified	194,033,133	46,398,350	12,078,336	252,509,819
Off-balance sheet items to be classified	34,528,297	2,949,015	294,794	37,772,106
Total	**228,561,431**	**49,347,365**	**12,373,130**	**290,281,925**
Loans to Banks				
Balance sheet assets to be classified	266,430,879	-	-	266,430,879
Off-balance sheet items to be classified	2,586,375	18,586	-	2,604,961
Total	**269,017,255**	**18,586**	**-**	**269,035,840**

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

The following table presents the quality of the portfolio for performing clients (gross balance exposure and off-balance sheet exposure) based on the Bank's internal rating as of 31 December 2023:

	Loans to Customers		Loans to banks		Balance sheet assets to be classified Total	Off balance sheet items to be classified		
In thousands RSD	**Stage 1**	**Stage 2**	**Stage 1**	**Stage 2**		**Stage 1**	**Stage 2**	**Total**
Rating								
A	131,662,736	158,071	-	-	131,820,807	87,911,553	2,055	219,734,415
B	203,991,181	53,290,361	-	-	257,281,543	85,967,976	10,445,805	353,695,323
C	21,468,363	56,759,543	-	-	78,227,905	2,245,201	3,906,835	84,379,941
Satisfactory	-	-	-	-	-	-	-	-
Good	828,574	-	-	-	828,574	103,268	-	931,842
Strong	11,542,010	-	-	-	11,542,010	4,406,687	-	15,948,697
Weak	-	-	-	-	-	-	-	-
Not covered by models	42,805,784	741,577	135,203,230	-	178,750,591	8,301,041	15,147	187,066,779
I		0	67,711,925	-	67,711,925	1,763,053	-	69,474,978
M	351	-	2,695,246	-	2,695,596	1,297	-	2,696,894
R	2,341	-		-	2,341	11,717	18,586	32,645
S	42,121,171	-	60,820,478	-	102,941,649	3,347,124	-	106,288,773
								-
Total	**454,422,511**	**110,949,552**	**266,430,879**	**-**	**831,802,943**	**194,058,917**	**14,388,426**	**1,040,250,286**

28. RISK MANAGEMENT (continued)

28.1. Credit risk (Continued

Overview of stock and movement in the allowance for impairment and provisions in 2023 by type of financial instrument:

	Loans and receivables			In RSD thousand
Movement in the allowance for impairment and provisions in 2023	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance - 01.01.2023.	**2,373,541**	**7,694,576**	**10,222,010**	**20,290,126**
Transfer to stage 1	1,259,518	(1,140,597)	(118,921)	-
Transfer to stage 2	(288,608)	503,556	(214,948)	-
Transfer to stage 3	(30,511)	(470,376)	500,887	-
	(1,123,886)	641,852	2,540,579	2,058,545
	1,587,177	1,627,164	2,610,470	5,824,811
Re-measurement				
New production *	(638,974)	(1,662,908)	(1,606,790)	(3,908,672)
Collection	-	-	(1,824,598)	(1,824,598)
Transfer to off balance	-	-	(38,681)	(38,681)
Sale of receivables				
Closing balance - 31.12.2023.	**3,138,257**	**7,193,267**	**12,070,008**	**22,401,531**

	Securities (FVOCI)**			In RSD thousand
Movement in the allowance for impairment and provisions in 2023	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance - 01.01.2023.	**347,537**	**-**	**-**	**347,537**
Transfer to stage 2	(23,626)	23,626	-	-
Re-measurement	(80,088)	146,031	-	65,943
	179,357			
		-	-	179,357
New production	(207,995)	-	-	(207,995)
Collection			-	
Closing balance - 31.12.2023.	**215,185**	**169,657**	**-**	**384,842**

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

Overview of stock and movement in the allowance for impairment and provisions in 2023 by client type:

			Banks	**In RSD thousand**
Movement in the allowance for impairment and provisions in 2023	**Stage 1**	**Stage 2**	**Stage 3**	**Total 2023**
Opening balance - 01.01.2023	**143,225**		**-**	**143,225**
Transfer to stage 1	-	-	-	-
Transfer to stage 2	(4)	4	-	-
Transfer to stage 3	-	-	-	-
Re-measurement	2,040	6	-	2,046
New production	29,061		-	29,061
Collection	(140,419)	-		(140,419)
	-	-	-	-
	-	-	-	-
Closing balance - 31.12.2023	**33,903**	**10**	**-**	**33,913**

		Retail		
Movement in the allowance for impairment and provisions in 2023	**Stage 1**	**Stage 2**	**Stage 3**	**Total 2023**
Opening balance - 01.01.2023	**810,410**	**3,833,263**	**6,704,622**	**11,348,294**
Transfer to stage 1	779,540	(662,210)	(117,330)	-
Transfer to stage 2	(134,040)	343,901	(209,861)	-
Transfer to stage 3	(27,410)	(444,427)	471,837	-
Re-measurement	(779,972)	(63,031)	2,054,086	1,211,083
New production	426,971	979,660	1,234,264	2,640,895
Collection	(163,719)	(638,688)	(356,616)	(1,159,023)
Transfer to off balance	-	-	(1,601,928)	(1,601,928)
	-	-	-	-
Closing balance - 31.12.2023	**911,780**	**3,348,468**	**8,179,074**	**12,439,322**

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

Movement in the allowance for impairment and provisions in 2023	Corporate Stage 1	Stage 2	Stage 3	Total 2023
Opening balance - 01.01.2023.	**1,396,311**	**3,861,313**	**3,517,387**	**8,775,011**
Transfer to stage 1	479,977	(478,386)	(1,591)	-
Transfer to stage 2	(154,564)	159,651	(5,087)	-
Transfer to stage 3	(3,101)	(25,949)	29,050	-
Re-measurement	(322,359)	704,875	486,495	869,011
New production	1,131,145	647,505	1,376,206	3,154,856
Collection	(334,836)	(1,024,220)	(1,250,175)	(2,609,231)
Transfer to off balance	-	-	(222,670)	(222,670)
Sale of receivables	-	-	(38,681)	(38,681)
Closing balance - 31.12.2023.	**2,192,573**	**3,844,789**	**3,890,934**	**9,928,296**

***** New production is the classification under the level of 31 December 2023, and not during the initial approval

In 2023 and 2022, there are no financial assets that are credit-impaired, and where the contractual terms have been significantly changed so that the recognition of the original asset ceases and the recognition of the new financial asset occurs (POCI).

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

Overview of stock and movement in the allowance for impairment and provisions in 2022 by type of financial instrument:

	Loans and receivables			In RSD thousand
Movement in the allowance for impairment and provisions in 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance - 01.01.2022.	**2,836,410**	**5,219,122**	**9,137,244**	**17,192,776**
Transfer to stage 1	1,198,061	(1,090,813)	(107,248)	-
Transfer to stage 2	(517,076)	716,033	(198,957)	-
Transfer to stage 3	(76,183)	(477,685)	553,868	-
Re-measurement	(1,604,547)	1,952,986	1,350,804	**1,699,243**
New production *	1,319,083	2,044,533	1,349,235	**4,712,851**
Collection	(782,207)	(669,600)	(1,862,937)	(3,314,744)
Transfer to off balance	-	-	-	-
Sale of receivables	-	-	-	-
Closing balance - 31.12.2022.	**2,373,541**	**7,694,576**	**10,222,010**	**20,290,126**

	Securities (FVOCI and AC)**			In RSD thousand
Movement in the allowance for impairment and provisions in 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance - 01.01.2022	**480,974**	**-**	**-**	**480,974**
Re-measurement	(26,964)	-	-	(26,964)
	102,046			102,046
			-	
New production	(208,519)	-	-	(208,519)
Collection			-	
Closing balance - 31.12.2022.	**347,537**	**-**	**-**	**347,537**

**In accordance with IFRS 9, the effect of allowance of impairment of debt securities measured through FVOCI recognized through comprehensive income and profit and loss, and they do not reduce carrying amount of debts securities in balance sheet, therefore there is a mismatch with value adjustments in the table of maximum exposure to credit risk 31 December 2022 where presented the allowance for impairment based on debts securities measured at amortized cost.

***** New production is the classification under the level of 31 December 2022, and not during the initial approval

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

Overview of stock and movement in the allowance for impairment and provisions in 2022 by client type:

In RSD thousand

Movement in the allowance for impairment and provisions in 2022	**Banks**			
	Stage 1	**Stage 2**	**Stage 3**	**Total 2022**
Opening balance - 01.01.2022	**11,554**		**-**	**11,554**
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Re-measurement	(2,823)	-	-	(2,823)
New production	140,414		-	140,414
Collection	(5,920)	-		(5,920)
	-	-	-	-
	-	-	-	-
Closing balance - 31.12.2022	**143,225**	**-**	**-**	**143,225**

Movement in the allowance for impairment and provisions in 2022	**Retail**			
	Stage 1	**Stage 2**	**Stage 3**	**Total 2022**
Opening balance - 01.01.2022	**1,461,407**	**3,261,023**	**5,995,483**	**10,717,913**
Transfer to stage 1	1,107,848	(1,003,875)	(103,973)	-
Transfer to stage 2	(302,060)	500,196	(198,136)	-
Transfer to stage 3	(65,416)	(440,477)	505,893	-
Re-measurement	(1,500,187)	623,650	967,220	90,683
New production	453,801	1,325,524	420,620	2,199,945
Collection	(344,983)	(432,778)	(882,485)	(1,660,247)
Transfer to off balance	-	-	-	-
	-	-	-	-
Closing balance - 31.12.2022	**810,410**	**3,833,263**	**6,704,622**	**11,348,294**

***** New production is the classification under the level of 31 December 2022, and not during the initial approval

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

			Corporate	
Movement in the allowance for impairment and provisions in 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Total 2022**
Opening balance - 01.01.2022.	**1,325,102**	**1,958,098**	**3,141,760**	**6,424,961**
Transfer to stage 1	90,213	(86,937)	(3,276)	-
Transfer to stage 2	(215,016)	215,836	(820)	-
Transfer to stage 3	(10,767)	(37,208)	47,975	-
Re-measurement	(86,786)	1,329,337	383,584	1,626,135
New production	724,868	719,009	928,615	2,372,492
Collection	(431,303)	(236,822)	(980,451)	(1,648,576)
Transfer to off balance	-	-	-	-
Sale of receivables	-	-	-	-
Closing balance - 31.12.2022.	**1,396,311**	**3,861,313**	**3,517,387**	**8,775,011**

***** New production is the classification under the level of 31 December 2023 and 31 December 2022, and not during the initial approval

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

a) Maximum exposure to credit risk*

Analysis of the Bank's maximum exposure to credit risk, by geographical locations, before taking into account collaterals and other hedging funds, as of 31 December 2023 and 2022 is presented in the table below:

In RSD thousand

	Balance sheet assets to be classified*		Off-balance sheet items to be classified**		Total ** 2023
	Loans to customers	*Loans to banks*	*Loans to customers*	*Loans to banks*	*Loans to customers and banks*
Serbia	580,260,039	178,511,895	205,810,966	582,200	965,165,101
Europe	2,227,565	65,905,194	621,986	1,070,797	69,825,541
America	31,557	21,547,283	4,506	4,958	21,588,303
Rest of the world	7,323	466,508	1,507	947,006	1,422,344
Total	**582,526,484**	**266,430,879**	**206,438,965**	**2,604,961**	**1,058,001,290**

In RSD thousand

	Balance sheet assets to be classified*		Off-balance sheet items to be classified**		Total ** 2022
	Loans to customers	*Loans to banks*	*Loans to customers*	*Loans to banks*	*Loans to customers and banks*
Serbia	551,675,536	121,119,603	195,630,446	644,031	869,069,617
Europe	1,320,076	32,990,347	39,834	987,589	35,337,846
America	33,911	5,586,964	3,756	0	5,624,630
Rest of the world	6,362	40,740	1,254	302,612	350,968
Total	**553,035,885**	**159,737,655**	**195,675,290**	**1,934,231**	**910,383,061**

**Exposure relating to the Republic of Serbia bonds was excluded.*

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

a) Maximum exposure to credit risk* (continued)

Analysis of the Bank's exposure to credit risk by industry sectors as of 31 December 2023 and 2022 is presented in the table below:

In RSD thousand

	Balance sheet assets to be exposed to credit risk*	Off-balance sheet items to be exposed to credit risk**	Total 2023
Industry	**319,751,304**	**168,433,377**	**488,184,681**
Trade	82,831,392	46,228,921	129,060,312
Transportation and communication	26,684,836	12,590,099	39,274,935
Construction	18,479,233	49,648,804	68,128,037
Services, tourism and accommodation services	31,614,689	12,219,632	43,834,322
Food and beverage production	23,660,479	7,481,970	31,142,449
Permanent goods production	45,687,816	22,446,962	68,134,777
Agriculture, hunting, fishing and forestry	13,986,821	4,982,771	18,969,593
Other	76,806,038	12,834,218	89,640,256
Banks	**266,430,879**	**2,604,961**	**269,035,840**
Local government	**10,265,361**	**233,482**	**10,498,843**
Retail loans	**252,509,819**	**37,772,106**	**290,281,925**
Mortgage loans	123,497,754		123,497,754
Other	129,012,065	37,772,106	166,784,171
TOTAL	**848,957,363**	**209,043,926**	**1,058,001,290**

**Exposure relating to the Republic of Serbia bonds was excluded*

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

b) Portfolio quality

In RSD thousand

	Balance sheet assets to be exposed to credit risk*	Off-balance sheet items to be exposed to credit risk**	Total 2022
Industry	**299,004,624**	**162,611,014**	**461,615,638**
Trade	96,993,783	41,998,389	138,992,172
Transportation and communication	23,534,946	9,645,560	33,180,505
Construction	18,721,635	49,978,342	68,699,977
Services, tourism and accommodation services	30,950,771	13,995,892	44,946,663
Food and beverage production	24,092,009	5,387,041	29,479,049
Permanent goods production	45,000,460	21,619,620	66,620,080
Agriculture, hunting, fishing and forestry	14,824,003	4,607,175	19,431,178
Other	44,887,018	15,378,996	60,266,014
Banks	**159,737,655**	**1,934,231**	**161,671,886**
Local government	**10,402,744**	**832,085**	**11,234,829**
Retail loans	**243,628,516**	**32,232,191**	**275,860,707**
Mortgage loans	128,604,514	-	128,604,514
Other	115,024,002	32,232,191	147,256,193
TOTAL	**712,773,539**	**197,609,522**	**910,383,061**

**Exposure relating to the Republic of Serbia bonds was excluded*

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

b) Portfolio quality (continued)

Ageing analysis of unimpaired loans and receivables from customers

The ageing analysis of loans and receivables from customers past due, but not impaired, as well as loans and receivables not yet due and impaired receivables, as of 31 December 2023 and 2022 is presented as follows:

In RSD thousand

	Loans to customers and banks			Total 2023
	Stage 1	*Stage 2*	*Stage 3*	
Receivables undue:	709,819,763	101,360,682	2,640,719	813,821,164
Receivables overdue:	11,033,627	9,588,870	14,513,702	35,136,199
01-30 days	11,033,627	7,873,828	1,088,867	19,996,322
31-60 days	-	1,121,528	277,012	1,398,540
61-90 days	-	593,514	574,358	1,167,873
>90 days	-	-	12,573,464	12,573,464
Total	**720,853,390**	**110,949,552**	**17,154,421**	**848,957,363**

*We apply the new definition of default applied in 2019, (Detailed explanation in item 28.1)

In RSD thousand

	Loans to customers and banks			Total 2022
	Stage 1	*Stage 2*	*Stage 3*	
Receivables undue:	576,148,314	101,165,494	2,778,694	680,092,502
Receivables overdue:	11,243,134	8,766,718	12,671,185	32,681,037
01-30 days	11,243,134	7,301,979	831,029	19,376,143
31-60 days	-	934,925	254,321	1,189,246
61-90 days	-	527,766	554,729	1,082,496
>90 days	-	2,047	11,031,105	11,033,152
Total	**587,391,448**	**109,932,212**	**15,449,879**	**712,773,539**

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

b) Portfolio Quality (continued)

Collateral analysis

Analysis of portfolio (balance sheet and off-balance sheet items), by the collateral type, as of 31 December 2023 and 2022 is presented below:

In RSD thousand

	Balance sheet assets to be exposed to credit risk*	Off-balance sheet items to be exposed to credit risk**	Total 2023.
Corporate loans:	**319,751,304**	**168,433,377**	**488,184,681**
Secured by government	15,303,853	-	15,303,853
Secured by guaranteed	5,436,213	-	5,436,213
Secured by mortgage	13,476,012	931,584	14,407,596
Secured by deposit	2,911,462	1,105,868	4,017,330
Unsecured	282,623,764	166,395,925	449,019,689
Loans to banks:	**266,430,879**	**2,604,961**	**269,035,840**
Secured	-	-	-
Unsecured	266,430,879	2,604,961	269,035,840
Loans to local government	**10,265,361**	**233,482**	**10,498,843**
Secured	-	-	-
Unsecured	10,265,361	233,482	10,498,843
Retail loans:	**252,509,819**	**37,772,106**	**290,281,925**
Secured by residential mortgage	109,573,655	-	109,573,655
Secured by non-residential mortgage	550,827	-	550,827
Secured by deposit	1,798,469	399,628	2,198,098
Unsecured	140,586,868	37,372,478	177,959,346
Total	**848,957,363**	**209,043,926**	**1,058,001,290**

*Exposure relating to the Republic of Serbia bonds was excluded

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

b) Portfolio Quality (continued)

Collateral analysis (continued)

In RSD thousand

	Balance sheet assets to be exposed to credit risk*	Off-balance sheet items to be exposed to credit risk**	Total 2022.
Corporate loans:	**299,004,625**	**162,611,014**	**461,615,639**
Secured by government	6,063,521	-	6,063,521
Secured by guaranteed	19,360,373	-	19,360,373
Secured by mortgage	13,716,383	887,173	14,603,556
Secured by deposit	5,974,298	918,957	6,893,255
Unsecured	253,890,050	160,804,884	414,694,934
Loans to government	**159,737,655**	**1,934,231**	**161,671,886**
Secured	510,341	1,132,172	1,642,513
Unsecured	159,227,314	802,059	160,029,373
Loans to banks:	**10,402,744**	**832,085**	**11,234,829**
Secured	-	-	-
Unsecured	10,402,744	832,085	11,234,829
Retail loans:	**243,628,516**	**32,232,191**	**275,860,707**
Secured by residential mortgage	111,367,414	-	111,367,414
Secured by non-residential mortgage	1,038,509	-	1,038,509
Secured by deposit	1,203,125	390,351	1,593,476
Unsecured	130,019,468	31,841,840	161,861,308
Total	**712,773,540**	**197,609,521**	**910,383,061**

All collaterals are presented up to the amount of receivables. Mortgage must meet the requirements of the National Bank of Serbia in order to be used as a collateral and those requirements are: to be registered, there must be an appraisal for the mortgaged property by the authorized appraiser not older than 3 years (except in the case of mortgaged residential real estate property where the amount of the outstanding bank exposure does not exceed 40% of its value), owner of the property cannot be under bankruptcy, appraised value of property reduced by all higher ranked receivables must be greater than the amount of receivables, receivables secured by the mortgage cannot be overdue for more than 720 days.

Loan to value ratio (LTV ratio) for mortgage loans as of 31 December 2023 and 2022 is as follows:

In RSD thousand

Mortgage LTV	2023	2022
< 50%	50,635,845	40,638,991
51%-70%	43,013,657	44,370,489
71%-90%	27,287,282	39,620,538
91%-100%	1,122,225	1,552,051
> 100%	1,315,379	2,422,445
Total	**123,374,388**	**128,604,514**

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

b) Portfolio Quality (continued)

Non-performing loan analysis

Balance sheet assets and allowances for impairment (NPL – categories: past due, unlikely to pay, doubtful and restructured) as of 31 December 2023 and 2022 are presented as follows:

	Total loans		Allowances for impairment and provisions		Total 2023
In RSD thousand	*Balance exposure*	*Off-balance exposure*	*Balance exposure*	*Off-balance exposure*	*Net Balance book value*
Individual Assessment	2,383,066	244,172	1,299,853	184,306	1,143,078,,
Collective Assessment	14,771,355	352,411	10,426,240	159,672	4,537,854,,
Total	**17,154,421**	**596,583**	**11,726,093**	**343,328**	**5,680,932,,**

	Total loans		Allowances for impairment and provisions		Total 2022
In RSD thousand	*Balance exposure*	*Off-balance exposure*	*Balance exposure*	*Off-balance exposure*	*Net Balance book value*
Individual Assessment	3,193,656	444,297	1,536,247	151,225	1,950,481,,
Collective Assessment	12,256,223	361,225	8,384,594	149,413	4,083,441,,
Total	**15,449,879**	**805,522**	**9,920,841**	**300,638**	**6,033,922,,**

Changes of Balance exposure for Non-Performing loans (NPL – categories: Past Due, Unlikely to Pay and Doubtful) in 2023 are presented as follows:

Opening Balance – 01.01.2023	**15,449,879**
New Non-Performing loans	6,064,436
Change in balance of Non-Performing loans	(3,660,287)
Transfer to Off-balance	(1,427,245)
Recovery of Non-Performing loans	727,638
Closing Balance – 31.12.2023	**17,154,421**

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

b) Portfolio Quality (continued)

Renegotiated loans analysis

Balance sheet assets and allowances for impairment for renegotiated loans as of 31 December 2023 and 2022 are presented as follows:

In RSD thousand

	Balance sheet assets to be classified		Off-balance sheet items to be classified		Total 2023
	Loans to customers	*Loans to banks*	*Loans to customers*	*Loans to banks*	*Loans to customers and banks*
Renegotiated loans:					
Loans	**3,705,148**	-	-	-	**3,705,148**
Stage 1	-	-	-	-	-
Stage 2	1,396,265	-	-	-	1,396,265
Stage 3	2,308,883	-	-	-	2,308,883
Allowances for impairment	**(1,406,496)**	-	-	-	**(1,406,496)**
Stage 1	-	-	-	-	-
Stage 2	158,148	-	-	-	158,148
Stage 3	(1,248,348)	-	-	-	(1,248,348)
Net balance	**2,298,652**	-	-	-	**2,298,652**

In RSD thousand

	Balance sheet assets to be classified		Off-balance sheet items to be classified		Total 2022
	Loans to customers	*Loans to banks*	*Loans to customers*	*Loans to banks*	*Loans to customers and banks*
Renegotiated loans:					
Loans	**7,351,044**	-	**5,549**	-	**7,356,592**
Stage 1	-	-	-	-	-
Stage 2	5,094,342	-	5,549	-	5,099,890
Stage 3	2,256,702	-	-	-	2,256,702
Allowances for impairment	**(2,096,983)**	-	**(10)**	-	**(2,096,993)**
Stage 1	-	-	-	-	-
Stage 2	815,228	-	(10)	-	815,239
Stage 3	(1,281,754)	-	-	-	(1,281,754)
Total	**5,254,060**	-	**5,539**	-	**5,259,599**

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

b) Portfolio Quality (continued)

Opening Balance – 01.01.2023	**7,356,592**
New renegotiated loans	5,293,388
Change in balance of renegotiated loans	(3,930,933)
Termination of the status of renegotiated loans	(5,013,899)
Closing Balance – 31.12.2023	**3,705,148**

Renegotiated loans are all loans for which previous conditions, as term, dynamics of settlement, interest rate and etc., have been changed in order to provide benefits for the client.

Credit conversion factor analysis

Credit conversion factors (CCF) for off-balance sheet items in the portfolio as of 31 December 2023 and 31 December 2022 are presented as follows:

In RSD thousand

				Total 2023
	Corporate Loans	***Loans to Banks***	***Retail Loans***	***Loans to customers and banks***
CCF				
20%	128,474,797	1,882,530	19,672,232	150,029,560
22%	-	-	1,447,813	1,447,813
26%	1,867,645	-	-	1,867,645
28%	-	-	1,225,155	1,225,155
30%	-	-	870,869	870,869
32%	7,678,440	-		7,678,440
33%	271,589	-	-	271,589
44%	-	-	3,273,113	3,273,113
45%	-	-	330,492	330,492
47%	1,471,891	-		1,471,891
48%	-	-	1,887,718	1,887,718
50%	25,464,850	722,431	2,476	26,189,757
60%	-	-	7,202,848	7,202,848
64%	-	-	567,828	567,828
82%	-	-	154,716	154.716
89%	-	-	42,853	42,853
100%	3,437,648	-	1,094,793	4,532,440
Total	**168,666,859**	**2,604,961**	**37,722,106**	**209,043,926**

28. RISK MANAGEMENT (continued)

28.1. Credit risk (continued)

b) Portfolio quality (continued)

Credit conversion factor analysis (continued)

In RSD thousand
Total 2022

CCF	*Corporate Loans*	*Loans to Banks*	*Retail Loans*	*Loans to customers and banks*
20%	113,916,486	1,357,164	16,140,778	131,414,428
23%	-	-	1,306,912	1,306,912
26%	1,388,032	-	-	1,388,032
32%	7,545,153	-	1,348,338	8,893,491
33%	230,939	-	-	230,939
34%	-	-	1,005,893	1,005,893
47%	1,454,063	-		1,726,932
50%	32,778,344	577,067	1,457,307	34,812,718
58%	-	-	1,053,577	1,053,577
66%	-	-	4,653,839	4,653,839
68%	-	-	640,543	640,543
84%	-	-	135,081	135,081
92%	-	-	61,611	61,611
100%	6,130,083	-	1,111,911	7,241,994
Total	**163,443,100**	**1,934,231**	**32,232,191**	**197,609,522,**

28. RISK MANAGEMENT (continued)

28.2. Liquidity risk and financial assets management

The Risk Management Department is responsible for measuring and monitoring liquidity and for the regular preparation of reports, which present the effects of the migration of various categories of assets and liabilities of the Bank to its liquid assets position. Liquidity risk management system is in compliance with measures and criteria determined by the Parent Bank, as well as regulations prescribed by the National Bank of Serbia.

Basic activities of the liquidity risk management include:

- planning of cash inflows and outflows;
- implementation and monitoring of liquidity indicators;
- measurement and monitoring of the Bank's liquidity;
- monitoring of liquidity crisis indicators; and
- preparation of the reports for the management.

Liquidity Risk management is done through monitoring following limits/indicators:

- Regulatory liquidity indicators: Liquidity coverage ratio – LCR (including LCR by significant currencies), Liquidity ratio and Narrow liquidity ratio.

Regulatory liquidity indicators

Liquidity Coverage Ratio – LCR

By applying the guidelines of the European Banking Authority (EBA) and Basel III regulations, as well as by respecting the specificities of the Serbian market and the macroeconomic environment, the National Bank of Serbia with Decision on Liquidity Risk Management by Banks requires regulatory reporting of Liquidity Coverage Ratio (LCR) indicator. The LCR indicator should provide adequate level of highly liquid assets (cash or assets which can be converted into cash with small or without any loss in value) in order to fulfil the Bank's needs for liquidity in the 30-day period of stress scenario.

The Decision on Liquidity Risk Management by Banks prescribed by National Bank of Serbia is almost fully harmonized with Basel III, i.e. the Commission Delegated Act Regulation (EU) 2015/91. However, there are some differences in the local LCR calculation that should be remarked:

- Excess liquidity on obligatory reserve account is calculated as of reporting date instead as average;
- There are no haircuts required for securities issued by the Serbian Government in local and foreign currencies;
- Higher outflow rates are applied only to retail deposits denominated in currencies other than dinar, euro and the currency of an EU member state. Namely, Euro and other EU member state currencies are treated as domestic currency in accordance with the regulation prescribed by the National Bank of Serbia;
- Shortage of required reserves is not treated as outflow; and
- Contractual inflows from exposures that are not past due for more than five days are included into the liquidity inflows (no five days threshold is applied by the EU regulations).

28. RISK MANAGEMENT (continued)

28.2. Liquidity risk and financial assets management (continued)

Regulatory liquidity indicators (continued)

Liquidity Coverage Ratio – LCR (continued)

The LCR indicator required by the regulator was well above the required limit in 2023 with an average value that was more than forth times higher than prescribed limit of 1.0 (100%).

LCR	31 December	Average	Maximum	Minimum
2023	**4.11**	**2.27**	**4.11**	**1.70**
2022	**2.22**	**2.29**	**3.37**	**1.69**

The Bank also calculates the LCR indicator by significant currencies in accordance with the Decision on Liquidity Risk Management by Banks prescribed by the National Bank of Serbia. LCR indicator is monthly reported to the ALCO board by the most significant currencies (RSD and EUR), as of 31 December 2023 LCR is 2.76 (2022: 4.63) for liquidity position in domestic currency and 1.23 (2022: 0.37) for liquidity position in foreign currency (EUR).

Liquidity ratio and Narrow liquidity ratio

In 2023 the regulatory liquidity ratio and narrow regulatory liquidity ratio were significantly above the legally prescribed limit. Average regulatory liquidity ratio and narrow liquidity ratio were above the required level (at least 1.0 if calculated as the average of liquidity indicators for all working days within a month, or at least 0.7 if calculated as the average of narrow liquidity indicators for all working days within a month).

Liquidity ratio	31 December	Average	Maximum	Minimum
2023	**2.24**	**2.04**	**2.29**	**1.73**
2022	**1.88**	**1.87**	**2.15**	**1.51**

Narrow liquidity ratio	31 December	Average	Maximum	Minimum
2023	**1.65**	**1.41**	**1.70**	**1.17**
2022	**1.47**	**1.47**	**1.68**	**1.17**

Structure of the total liquidity reserves as of 31 December 2023 is presented in the following table:

In RSD thousand

Liquidity reserves	Carrying amount/ Fair value	Haircut	Available amount
Required Central bank reserves in the amount above the amount required for the period	22,671,676	0%	22,671,676
- *of which required reserves in local currency*	22,671,676	0%	22,671,676
- *of which required reserves in foreign currency*	0	0%	0
Reverse repo transaction with Central Bank	60,000,000	0%	60,000,000
Cash and cash equivalents	30,329,686	0%	30,329,686
Available no-load government securities issued by the Republic of Serbia	51,925,427		32,175,343
- *of which in local currency*	39,696,557	35%	25,802,762
- *of which in Euro*	11,583,503	50%	5,791,752
- *of which in Eurobond emitted in euro*	645,366	10%	580,829
Total liquidity reserves	**164,926,789**		**144,918,559**

28. RISK MANAGEMENT (continued)

28.2. Liquidity risk and financial assets management (continued)

Structure of the total liquidity reserves as of 31 December 2022 is presented in the following table:

In RSD thousand

Liquidity reserves	**Carrying amount/ Fair value**	**Haircut**	**Available amount**
Required Central bank reserves in the amount above the amount required for the period	17,991,917	0%	17,991,917
- *of which required reserves in local currency*	17,117,247	0%	17,117,247
- *of which required reserves in foreign currency*	874,670	0%	874,670
Reverse repo transaction with Central Bank	20,000,000	0%	20,000,000
Excess liquidity placement with Central Bank	30,000,000		30,000,000
Cash and cash equivalents	28,469,324	0%	28,469,324
Available no-load government securities issued by the Republic of Serbia	55,360,051		34,362,897
- *of which in local currency*	44,552,476	35%	28,959,109
- *of which in Euro*	10,807,575	50%	5,403,787
Total liquidity reserves	**151,821,291**		**130,824,138**

The liquidity reserves structure is as follows: reserves required by the central bank above the amount required for the period in domestic and foreign currency on which 0% haircut is applied, reverse repo transactions with the central bank, cash and cash equivalents (including gold) on which 0% haircut is applied, government bonds in domestic and foreign currency issued by the Republic of Serbia on which defined haircut of 10%, 35% or 50% is applied.

As of 31 December 2023, available unencumbered financial assets issued by the Republic of Serbia amounted to RSD 51,925,427 thousand (2022: RSD 55,360,051 thousand), out of which RSD 39,696,557 thousand is in local currency (2022: 44,552,476 thousand), RSD 12,228,869 thousand is in Euro (2022: RSD 10,807,575 thousand).

According to the Liquidity Risk Management Policy, foreign currency account balances are not a part of liquidity reserves, although they represent liquid assets that the Bank owns without restrictions.

As of 31 December 2023, on nostro accounts was RSD 87,362,338 thousand (2022: RSD 31,114,884 thousand).

The currency structure of cash on nostro accounts at the reporting date was as follows: EUR – RSD 59,515,525 thousand (2022: RSD 24,881,839 thousand), USD – RSD 20,816,556 thousand (2022: RSD 5,561,334 thousand), GBP – RSD 84,821 thousand (2022: RSD 66,674 thousand), CAD – RSD 757,087 thousand (2022: RSD 50,894 thousand), AUD – RSD 482,338 thousand (2022: RSD 58,629 thousand), DKK – RSD 73,180 thousand (2022: RSD 17,457 thousand), CHF – RSD 5,288,342 thousand (2022: RSD 140,163 thousand), SEK – RSD 257,904 thousand (2022: RSD 314,247 thousand), RUB – RSD 2,341 thousand (2022: RSD 8,589 thousand) and other currencies – RSD 84,245 thousand (2022: RSD 15,018 thousand).

28. RISK MANAGEMENT (continued)

28.2. Liquidity risk and financial assets management (continued)

Maturity mismatch report as of 31 December 2023 based on undiscounted cash flow

In RSD thousand

	Carrying amount	**Gross nominal value**	**Up to 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**Over 5 years**	**With non-defined maturity**
ASSETS								
Cash and balances with Central Bank	145,416,663	145,416,663	145,416,663					
Receivables from derivatives	80,353	80,353						80,353
Securities	57,722,864	61,198,236	15,490,714	17,701	5,903,973	39,785,290		556
Loans and receivables from banks and other financial organizations	157,125,902	157,414,477	152,028,310	747,932	3,160,557	1,362,280	100,524	14,873
Loans and receivables from customers	534,022,332	668,230,926	23,022,181	41,465,307	150,784,319	282,191,000	170,598,163	169,956
Investments in subsidiaries	1,199,472	1,199,472						1,199,472
TOTAL ASSETS	**895,567,586**	**1,033,540,126**	**335,957,867**	**42,230,941**	**159,848,850**	**323,338,570**	**170,698,687**	**1,465,211**

28. RISK MANAGEMENT (continued)

28.2. Liquidity risk and financial assets management (continued)

Maturity mismatch report as of 31 December 2023 based on undiscounted cash flow (continued)

In RSD thousand

	Carrying amount	Gross nominal value	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity
LIABILITIES								
Liabilities based on derivatives	1,586	1,586						1,586
Deposits and other financial liabilities due to banks, other financial organizations and Central Bank	68,454,547	73,540,853	13,704,779	6,368,982	17,848,322	29,653,820	5,521,516	443,435
Deposits and other financial liabilities due to customers	709,686,211	744,283,328	541,817,042	28,199,253	96,408,756	57,915,189	17,536,696	2,406,391
TOTAL LIABILITIES	**778,142,344**	**817,825,766**	**555,521,820**	**34,568,236**	**114,257,077**	**87,569,009**	**23,058,212**	**2,851,412**
TOTAL EQUITY		**110,818,201**						**110,818,201**
TOTAL LIABILITIES AND EQUITY		**928,643,967**	**555,521,820**	**34,568,236**	**114,257,077**	**87,569,009**	**23,058,212**	**113,669,613**
MATURITY MISMATCH			**(219,563,953)**	**7,662,705**	**45,591,773**	**235,769,561**	**147,640,475**	**(112,204,402)**
CUMULATIVE MATURITY MISMATCH			**(219,563,953)**	**(211,901,248)**	**(166,309,475)**	**69,460,086**	**217,100,561**	

The table on the analysis of the residual maturity of assets and liabilities of the Bank as at 31 December 2023 shows the future cash flows using extremely conservative assumptions, such as the maturity of all sight deposits in the next month. The cumulative gap for illustrative purposes is shown by applying conservative assumptions since a vista deposits have been very stable source of funds by analysing time series of a vista deposits during previous years.

28. RISK MANAGEMENT (continued)

28.2. Liquidity risk and financial assets management (continued)

Maturity mismatch report as of 31 December 2022 based on undiscounted cash flow (continued):

In RSD thousand

	Carrying amount	Gross nominal value	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity
ASSETS								
Cash and balances with Central Bank	153,092,550	153,092,550	153,092,550					
Receivables from derivatives	468,597	468,597	0					468,597
Securities	61,269,872	63,074,235	9,903,915	7,693,209	20,218,355	25,258,191		564
Loans and receivables from banks and other financial organizations	70,294,972	70,511,869	65,779,107	773,902	2,483,842	1,287,331	112,151	75,535
Loans and receivables from customers	513,000,029	640,554,210	30,563,967	39,088,430	131,389,461	260,206,229	179,983,787	-677,665
Investments in subsidiaries	1,199,472	1,199,472						1,199,472
TOTAL ASSETS	**799,325,492**	**928.900.933**	**259,339,540**	**47,555,541**	**154,091,658**	**286,751,752**	**180,095,938**	**1,066,503**

28. RISK MANAGEMENT (continued)

28.2. Liquidity risk and financial assets management (continued)

Maturity mismatch report as of 31 December 2022 based on undiscounted cash flow (continued):

In RSD thousand

	Carrying amount	Gross nominal value	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity
LIABILITIES								
Liabilities based on derivatives	8,305	8,305						8,305
Deposits and other financial liabilities due to banks, other financial organizations and Central Bank	92,094,541	95,458,775	12,769,234	20,473,094	30,947,256	23,707,418	7,287,356	274,416
Deposits and other financial liabilities due to customers	612,850,509	616,721,158	512,193,091	15,818,303	63,530,792	21,803,002	2,462,331	913,639
TOTAL LIABILITIES	**704.953.355**	**712,188,238**	**524,962,325**	**36,291,397**	**94,478,048**	**45,510,421**	**9,749,687**	**1,196,360**
TOTAL EQUITY		**97,768,861**						**97,768,861**
TOTAL LIABILITIES AND EQUITY		**809,957,099**	**524,962,325**	**36,291,397**	**94,478,048**	**45,510,421**	**9,749,687**	**98,965,221**
MATURITY MISMATCH			**(265,622,785)**	**11,264,144**	**59,613,610**	**241,241,331**	**170,346,251**	**(97,898,718)**
CUMULATIVE MATURITY MISMATCH			**(265,622,785)**	**(254,358,641)**	**(194,745,031)**	**46,496,300**	**216,842,551**	

The table on the analysis of the residual maturity of assets and liabilities of the Bank as at 31 December 2022 shows the future cash flows using extremely conservative assumptions, such as the maturity of all sight deposits in the next month. The cumulative gap for illustrative purposes is shown by applying conservative assumptions since a vista deposits have been very stable source of funds by analysing time series of a vista deposits during previous years.

28. RISK MANAGEMENT (continued)

28.3. Market risk

In 2023, the Bank acquired Trading Book (positions) and, therefore, was exposed to interest rate risk and price risk which could be caused by the Trading Book. Trading Book refers to portfolio of derivatives meaning FX Forward and Interest Rate Swap portfolio initiated by customers. Usually the Trading book was composed by G-bonds classified as Held for Trading as well but at the beginning of the Russian-Ukrainian conflict, the Bank was exposed to the huge impact of increased Serbian country spread (used in fair value and VaR calculation of bonds) and consequently led to the temporary suspension of bond purchase classified as Held for Trading, by the Parent bank. According to that during 2023 there was no registered breach of the limit defining the maximum allowed nominal value of bonds in the Trading Book. On the other hand, the Banking book was exposed to foreign currency risk, with registered limit breaches approved by two members of the Executive Board in 2023.

Foreign currency risk is the risk of occurrence of negative effects on the financial result and equity of the Bank due to changes in foreign currency exchange rates. Banking operations in different foreign currencies result in exposure to fluctuations in exchange rates of foreign currencies.

The Bank applies foreign currency risk monitoring system based on the first and the second class limits.

The first class limit is considered to be FX VaR limit, which is calculated and reported on a daily basis. Calculation methodology is regulated by the ISP Group, which applies EWMA historical method, with 99% confidence interval and one day time period. FX VaR is calculated on positions for each currency, due to the Parent Bank's requirements, as well as for the increase of volatility of some currencies, which the Bank has in its portfolio. However, the FX VaR is mostly determined by the volatility of EUR, since the portion of EUR of the total open FX position was 86% in average during 2023.

The second class limit is considered to be the limit of net open FX position, which represents difference between the currency sensitive assets and the currency sensitive liabilities. The second class limits exposure is calculated and reported on a daily basis. During 2023, the first class limit (FX VaR limit) remained unchanged while the second class limit i.e. limit of net open FX position,was increased. During the first quarter of 2023 breaches of the limit of an open foreign exchange position were registered, but it should be mentioned that this was the result of previously announced and agreed business actions which require that the open foreign currency position is not closed directly, but within few days.

During 2023, the Bank's foreign currency risk indicator was in compliance with the legally prescribed one, which represents 20% of the regulatory equity. As of 31st December 2023 regulatory indicator of foreign currency risk was 0.46%. Considering that the regulatory indicator for foreign exchange risk is below 2%, the Bank has not calculated capital requirement as of 31 December 2023.

28. RISK MANAGEMENT (continued)

28.3. Market risk (continued)

The following table presents the open foreign currency position as of 31 December 2023:

In RSD thousand

		Open foreign currency position		
	Carrying amount	Total	Trading book	Banking book
Assets complied with market risks	910,184,824	522,908,900		522,908,900
Cash and balances with Central Bank	145,416,663	53,328,853		53,328,853
Securities	57,722,864	12,310,630		12,310,630
Loans and receivables from banks and other financial organizations	157,125,902	95,395,923		95,395,923
Loans and receivables from customers	534,022,332	360,332,470		360,332,470
Other assets	15,897,063	1,541,024		1,541,024
Liabilities complied with market risks	**799,588,399**	**478,055,040**		**478,055,040**
Deposits and other financial liabilities due to banks, other financial organizations and Central Bank	68,454,547	52,431,524		52,431,524
Deposits and other financial liabilities due to customers	709,686,211	418,242,153		418,242,153
Other liabilities	21,447,641	7,381,364		7,381,364
Off-balance sheet financial derivatives which impact FX position		(36,280,043)	(3,008,719)	(33,271,323)
Allowances for impairment	(36,280,043)	(8,731,725)		(8,731,725)
Open net foreign currency position		**(157,907)**	**(3,008,719)**	**2,850,812**

The following table presents the open foreign currency position as of 31 December 2022:

In RSD thousand

		Open foreign currency position		
	Carrying amount	Total	Trading book	Banking book
Assets complied with market risks	**808,147,888**	**483,328,598**		**483,328,598**
Cash and balances with Central Bank	153,092,550	58,500,789		58,500,789
Securities	61,269,872	10,854,264		10,854,264
Loans and receivables from banks and other financial organizations	70,294,972	44,688,065		44,688,065
Loans and receivables from customers	513,000,029	368,437,984		368,437,984
Other assets	10,490,465	847,496		847,496
Liabilities complied with market risks	**723,930,740**	**455,843,733**		**455,843,733**
Deposits and other financial liabilities due to banks, other financial organizations and Central Bank	92,094,541	80,515,035		80,515,035
Deposits and other financial liabilities due to customers	612,850,509	365,342,116		365,342,116
Other liabilities	18,985,690	9,986,581		9,986,581
Off-balance sheet financial derivatives which impact FX position	(19,873,114)	(19,873,114)	(961,627)	(18,911,487)
Allowances for impairment	20,290,127	(8,014,024)		(8,014,024)
Open net foreign currency position		**(402,272)**	**(961,627)**	**559,355**

28. RISK MANAGEMENT (continued)

28.3. Market risk (continued)

Following table represents the currency structure of open net foreign currency position as of 31 December 2023 and 31 December 2022:

In RSD thousand

Net open foreign currency position	2023	2022
EUR	(349,692)	(567,626)
USD	2,570	(1,882)
CHF	12,594	5,140
Other currencies	81,023	74,689
Gold and other precious metals	95,599	87,408
Total	**(157,907)**	**(402.272)**

In EUR

Foreign currency VaR	31 December	Average	Maximum	Minimum
2023	2,115	4,570	98,464	1,125
2022	3,651	41,669	144,653	1,347

Following table represents effect of the change in the exchange rates on the Bank's profit and regulatory capital:

In RSD thousand

Scenario	Effect 2023	Effect 2022
10% depreciation of RSD	(15,791)	(40,227)
20% depreciation of RSD	(31,581)	(80,454)

28.4. Interest rate risk

Interest rate risk is the risk of decrease in profit or net assets value of the Bank due to changes in market interest rates. The Bank's exposure to interest rate risk depends on the ratio of the interest-sensitive assets and interest-sensitive liabilities.

Interest rate risk is calculated separately for the Trading Book (HFT -portfolio of securities held for trading, consisted of bonds and derivatives concretely FX forwards and IRSs), and for the Banking Book (includes everything that is not classified as Trading Book).

ISP Group Methodology on the calculation of interest rate risk was adopted by the Bank, through internal documents and ERMAS net 5 technical solution. Methodology includes: treatment of the margin as fixed future cash flow; calculation of future cash flows by using FTP prices, instead of the contractual prices; modelling a vista deposits as well as treatment of prepayment and cash flow adjustment (Cash Flow Adjustment) for expected credit loss. Applying the guidelines of the European Bank Authority (EBA) and Basel III regulations, the Parent Bank continuously improves the methodology and Guidelines relating to interest rate risk. In accordance with the new EBA guidelines and the Parent Bank guidelines, in 2023 some modifications (which will be applied in 2024) in the calculation of interest rate risk were conducted. Modifications concern the extension of time bucketing representation, possibility to include/exclude the effect of Expected (Credit) Loss into calculation and transfer to the risk-free rates instead of FTP rates. The Bank's documents defining interest rate risk management, the Policy on management of interest rate risk in the Banking Book and the Rulebook - Measurement and control of interest rate risk in the Banking Book, were harmonized with the Parent Bank' documents.

28. RISK MANAGEMENT (continued)

28.4. Interest rate risk (continued)

Measures used for assessment of interest rate risk on the Banking Book and on the basis of which there are established limits that are monitored on a monthly level are sensitivity of economic value of assets on 100 basis points interest rate change and sensitivity of income revenues and costs on change of on 50 basis points interest rate change. In the course of 2023, both of the aforementioned limits of exposure to the interest rate risk of the banking book were increased on the Bank's request. The Bank was in compliance with the prescribed limits by the Parent Bank in 2023.

Sensitivity of net asset value to change in market interest rates of +/- 100 basis points as well as the new scenarios for non-parallel shifts of yield curves (steepener, flattener, short rate up and short rate down) i.e. sensitivity of interest income and expenses to change of +/- 50, +/- 100 and, + / -200 basis is calculated, monitored and submitted to the ALCO Board as well as to the Parent Bank on a monthly basis. At the quarterly level, the Bank calculates these indicators in accordance with the six defined scenarios required by Basel III regulations and for parallel shifts by +/- 200 basis points,, which are monitored and submitted to the ALCO Board and the Parent Bank.

During 2023 the both interest rate risk VaR limit exposure on the Banking Book as well as Trading Book, were increased upon the Parent Bank's request.

Interest rate risk is daily monitored and submitted for the financial assets hold to collect and sell (HTCS)as well as for portfolio of securities held for trading (HFT). For (HTCS), as well as for HFT portfolio the following ratios of interest rate risk are calculated and reported on a daily basis: IRR VaR, duration and stress test (change scenario by 100 bps and 200 bps).

Acceptable interest rate risk is limited to the highest possible value at interest rate risk (IRR VaR) for the portfolio of financial assets hold to collect and sell, as well as for the portfolio of securities held for trading.

Value at interest rate risk (IRR VaR) is considered to be the highest possible one day loss in the AFS securities portfolio and securities held for trading that the Bank could undertake under usual market movements in interest rates. IRR VaR calculation methodology is determined by the ISP Group regulations, which applies EWMA historical method with 99% confidence interval and one day time period. During 2023 there was no registered breach of the VaR limits referring to the HFT, HTCS and Total portfolio

In addition to regular VaR limits, the Bank daily monitors and reports about stress VaR indicators as additional risk measures. Stress VaR indicators are calculated in the same way as regular ones, with the difference that a pre-defined stress period is taken for stress calculation and each observation in period has the same weight, ie. it is given the same importance. The Parent bank revised the stress period in the first quarter of 2023, opting for a period with more pronounced oscillations, resulting in an increase in all stress VaR indicators. Namely, in the first quarter, the stress VaR limit of the Trading book (which also includes foreign exchange risk) was breached. The breach of the limit, which lasted two consequent days, was caused by a long FX position (due to announced FX transaction with corporate client) which led to the generating significant FX Stress VaR. During 2023, there was no registered breach of other stress VaR indicators.

28. RISK MANAGEMENT (continued)

28.4. Interest rate risk (continued)

The following table represents Reprising Gap report, i.e. the Bank's exposure to interest rate risk as of 31 December 2023:

In RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
ASSETS							
Cash and balances with Central Bank	145,416,663						145,416,663
Receivables from derivatives	-					80,353	80,353
Securities	13,805,072	0	5,696,461	38,220,774		557	57,722,864
Loans and receivables from banks and other financial organizations	152,056,037	692,533	3,007,365	1,259,452	95,642	14,873	157,125,902
Loans and receivables from customers	20,259,350	35,331,396	127,431,659	222,890,578	127,939,393	169,956	534,022,332
Investments in subsidiaries	-	-	-	-	-	1.199.472	1.199.472
TOTAL ASSETS	**331,537,122**	**36,023,929**	**136,135,485**	**262,370,804**	**128,035,035**	**1,465,211**	**895,567,586**

28. RISK MANAGEMENT (continued)

28.4. Interest rate risk (continued)

Reprising Gap report, i.e. the Bank's exposure to interest rate risk as of 31 December 2023 (continued)

In RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
LIABILITIES							
Liabilities based on derivatives						1,586	1,586
Deposits and other financial liabilities due to banks, other financial organizations and Central Bank	13,486,578	6,077,701	16,242,139	26,989,108	5,215,587	443,434	68,454,547
Deposits and other financial liabilities due to customers	541,436,874	26,883,015	91,292,458	46,178,172	1,541,309	2,354,383	709,686,211
TOTAL LIABILITIES	**554,923,452**	**32,960,716**	**107,534,597**	**73,167,280**	**6,756,896**	**2,799,403**	**778,142,344**
TOTAL EQUITY						**110,818,201**	**110,818,201**
TOTAL LIABILITIES AND EQUITY	**554,923,452**	**32,960,716**	**107,534,597**	**73,167,280**	**6,756,896**	**113,617,604**	**888,960,545**
MATURITY MISMATCH	**(223,386,330)**	**3,063,213**	**28,600,888**	**189,203,524**	**121,278,139**		
CUMULATIVE MATURITY MISMATCH	**(223,386,330)**	**(220,323,117)**	**(191,722,229)**	**(2,518,705)**	**118,759,434**		

28. RISK MANAGEMENT (continued)

28.4. Interest rate risk (continued)

The following table represents Reprising Gap report, i.e. the Bank's exposure to interest rate risk as of 31 December 2022:

In RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
ASSETS							
Cash and balances with Central Bank	153,092,550						153,092,550
Receivables from derivatives	-					468,597	468,597
Securities	9,254,986	13,395,640	19,603,947	19,014,734		565	61,269,872
Loans and receivables from banks and other financial organizations	68,973,786	256,497	676,752	310,964	1,437	75,536	70,294,972
Loans and receivables from customers	184,646,097	135,581,437	61,221,453	113,897,931	18,330,776	-677,665	513,000,029
Investments in subsidiaries	-	-	-	-	-	1.199.472	1.199.472
TOTAL ASSETS	**415,967,419**	**149,233,574**	**81,502,152**	**133,223,629**	**18,332,213**	**1,066,505**	**799,325,492**

28. RISK MANAGEMENT (continued)

28.4. Interest rate risk (continued)

Reprising Gap report, i.e. the Bank's exposure to interest rate risk as of 31 December 2022 (continued)

In RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
LIABILITIES							
Liabilities based on derivatives						8,305	8,305
Deposits and other financial liabilities due to banks, other financial organizations and Central Bank	12,546,471	34,815,278	35,738,468	5,455,780	3,264,128	274,416	92,094,541
Deposits and other financial liabilities due to customers	512,021,720	15,709,928	62,059,825	20,101,260	2,044,137	913,639	612,850,509
TOTAL LIABILITIES	**524,568,192**	**50,525,206**	**97,798,292**	**25,557,040**	**5,308,265**	**1,196,360**	**704,953,355**
TOTAL EQUITY						**97,768,861**	**97,768,861**
TOTAL LIABILITIES AND EQUITY	**524,568,192**	**50,525,206**	**97,798,292**	**25,557,040**	**5,308,265**	**98,965,221**	**802,722,216**
MATURITY MISMATCH	**(108,600,773)**	**98,708,368**	**(16,296,140)**	**107,666,589**	**13,023,948**		
CUMULATIVE MATURITY MISMATCH	**(108,600,773)**	**(9,892,405)**	**(26,188,545)**	**81,478,044**	**94,501,992**		

28. RISK MANAGEMENT (continued)

28.4. Interest rate risk (continued)

The table below presents the effects of change in interest rates on the Bank's net income and net assets, valued by applying the standard scenario and not taking into account assumptions on asymmetrical changes of the yield curve. The standard scenario implies parallel movement of the yield curve by 100 bps and 200 bps on the Bank's net asset sensitivity and 50 bps on net income sensitivity.

In RSD thousand

Sensitivity of the Bank's net assets on the change in interest rates	Increase by 100bps	Decrease by 100bps	Increase by 200bps	Decrease by 200bp
2023				
As of 31 December	(62,426)	92,946	(3,047,580)	3,302,965
Period average	10,410	32,432	(1,861,208)	1,582,884
Period maximum	385,787	317,163	40,803	3,302,965
Period minimum	(287,312)	(340,571)	(3,258,440)	(908,841)
2022				
As of 31 December	185,343	(131,119)	(55,631)	(762,637)
Period average	(118,178)	186,120	(766,961)	174,751
Period maximum	319,501	800,177	187,224	2,777,652
Period minimum	(659,203)	(301,259)	(2,267,086)	(1,702,777)

In RSD thousand

Sensitivity of the Bank's net income on the change in interest rates	Increase by 50bps	Decrease by 50bp
2023		
As of 31 December	987,536	(1,378,065)
Period average	1,037,329	(1,371,386)
Period maximum	1,557,520	(993,110)
Period minimum	587,537	(1,586,977)
2022		
As of 31 December	1,559,259	(1,553,982)
Period average	1,366,228	(1,452,016)
Period maximum	1,646,448	(1,367,327)
Period minimum	1,188,165	(1,641,741)

The following table represents value at risk for portfolio of *financial assets hold to collect and sell (HTCS), calculated for regular and stressed period*:

In EUR

IRR HTCS VaR	31 December	Average	Maximum	Minimum
2023	**200,535**	**663,857**	**1,770,667**	**183,017**
2022	**717,897**	**859,563**	**1,233,202**	**89,057**

In EUR

IRR HTCS Stressed	31. December	Average	Maximum	Minimum
2023	**1,248,630**	**1,193,712**	**1,874,395**	**283,830**
2022	**376,114**	**438,482**	**561,908**	**118,415**

28. RISK MANAGEMENT (continued)

28.4. Interest rate risk (continued)

The following table represents value at risk for *financial assets held for trading* portfolio, *calculated for regular and stressed period*:

In EUR

IRR HFT VaR	31 December	Average	Maximum	Minimum
2023	3,517	2,361	10,230	6
2022	4,627	42,385	212,143	172

In EUR

IRR Stressed HFT VaR	31 December	Average	Maximum	Minimum
2023	13,770	3,432	17,910	42
2022	456	26,093	121,639	19

The following table represents value at risk for total portfolio, meaning *financial assets held for trading* portfolio, *financial assets hold to collect and sell (HTCS) portfolio as well as FX VaR calculated for open FX positon, calculated for regular and stressed period*:

In EUR

IRR Total VaR (HTCS, HFT & FX VaR)	31 December	Average	Maximum	Minimum
2023	207,099	670,468	1,775,809	188,232
2022	724,473	892,778	1,280,744	122,980

In EUR

IRR Total Stressed VaR (HTCS, HFT & FX VaR)	31 December	Average	Maximum	Minimum
2023	1,277,311	1,272,299	2,501,812	288,494
2022	375,850	449,811	574,077	156,761

28.5. Operational risk

Operational risk is the risk of possible adverse effects on financial result and capital of the Bank caused by omissions (unintentional and intentional) in the employees' work, inadequate internal procedures and processes, inadequate management of information and other systems, as well as by unforeseeable external events. Operational risk shall also include legal risk.

The Bank's goal is to manage operational risk, in order to achieve balance between preventing financial loss and damage to the Bank's reputation, on one side, and economic profitability and innovation, on the other. The Bank's policy requires respecting all currently valid regulations.

28. RISK MANAGEMENT (continued)

28.5. Operational risk (continued)

The Bank has developed and implemented specific standards of operational risk management in the following areas:

- Operational risk identification, which comprises:
  - Collecting data on operational risks and losses – identification, registration and classification of data on the Bank's losses,
  - Integrated process of assessment of the Bank's exposure to operational risk;
  - Assessment of operational risk when implementing new product, process or system;
- Operational risk measuring;
- Monitoring and reporting on operational risk; and
- Mitigating operational risk.

At least once a year, Bank's Internal Audit performs independent assessment of adequacy of the operational risk management system. The results of this assessment are disclosed within the Audit Report, which includes all the findings and improvement suggestions.

For the purposes of capital requirements for operational risk calculation, the Bank applies the standardized approach. The capital requirement for operational risk, calculated by applying the standardized approach, amounts to RSD 5,509,428 thousand as of 31 December 2023 (31 December 2022: RSD 4,744,987 thousand).

28.6. Exposure risk

The Risk Management Department monitors, measures and reports to the competent boards of the Bank on the Bank's exposure to a single client or to a group of related clients, risk of investment in other legal entities and in fixed assets, country risk to which the Bank is exposed, as well as operational risk. In 2023, the Bank maintained compliance of the exposure risk and investment risk indicators and performed appropriate activities defined by relevant procedures and decisions on credit approval and investments in financial and non-financial assets, ensuring compliance of the Bank's placements and investments with indicators prescribed by the National Bank of Serbia as well as the investment limits prescribed by the Bank.

Exposure risks include the risk of the Bank's exposure to a single client or a group of related clients, as well as exposure risk toward related parties of the Bank.

In accordance with the Risk Management Policy, the Bank's management sets exposure limits, i.e. the concentration of placements to a single client or a group of related clients, and related parties of the Bank.

The Bank's management and relevant bodies and employees seek to ensure the compliance of the Bank's exposures with prescribed limits, i.e. exposure to a single client or a group of related clients does not exceed 25% of the Bank's equity, total amount of all large exposures does not exceed 400% of the Bank's equity.

28.7. Investment risks

Investment risks include the risk of investment in other legal entities and investment in fixed assets. In accordance with the National Bank of Serbia's regulations, the Risk Management Department monitors the Bank's investments and reports to the Executive Board. The Department also ensures that the Bank's investment in a single non-financial entity does not exceed 10% of the Bank's equity, and that the total investments of the Bank in non-financial entities and in fixed assets do not exceed 60% of the Bank's equity.

28. RISK MANAGEMENT (continued)

28.8. Country risk

Country risk relates to the country of origin of the Bank's client and includes negative effects which may influence financial result and equity of the Bank, as the Bank might not be able to collect receivables from such a client, as a result of political, economic or social conditions in the client's country of origin. The Bank's exposure to country risk is low, due to insignificant share of non-residents in the total loan portfolio of the Bank.

28.9. Capital management

The objective of the Bank's capital management is to maintain the Bank's ability to continue operating into the foreseeable future, in order to maintain the optimal structure of capital with a view to decreasing the costs of capital and securing dividends for shareholders.

The Bank permanently manages its capital in order to:

- Ensure compliance with capital requirements set by the National Bank of Serbia;
- Ensure adequate level of capital in order to ensure operations as a going concern;
- Maintain capital at the level that will ensure future development of the business; and
- Maintain capital at the level that is adequate to cover internally assessed capital requirements for all significant risks identified in the Internal Capital Adequacy Assessment Process (ICAAP)

Capital adequacy, as well as use of the Bank's capital, is monitored on a monthly basis by the Bank's management. The Bank is obliged to calculate the following ratios and at any moment keeps them at levels that are not lower than prescribed:

- ratio of the adequacy of the basic share capital of the bank, which represents the percentage ratio of the basic share capital and risky assets of the bank - 4.5%;
- an indicator of the basic capital adequacy of the bank, which represents a percentage ratio of the basic capital and risky assets of the bank - 6%;
- Indicator of the adequacy of (total) capital of the bank, which represents the percentage ratio of capital and risky assets of the bank - 8%.

28. RISK MANAGEMENT (continued)

28.9. Capital management (continued)

The Bank's regulatory capital according to the Decision on Capital Adequacy of Banks as of 2023:

In RSD thousand

ITEM	31.12.2023
CAPITAL	**97.297.587**
Core capital	**85.580.217**
Common Equity Tier 1 capital	**85.580.217**
Common Equity Tier 1 capital instruments and the relevant issue premium	**41.748.469**
Paid amount of Common Equity Tier 1 capital instruments	21.315.900
Relevant issue premium with Common Equity Tier 1 capital instruments	20.432.569
Note: Retained earnings from preceding years which do not qualify for inclusion in Common Equity Tier 1 capital	*1.291*
Note: Profit of the current period which does not qualify for inclusion in Common Equity Tier 1 capital	*21.038.879*
Revaluation reserves and other unrealized gains/losses	**1.358.830**
Revaluation reserves and other unrealized gains/losses	1.460.648
(-) Unrealized losses	(101.818)
Reserves from profit, other reserves and reserves for general banking risks	**46.706.407**
Other reserves	46.706.407
(+/-) Regulatory adjustment of the value of Common Equity Tier 1 capital elements	**(52.004)**
(-) Additional value adjustments	(52.004)
(-) Other intangible investment reduced by associated deferred tax liabilities	**(3.994.303)**
(-) Other intangible investment before the reduction by associated deferred tax liabilities	(3.994.303)
(-) Gross amount of receivables from the borrower – natural person (other than a farmer or an entrepreneur) arising from extended consumer, cash or other loans where the level of the borrower's debt-to-income ratio before loan approval was higher than the percentage defined in accordance with the decision governing the classification of bank balance sheet assets and off-balance sheet items or where this percentage will be higher due to loan approval.	**(41.421)**
(-) Gross amount of receivables from the borrower – natural person (other than a farmer or an entrepreneur) arising from extended consumer, cash or other loans, other than the loans disclosed under this position which under the criterion agreed maturity qualify for the deduction from Common Equity Tier 1 prescribed by the decision governing bank capital adequacy*	**(145.761)**
Of which: loans whose contractual maturity is longer than 2920 days - if these loans were approved in the period from January 1 to December 31, 2019 *	**(145.761)**
ADDITIONAL CAPITAL	**11.717.370**
Paid amount of subordinated liabilities	11.717.370

28. RISK MANAGEMENT (continued)

28.9. Capital management (continued)

The Bank's regulatory capital according to the Decision on Capital Adequacy of Banks as of 2022:

In RSD thousand

ITEM	31 December 2022
CAPITAL	**80.893.113**
Core capital	**80.893.113**
Common Equity Tier 1 capital	**80.893.113**
Common Equity Tier 1 capital instruments and the relevant issue premium	**41.748.469**
Paid amount of Common Equity Tier 1 capital instruments	21.315.900
Relevant issue premium with Common Equity Tier 1 capital instruments	20.432.569
Note: Retained earnings from preceding years which do not qualify for inclusion in Common Equity Tier 1 capital	*47.670*
Note: Profit of the current period which does not qualify for inclusion in Common Equity Tier 1 capital	*12.679.339*
Revaluation reserves and other unrealized gains/losses	**600.719**
Revaluation reserves and other unrealized gains/losses	1.106.222
(-) Unrealized losses	(505.503)
Reserves from profit, other reserves and reserves for general banking risks	**43.488.903**
Other reserves	43.488.903
(+/-) Regulatory adjustment of the value of Common Equity Tier 1 capital elements	**(55.820)**
(-) Additional value adjustments	(55.820)
(-) Other intangible investment reduced by associated deferred tax liabilities	**(4.602.701)**
(-) Other intangible investment before the reduction by associated deferred tax liabilities	(4.602.701)
(-) Gross amount of receivables from the borrower – natural person (other than a farmer or an entrepreneur) arising from extended consumer, cash or other loans where the level of the borrower's debt-to-income ratio before loan approval was higher than the percentage defined in accordance with the decision governing the classification of bank balance sheet assets and off-balance sheet items or where this percentage will be higher due to loan approval.	**(56.113)**
(-) Gross amount of receivables from the borrower – natural person (other than a farmer or an entrepreneur) arising from extended consumer, cash or other loans, other than the loans disclosed under this position which under the criterion agreed maturity qualify for the deduction from Common Equity Tier 1 prescribed by the decision governing bank capital adequacy*	**(230.344)**
Of which: loans whose contractual maturity is longer than 2920 days **-** if these loans were approved in the period from January 1 to December 31, 2019 *	**(230.344)**

28. RISK MANAGEMENT (continued)

28.10. Fair value of financial assets and liabilities

The Bank's policy is to disclose information on the fair value of assets and liabilities, for which official market information is available and when their fair value significantly differs from their carrying amounts.

Determining fair value of the financial instruments, which are not carried at amortized cost must follow the principles, criteria and hierarchy prescribed by the Fair value policy, which is in accordance with ISP Group's requirements for determining fair value. Determining fair value of the financial instruments not carried at amortized cost respects the following hierarchy, which reflects credibility of the inputs used in determination of fair value:

- Level 1: inputs are the quoted market prices (without corrections) on active markets;
- Level 2: inputs other than quoted prices from level 1, but directly or indirectly (derived from prices) quoted on market. This category includes: market interest rates, CDS (credit default swap) market quotations, market prices of primary bonds issue or market exchange rates when determining value of the instrument.
- Level 3: inputs that are not information available on the market. This category includes each instrument, for which information on value is not directly or indirectly available on the market.

Implementation of the hierarchy is not optional, and the Bank cannot choose the information for determining fair value of financial instruments that are not carried at amortized cost, but it must respect the abovementioned hierarchy.

Financial instruments not carried at amortized cost and on which Fair Value Policy is applied are:

- Securities (government FX bonds, government bonds issued by foreign governments, shares quoted on foreign exchange markets etc.) for which active and liquid market exists, which provides direct information about quoted market prices (Level 1);
- The Republic of Serbia treasury bonds, which are valued by discounting future cash flows by applying market non-risk yield curves, adjusted liquidity risk (at RSD bonds, without direct quotation of maturity) (Level 2);
- Over-the-counter financial derivatives (FX swap, FX forward and interest rate swap) which are valued by discounting future cash flows with market non-risk yield curves adjusted for liquidity risk (at RSD curve without direct quotation of maturity) (Level 2);
- Shares and investments in legal entities, which are not sold on active markets and for which there is no reliable value, are carried at cost or last available information about value, reduced by impairment (Level 3)

During 2023 there were no transition between levels during the year.

28. RISK MANAGEMENT (continued)

28.10. Fair value of financial assets and liabilities (continued)

The following tables present value of financial instruments based on different information and in accordance with hierarchy within the Fair Value Policy:

Fair value as of 31 December 2023:

In RSD thousand

	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Securities	727,127	51,280,060	10,089	52,017,276
Receivables from derivatives	0	80,353	0	80,353
Total	**727,127**	**51,360,413**	**10,089**	**52,097,629**
Liabilities				
Liabilities based on derivatives	-	1,586	-	1,586
Total	**-**	**1,586**	**-**	**1.586**

Fair value measurement for securities position is divided into three levels. Level 1 instruments refer equities and Government FX bonds quoted on international market. Level 2 instruments refer to bonds issued by Republic of Serbia and financial derivatives which are valued by using discounting techniques on future contracted cash flows, applying market risk-free yields. Level 3 instruments refer to shares or equity held in legal entities that are not listed on the active market.

Fair value as of 31 December 2022:

In RSD thousand

	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Securities	46,689	55,360,051	11,727	55,418,467
Receivables from derivatives	-	468,597	-	468,597
Total	**46,689**	**55,828,648**	**11,727**	**55,887,064**
Liabilities				
Liabilities based on derivatives	-	8,305	-	8,305
Total	**-**	**8,305**	**-**	**8,305**

The Bank’s management considers that the carrying amounts stated in the accompanying financial statements are the most valid and useful reporting values under the present market conditions.

28. RISK MANAGEMENT (continued)

28.10. Fair value of financial assets and liabilities (continued)

The following table represents fair value of instruments not carried at fair value and classified by the appropriate levels of hierarchy:

In RSD thousand

31 December 2023	Level 1	Level 2	Level 3	Fair value	Carrying amount
Assets					
Cash and balances with Central Bank	-	145,416,663		145,416,663	145,416,663
Securities	-		5,946,365	5,946,365	5,705,587
Loans and receivables from banks and other financial organizations	-	157,411,164	0	157,411,164	157,125,903
Loans and receivables from customers	-	235,715,835	300,525,630	536,241,465	534,022,332
Total	**-**	**538,543,662**	**306,471,995**	**845,015,657**	**842,270,485**
Liabilities					
Deposits and other financial liabilities due to banks, other financial organizations and Central Bank	-	11,050,660	57,448,741	68,499,400	68,454,547
Deposits and other financial liabilities due to customers	-	588,345,696	129,120,771	717,466,467	709,686,211
Subordinated liabilities	-	-	15,209,868	15,209,868	11,769,379
Total	**-**	**599,396,356**	**201,779,380**	**801,175,735**	**789,910,137**

Fair valued Cash and balances with Central Bank are belonging to the Level 2 and are presented at their carrying amount.

Loans and receivables from banks and other financial organizations, deposits and other financial liabilities due to banks, other financial organizations and Central Bank are presented at their fair value calculated as discounting cash flows for deposits, or as discounting cash flows reduced by expected loss for loans. Given the short-term deposits with financial institutions (money market), i.e. transactions with highly rated financial institutions which are contracted at interest rates corresponding to the market, these positions belong to the Level 2.

Fair value for positions Loans and receivables from customers and Deposits and other financial liabilities due to customers are calculated as discounting techniques of future cash flows for deposits, or as discounting cash flows reduced by expected loss for loans. Doubtful loans are valued in the same manner as performing loans, while maturity estimated by the NPL Department is assigned to the total net exposure instead of initially contracted maturity. These positions belong to the Level 2 (up to one-year maturity) respectively Level 3 (if the maturity is over one year).

For the purposes of determining fair values, risk-free yield curves that correspond to the currency and maturity structure of the contracted cash flow are used. For maturities for which there are no market quotes of the BELIBOR yield curve, the yield equals the quoted value of the six-month BELIBOR, increased by the corresponding spread. Spread for a certain maturity is defined as the difference between the executed bond rate with same maturity in the primary market and the value of the six-month BELIBOR on the day of issue of the relevant bond. The European yield curve represents the EUR-STANDARD yield curve that is defined by the money market (for a maturity of up to one year) and the interest rate swap curve which is increased for the country's risk spread (for a maturity more than one year), where the country's risk spread is defined as the difference between issued Serbian and Germany risk-free bonds.

28. RISK MANAGEMENT (continued)

28.10. Fair value of financial assets and liabilities (continued)

In RSD thousand

31 December 2022	Level 1	Level 2	Level 3	Fair value	Carrying amount
Assets					
Cash and balances with Central Bank	-	153,092,550		153,092,550	153,092,550
Securities	-		6,278,731	6,278,731	5,851,405
Loans and receivables from banks and other financial organizations	-	70,697,364	0	70,697,364	70,294,972
Loans and receivables from customers	-	225,198,458	312,329,872	537,528,330	513,000,029
Total	**-**	**448,988,372**	**318,608,603**	**767,596,976**	**742,238,956**
Liabilities					
Deposits and other financial liabilities due to banks, other financial organizations and Central Bank	-	63,741,443	28,403,326	92,144,769	92,094,541
Deposits and other financial liabilities due to customers	-	512,886,312	99,309,666	612,195,978	612,850,509
Total	**-**	**576,627,755**	**127,712,992**	**704,340,747**	**704,945,050**

The Bank's management assesses the risk, and in instances in which it estimates that the carrying amount of assets may not be realized, it recognizes a provision.

28.11. Climate related risks

Being aware of its role in fostering greater environmental and social sustainability at an economic system level and in line with the rapidly evolving European regulatory framework on sustainability, the Bank, as a member of the ISP Group, bases its strategy on the transversal and holistic approach to ESG issues.

The Bank recognised the following key climate and environmental risks:

- physical risk, that implies economic impact resulting from tangible events related to climate changes. Physical risk is classified as "acute" if caused by extreme events such as floods, storms and fires, and "chronic" if caused by progressive changes such as rising temperatures leading to droughts, rising sea levels, water stress, loss of biodiversity, land-use change, habitat destruction and resource scarcity. This risk can lead directly to, for example, material damage or a drop in productivity, or have indirect impact such as disruption of production chains;

- transition risk, that implies financial loss that an institution may incur, directly or indirectly, as a result of failing to adjust to a low-carbon and more environmentally sustainable economy. This could be caused, for example, by the relatively sudden adoption of climate and environmental policies, technological progress or changing market confidence and preferences.

Following the example of the Parent bank, the Bank has engaged significant resources for the development and implementation of the framework for ESG risks. Documents were adopted that, among other, describe the reference principles of sustainability, the roles and responsibilities of corporate bodies, as well as the macro-process of ESG risk management. Also, the documents describe the potential impact of ESG risks on traditional risk families (credit, market, liquidity risk, reputational, non-financial, etc.). In addition, high-risk sectors, clients and countries for which the Bank has a special decision-making process are defined. Exposure to the riskiest sectors is in the process of gradual reduction until final closure.

In the following period, the Bank will additionally work on the operationalization of methodologies and the quantification of ESG risks, as well as on more detailed assessment of climate risk.

29. POTENTIAL LIABILITIES

a) Litigations

As of 31 December 2023, the Bank is a defendant in a certain number of legal proceedings. Total estimated value of damage claims amounts to RSD 11,986,728 thousand (31 December 2022: RSD 11,851,425 thousand), including penalty interests and fees reduced for payments.

As disclosed in Note 23, as of 31 December 2023 the Bank recognized the provision for potential losses that could arise from the aforementioned litigations in the total amount of RSD 1,693,076 thousand (31 December 2022: RSD 1,549,992 thousand). The Bank's management considers that no significant losses will arise from the ongoing litigations, other than those provided for.

The amount of the highest single litigation claims of RSD 5.491.509 thousand, for which the Bank did not recorded provision, is claimed by a physical person, who is the owner of the Bank's corporate debtor and guarantor for the loan granted to that corporate debtor. The Bank did not recognize provision for this litigation and according to the Bank's management opinion, claimant presented in ungrounded and arbitrarily manner, the facts based on which he claims not precise requirements for compensation damage, and it is expected that the Court will completely reject the claim. Nevertheless, the Bank will monitor change in circumstances at the end of each reporting period.

The Bank is involved in a number of lawsuits as plaintiff related to collection of receivables. All disputed receivables from corporate and retail customers have been impaired and charged to the results of the current and previous years.

The following areas of mass disputes have impacted the entire Serbian banking system shown below.

1) Processing fees
Legal disputes regarding processing fees applied by banks at the time of disbursing loans. The claimants, individuals and legal persons, are requesting the repayment of those charges, as they are deemed as not owed. The first claims arose in 2017, and a significant increase in lawsuits was recorded in the following years, though for modest amounts on average. As at 31 December 2023, The Bank has around 15,000 active lawsuits (of which around 6,000 arising during 2023), while the related total amounts requested to be repaid by the Bank totalled around RSD 112 million. Most of the courts upheld the customers' requests, based on an interpretation of regulations that the banks oppose. In September 2021, the Supreme Court of Serbia recognised the legitimacy of the costs and fees applied to loans at the time of their disbursement, provided they are indicated in the contract proposal. The flow of new lawsuits decreased in 2023 for 35% in comparison to 2022, and customers dropped some of those already pending.

2) NKOSK
Legal disputes relating to real estate loans insured through the National Housing Loan Insurance Corporation (NKOSK), whose premium is paid by the borrowers. The borrowers deem that, as the bank is the beneficiary of the insurance, the premium should be paid by the bank. As at 31 December 2023, The Bank has 1,155 active lawsuits (of which 588 arising during 2022). The related total amounts requested to be repaid by the Bank totalled around RSD 132 million. Most of the courts upheld the customers' requests, based on an interpretation of regulations that the banks oppose. In September 2021, the Supreme Court of Serbia recognised the legitimacy of requiring the insurance premium to be paid by the borrowers, provided that the obligation is clearly described to the borrowers during precontractual procedures. The flow of new lawsuits is the same in 2023 in comparison to 2022, The disputes mentioned above are covered by suitable provisions.

b) Tax Risks

The tax system of the Republic of Serbia is in the process of continuous review and amendments. The tax period in the Republic of Serbia is considered to be open for five years. Under various circumstances, the tax authorities could have a different approach to certain issued and could assess additional tax liabilities together with related penalty interest and fees. The Bank's management believes that tax liabilities recognized in the accompanying financial statements are presented fairly.

30. RECONCILIATION OF OUTSTANDING BALANCES WITH COUNTERPARTIES

In accordance with Article 22 of the Law on Accounting, the Bank performed the process of reconciliation of outstanding liabilities and receivables with its debtors and creditors as of 30 November 2023, and it maintains credible documentation on the circularization process.

Of 5,230 open items (IOS forms), which include the value of receivables of RSD 562,995,629 thousand denied 17.

The balance of unreconciled outstanding receivables in amount of RSD 9,238 thousand presented 0.002% of total receivables of open items (IOS).

The largest number of unmatched receivables, around 68.00% relate to receivables from issued guarantees.

31. ECONOMIC ENVIRONMENT

Serbian economy proved resilient in yet another year riddled with challenges. Elevated inflation, tighter financial conditions and escalation of new geopolitical tensions marked the year behind us.

Based on the Statistical Office first estimate, Serbia's real GDP growth in 2023 amounted to 2.5% y/y. Economic output was driven by net export, reflecting export growth and lower imports in first half of the year, followed by fixed investments while high FDI inflow also contributed hovering close to the record level. On the production side, good results in service sectors, agriculture and construction supported by stepped-up implementation of infrastructure projects contributed most to GDP growth. The physical volume of industrial production increased by 2.4%, thanks to a robust recovery of the energy sector while manufacturing remained in a positive territory despite of a slowdown in external demand.

Positive trends in the labour market continued in 2023. According to Statistical Office's estimate, average wage grew by 2.6% in real terms, which is close to GDP growth and points to the preserved purchasing power of households. The unemployment rate moved on average around last year's level (unemployment rate equalled 9.0% and the employment rate 50.7% in 3Q 2023 – last available data).

After reaching its peak of 16.2% in April 2023, inflation was on a downward path. Slowdown especially intensified in second half of the year, largely due to softer growth in food prices and core inflation. Average annual inflation equalled 12.1% in 2023 while settling at 7.6% in December, almost half the level recorded at end-2022. In line with inflation movements, National Bank of Serbia raised the key policy rate six times during 2023 bringing it up by 150bps in total, to the level of 6.5%. Decision to keep key rate unchanged in second half of the year was motivated by further dissipation of global inflationary pressures, the downward trajectory of domestic inflation and its expected return within the target tolerance band (3±1.5%) by mid-2024.

Dinar remained stable in 2023, appreciating by modest 0.1% against euro, while NBS bought a record amount of foreign currency in the domestic FX market worth EUR 3,940mn net making a significant contribution to a further increase in FX reserves. Gross NBS FX reserves amounted to EUR 24,909.1mn at end-2023, which is their highest end-of-month/year level on record (since 2000). They covered 166.4% of money supply M1 and 6.7 months' worth of the country's imports of goods and services, which is more than twice the level prescribed by the adequacy standard.

Fiscal matrix remained sustainable. Unplanned government spending pushed budget into deficit. The last two months of the year were marked with several one-time payments including payments of RSD 20,000 pensioners, RSD 10,000 to high-school students, RSD 1,000 for students and RSD 10,000 for social benefit recipients, costing around 0.5% of GDP. Budget deficit is projected to have reached 2.8% of GDP in 2023. Public debt amounted to EUR 35.6bn at end-November 2023, rising by EUR 2.3bn in the first eleven months of the year. The share of public debt in (projected) GDP was at 51.5%, staying below the Maastricht threshold of 60%. In December 2023, International Monetary Fund made a decision on successful completion of the second review of the results of the economic programme of the Republic of Serbia, supported by the stand-by arrangement (SBA) while the Serbian authorities expressed their intention to treat the SBA as precautionary starting from this latest review.

31. ECONOMIC ENVIRONMENT

Standard & Poor's and Fitch have kept Serbia's rating unchanged with positive outlook, one notch below investment grade, confirming favourable growth prospects and preserved economic stability.

The banking sector maintained high capital adequacy (CAR of 22.21%) with favourable capital composition (highest quality Common Equity Tier 1 capital accounting for over 92%). All relevant indicators of banking sector liquidity were maintained at values two times higher than the regulatory minimums. The amounts of NPL throughout 2023 continued to stand still, remaining well below its pre-crisis level (3.2% in November 2023). Banca Intesa Beograd will continue to remain liquid and well capitalized in the coming year as well.

32. EXCHANGE RATES

The official median exchange rates of the National Bank of Serbia, determined at the Interbank Foreign Currency Market, used in the translation of balance sheet items denominated in foreign currencies, as of 31 December 2023 and 2022 into the functional currency (RSD), for the major foreign currencies were as follows:

In RSD

	2023	2022
EUR	117.1737	117.3224
USD	105.8671	110.1515
CHF	125.5343	119.2543
GBP	135.0550	132.7026
CAD	80.0094	81.3045
AUD	72.4054	74.6183
DKK	15.7175	15.7717
SEK	10.5963	10.5087
RUB	1.1764	1.5292

33. EVENTS AFTER THE REPORTING PERIOD

There have been no significant events after the reporting period, which would require disclosures in the Notes to the accompanying financial statements of the Bank as of and for the year ended 31 December 2023.

Belgrade, 28 February 2024

Nevena Novaković Head of Accounting Department	Dragica Mihajlović Member of the Executive Board / CFO	Darko Popović President of the Executive Board / CEO

BANCA INTESA BEOGRAD

ANNUAL REPORT ON BUSINESS OPERATIONS

2023

Content

1 Key Financial Indicators

Income Statement

	2023	2022
Net interest income	**37,914,906**	24,284,150
Net fee and commission income	**14,222,433**	13,389,752
Profit before tax	**23,853,985**	14,832,176
Income tax	**(2,832,246)**	(1,906,312)
Net profit from deferred tax assets and liabilities	**17,140**	(246,525)
Profit after tax	**21,038,879**	**12,679,339**

Balance Sheet

	2023	2022
Cash and balances with Central Bank	**145,416,663**	153,092,550
Non-current assets held for sale and discontinued operations	**14,267**	15,795
Securities and receivables from derivatives	**57,803,217**	61,738,469
Loans and receivables from banks, other financial organisations and customers	**691,148,234**	583,295,001
Investments in subsidiaries	**1,199,472**	1,199,472
Intangible assets, property, plants and equipment and investment property	**14,397,425**	14,599,093
Other assets, current and deferred tax assets	**16,048,875**	10,893,428
Total assets	**926,028,153**	**824,833,808**
Financial liabilities based on derivatives	**1,586**	8,305
Deposits and other liabilities due to banks, other financial organisations, Central Bank and other customers	**778,140,758**	704,945,050
Subordinated debts	**11,769,379**	-
Provisions	**2,765,116**	2,620,445
Other liabilities and deferred tax liabilities	**22,533,113**	19,491,147
Total liabilities	**815,209,952**	**727,064,947**
Equity	**110,818,201**	**97,768,861**
Total liabilities and equity	**926,028,153**	**824,833,808**

Indicators

	2023	2022
Profit before tax/ Total assets	2.58%	1.80%
Profit before tax / Total equity	21.53%	15.17%
Interest income / Total assets	5.06%	3.24%
Interest expenses / Total liabilities	0.97%	0.29%
Capital adequacy ratio	19,41%	17.30%
Total assets per employee	300,756	269,465
Number of employees	3,079	3,061

2 Letter from the Chairman of the Board of Directors

Ladies and Gentlemen,

2023 was another in a series of very challenging years, with the global economy continuing to face enduring effects of shocks caused by the pandemic, geopolitical uncertainty and the highest inflation rates in the last four decades, while the emergence of new zones of conflict put additional pressure on global economic trends. Nevertheless, the good performance of the US economy and recovery of consumption in China after the pandemic restrictions compensated for the economic stagnation in Europe, and the world economy managed to avoid the threatening recession and finish the year in a better position than originally expected.

Such a complex environment, primarily the sluggish economic growth in the Eurozone, critically affected economic circumstances in our country, which also faced high inflation and low economic growth, particularly in the first half of the year. Thanks to the weakening of external price pressures and the effects of the restrictive monetary policy of the National Bank of Serbia (NBS), inflation was finally on a downward trajectory in the second quarter and reached 7.6% at the end of the year. Along with disinflationary trends, a good agricultural season and the implementation of major infrastructure projects helped push the real GDP growth rate beyond initial forecasts, with expectations that it will reach an annual level of around 2.5%. The central bank’s measures also allowed the dinar to euro exchange rate to remain relatively stable and almost unchanged during most of the year, contributing to overall macroeconomic stability. At the same time, the favorable macroeconomic and financial environment attracted a high inflow of foreign direct investments, which hit 4.2 billion euros during the first 11 months of the year.

Observed at the level of the banking sector of Serbia, the tightening of monetary conditions by the European Central Bank (ECB) and NBS with the aim of curbing inflation pushed up interest rates on loans, which had a critical effect on the stagnation of domestic credit activity. Total bank loans at the end of the third quarter increased by 0.6% on an annual level to RSD 3.2 billion, with 1.6% growth in loans to private individuals, led by cash and housing loans, and an increase of 0.1% in corporate loans, which was primarily based on loans for liquidity and working capital, as well as investment lending. On the other hand, the deposit base of banks rose 12.4% compared to the previous year and reached 4.18 billion dinars, manifesting the high level of trust that citizens and the economy have in the banking sector in Serbia. Despite the tightening of financial conditions, the banking market preserved the quality of assets, with a 3.2% share of non-performing loans in total lending at the end of the third quarter, as well as stability reflected in a high level of liquidity and capital adequacy, well above the regulatory minimum. Significant growth in interest income as a result of monetary tightening had a positive effect on the profitability of banks, while return on assets (ROA) of the banking sector reached 2.6% and return on equity (ROE) 19.5% at the end of the third quarter.

Despite the continuing trend of intensive consolidation of the domestic banking market, Banca Intesa maintained its leadership position in 2023 based on organic growth and achieved the best business results in its history. Such a success is the result of the positive effects of interest rate growth, as well as the suitability of a long-term strategy that rests on sustainable growth as well as customer satisfaction and loyalty. At the end of the third quarter, we saw record levels of assets, loans and deposits and positioned ourselves as the most successful bank in the market by total net assets with a 15% share and deposits with a 15.4% share, while recording an increase in the number of clients that reached 1.39 million.

Owing to the enhanced offer of innovative products that focus on the diversified needs of clients, high quality service and superior user experience supported by digital technologies, we managed to increase our total loan portfolio, whereas the stability instilled by market leadership, along with the increase in interest rates on deposits, resulted in the growth of deposits. Furthermore, we maintained a high level of liquidity and capital with a loan-to-deposit ratio of 81.3% and a capital adequacy ratio of 20.8%, while

2 Letter from the Chairman of the Board of Directors (Continued)

Owing to the enhanced offer of innovative products that focus on the diversified needs of clients, high quality service and superior user experience supported by digital technologies, we managed to increase our total loan portfolio, whereas the stability instilled by market leadership, along with the increase in interest rates on deposits, resulted in the growth of deposits. Furthermore, we maintained a high level of liquidity and capital with a loan-to-deposit ratio of 81.3% and a capital adequacy ratio of 20.8%, while systemic risk management and a proactive approach to credit portfolio management enabled us to maintain a high quality of assets. Our focus on actual needs of our customers and a strong performance in all key business areas, along with the positive effects of monetary tightening, enabled us to further boost our financial results and increase net profit before taxes by 53.7% at the end of the third quarter compared to the same period last year.

Acknowledging ESG as a new paradigm of business success based on sustainability, we have taken an important step towards further institutionalization of ESG principles through the establishment of a body that coordinates and manages environmental issues, social impact and corporate governance. In addition, ESG standards were integrated into the process of risk management and credit approval, and the bank's offer was expanded with new products that promote green transition and the improvement of the position of vulnerable social groups, which resulted in total ESG loans that exceeded 210 million euros in the previous year.
In closing, I would like to extend my sincere gratitude to our employees led by the Executive Board for the remarkable results achieved owing to their strong commitment and constant focus on the needs and satisfaction of our clients. With cautious optimism and predictions by economic experts that 2024 will bring somewhat faster economic growth, a lower inflation rate and a gradual relaxation of monetary policy, I am confident that Banca Intesa will remain on the path of exceptional achievements and great business accomplishments in the coming year as well, using its strengths for the benefit of the economy, the quality of life of citizens and the well-being of the entire community.

Sincerely,

Draginja Đurić
Chairwoman of the Board of Directors

3 Introductory statement of the President of the Executive Board

Dear Sir/Madam,

It is my pleasure to present to you the Annual Report on Banca Intesa operations in 2023. Despite an extremely competitive market and a challenging business environment, 2023 will be recorded in the bank's corporate history as a year of record results and a preserved leadership position, which was also confirmed by the awards for the best bank in Serbia presented by the most prestigious financial magazines in the world - The Banker, Euromoney and Global Finance.

After four years of multiple crises and heightened global uncertainty, world economic history will remember 2023 as a year of persistent inflation, continuation of restrictive monetary policy and new geopolitical conflicts as factors that decisively limited economic growth. Due to negative external influences, primarily sluggish economic activity in the Eurozone, but also a high rate of domestic inflation, Serbia's economic growth in the past year remained at a modest level. Even though the tightening of monetary conditions in the global and domestic markets caused growth of interest rates on loans and consequently the stagnation of credit activity, the banking sector in Serbia remained strong and stable, with liquidity and capital adequacy indicators above regulatory minimums, while preserving asset quality.

Even in such a complex business environment, which was additionally burdened by further market consolidation, Banca Intesa managed to preserve its leadership position based on organic growth, with a 15% market share in total net assets and a 15.4% share in deposits at the end of the third quarter of the year. In addition, it posted record results in terms of the level of net assets, deposits and loans, with 5.2% growth in loan portfolio and a 10.8% increase in deposits against the same period in 2022.

The development of new and improvement of existing products and services, with a focus on digitization and ESG standards, enabled us to achieve 2.7% annual growth in private individuals loan portfolio and increase market share in all key products. On the other hand, a 10.7% increase in deposit potential, along with a stronger clients' interest in investing in investment funds managed by Intesa Invest, confirm that Banca Intesa is perceived as a safe place for savings, but also for other types of investments. Furthermore, our leadership position was also preserved in the card business, with a 17% increase in both the number of transactions with the bank's payment cards and the volume of turnover.

By further utilizing advanced technologies for boosting customer experience and the bank's business performance, we enabled digital issuance of a qualified electronic signature as a basis for introducing paperless operations in the branch network and increasing the limit for digital cash loans. In addition, legal entities were offered credit product application and disbursement through mobile application, without going to the bank. As a result of all initiatives, we ended the year with 636,000 digital banking clients in the private individuals segment, up 25% against 2022, and over 24 million digital transactions, which represents 16% growth, while also increasing product placement through digital channels, as well as their share in the bank's total loans. The upward trend was also continued in banking with legal entities, both in the number of clients and the number of transactions on digital platforms. Even though we put a clear focus on digitization, we succeeded in maintaining an optimum combination of virtual and traditional banking. We continued our business network transformation through the introduction of the new distribution model that improves customer experience by focusing on the advisory role of the network and the transfer of transactions to the digital platform.

3 Introductory statement of the President of the Executive Board (Continued)

Strong achievements were also recorded in the segment of small businesses and registered farming households. Loan portfolio growth of 4.8%, based on the quality of offer, first-class service and digitization of processes, confirmed our market leader position, with a low level of non-performing loans despite a significant increase in new production. Cooperation with international financial institutions and a strong ESG emphasis significantly contributed to good results in the small business segment, while the implementation of the state subsidized lending program was an important part of operations with customers in the registered farming households segment, with new ESG loans intended for women in agriculture and young farmers added to the offering. The growth trend was also reported in deposits, which went up 15%, as well as in demand for investments in investment funds.

Support to strategic infrastructure projects, credit lines from international financial institutions with an emphasis on green transition and the segment of small and medium-sized enterprises, as well as extensive guarantee programs, along with further improvement of business processes and digitization of services, laid the foundation for an increase in the corporate loan portfolio, which rose 5.7% year-on-year. Despite higher credit exposure, the share of non-performing loans was at a record low level, below market average. The deposit side of our balance sheet was also on an upward trajectory, with 23.8% annual growth.

Record business results and good performance in all segments were also reflected in our income statement. At the end of the third quarter, we were in the leading market position by net interest income, net income from fees and commissions, as well as total operating income, while net profit before taxes rose 53.7% on an annual basis to 15.4 billion dinars. Our profitability is also confirmed by return on assets (ROA), which increased to 2.5%, and return on equity (ROE), which reached 20.4%, while loan-to-deposit ratio of 81.3% and capital adequacy ratio of 20.8% speaks in favour of our high liquidity and strong capitalization.

Our market leadership was preserved owing to the great effort of our employees, as well as the members of the Executive Board and Board of Directors, whom I wish to thank for their exceptional commitment to achieving the bank's goals, as well as to all our clients and business partners for successful cooperation and the trust they put in us. I am convinced that our strategy, which focuses on people, quality and sustainability, will enable us to stay on the path of success in the year ahead as well, while providing a strong boost to the economy and citizens of Serbia, as well as a systemic contribution to the well-being of the wider community.

Sincerely,

Darko Popović
President of the Executive Board

4 Macroeconomic Environment and the Banking Sector

- *After modest growth in the first two quarters, economic activity in Serbia notably accelerated in the second half of 2023, while, after reaching the peak in March, inflation established a sustainable downward trajectory supported by the weakening of global price pressures and further increase in the restrictiveness of the NBS monetary policy;*
- *Strong appreciation pressures on the dinar marked most of the year 2023 owing to the high inflow of foreign capital and favorable balance of payments movements. Record high interventions of the central bank on the purchasing side were the main channel through which the country's foreign exchange reserves were raised to the historically highest level;*
- *Although general fiscal developments were better than expected during the first three quarters, preferably lower deficit than targeted by the revised budget was not achieved, due to many Government's decisions on additional fiscal spending during the last few months of the year.*

The global economy entered the year 2023 under the pressure of the effects of several consecutive crises that caused numerous disturbances in the commodity and financial markets. Although the end of the COVID-19 epidemic was declared, challenges in the form of persistent inflation and purchasing power crisis, drastic tightening of monetary conditions, hightened geopolitical instability with the emergence of new conflict zones, continued to have an adverse effect on global and regional economic flows. The weakening of purchasing power and a stagnant growth in the largest European economies have largely determined local economic results, while high inflation and low economic growth stood out as the main macroeconomic challenges Serbia faced during 2023, especially in the first part of the year. However, certain one-off factors, such as the recovery of the energy sector and strong agricultural season, influenced the Serbia's GDP real growth rate to be higher than initially expected. After a modest growth of 1.3% in the first half of 2023, economic activity accelerated to 3.6% in the third quarter, supported by favourable results of the agricultural sector, investments and the recovery of personal consumption, which are expected to maintain the y/y growth rate in the fourth quarter at a similar or slightly higher level.

Labor market trends showed only marginal improvements. The activity rate as well as formal employment increased slightly, and the average unemployment rate in the first three quarters stood at 9.6%, unchanged compared to the same period of the previous year. Despite high, double-digit y/y nominal growth rates, real wages in the first ten months of 2023 recorded a growth of only 1.4%, generated exclusively in the private sector, while high inflation rate completely devalued public sector wages n the year through October.

After twenty months of continuous growth and a peak of 16.2% that was reached in March 2023, year-on-year inflation in Serbia finally started to slow down under the impact of the high base effects and the weakening of global price pressures, both on the supply and the demand side. A somewhat stronger disinflationary trend was established since the third quarter, which, in addition to the reduction of global cost pressures, was attributable to a smaller than expected increase in food prices owing to an above-average agricultural season and lower costs of agricultural production. Core inflation also declined, but at a slower pace than headline inflation, signaling that price pressures in Serbia are still pronounced.

In order to curb inflation, the National Bank of Serbia continued to further increase the restrictiveness of monetary policy, but at a more moderate pace than in 2022. The key policy rate was hiked six times by a total of 150 basis points until July, standing since then at the level of 6.5%, while lending and deposit facility rates increased to 7.75% and 5.25%, respectively. Moreover, in September the NBS decided to withdraw a portion of high excess dinar liquidity by increasing reserve requirements, and thus tighten monetary conditions additionally.

The stable dinar policy remained an important pillar of monetary policy during 2023 as well. Responding to the most intense appreciation pressures so far, underpinned by high inflow of foreign capital and the

4 Macroeconomic Environment and the Banking Sector (Continued)

improvement of indicators in foreign economic relations, the central bank sterilized the excess FX supply using extensive interventions on the interbank FX market, buying a record high amount of it. The dinar nominally strengthened by 0.1% against the euro, and the year 2023 was the sixth of the last seven years which the National Bank of Serbia ended as a net buyer of foreign currency. Gross FX reserves increased by a quarter and in December were at the highest ever recorded level of EUR 24.5 billion, well above the standards that determine their adequacy.

The tightening of the NBS monetary policy led to growth of interest rates on the dinar segment of the money market and loans, confirming the effectiveness of the transmission mechanism of monetary policy through the interest rate channel, at the same time reflecting on the slowdown of loans to the businesses and households. The weakening of credit dynamics was also caused by more restrictive ECB's monetary policy and increased interest rates on EUR-indexed loans, as well as the maturity of loans from the guarantee scheme, which had the greatest effect in the first half of the year. In a year-on-year comparison, total loans recorded a drop of 0.2% in October, with corporate loans more contributing to the credit activity slowdown, while the growth of household loans in October was at 1.1% y/y.

After achieving a much better than planned fiscal result in the first half of the year, the fiscal policy began to change in the expansionary direction as of the third quarter thus acting pro-inflationary, reflecting the broadly expected increase in public spending before the elections held in December. A large number of expenditure measures adopted at the end of the year, mostly one-off, made the fiscal deficit not significantly lower than the 2.8% of GDP targeted by the revised budget for 2023, although the general fiscal flows were better than expected during the first ten months, with registered surplus of RSD 10.2 billion at the consolidated level. As a consequence of the direct borrowing of the state to finance the deficit and new capital projects, as well as to provide funds for repayment of maturing liabilities, the public debt continued to grow, but the nominal GDP in euro currency grew faster due to high inflation and a stable exchange rate. As a result, public debt to GDP ratio remained relatively favorable and within the framework of the Maastricht limit of 60%. At the end of November, the share of public debt in GDP was 51.5%, and according to the decision on budget rebalance, it is planned to be at the level of around 53% of GDP at the end of the year. Although the country's relative indebtedness did not have an unfavorable trend, the increase in public debt by more than EUR 2 billion during the eleven months of 2023 and by about EUR 5.5 billion cumulatively since the beginning of 2022 led to a sharp jump in interest costs amid worsened general borrowing conditions caused by the monetary tightening of major central banks.

In December 2022, the Serbian Government concluded a two-year stand-by arrangement with the International Monetary Fund worth EUR 2.4 billion which, in addition to providing funds to finance state expenditures under more favorable conditions, aims to support macroeconomic policies and implement structural reforms, with a focus on energy sector. In the course of 2023, two revisions of Serbia's results within the economic program were successfully completed, and at the year's end, the Government made a decision to treat the arrangement as a precautionary, one revision earlier than planned.

The leading credit rating agencies kept the country's credit rating one notch below investment grade. In their latest assessments, Fitch (in August) and S&P (in October) affirmed Serbia's rating at the BB+

4 Macroeconomic Environment and the Banking Sector (Continued)

level with preserved stable prospects for a rating upgrade in the following period, while in September 2023 Moody's maintained Serbia's credit rating at the Ba2 level with stable outlook. The key factors behind these decisions include the preserved stability of the economy and favorable medium-term growth prospects, a credible monetary policy framework, reduced external imbalances with strong inflow of foreign direct investments and record high foreign exchange reserves, as well as the expectation that Serbia will continue with its responsible fiscal policy aimed at further reforms. Despite the challenging global conditions, NBS data show that in the first eleven months of 2023, FDI inflows reached the level of EUR 4.2 billion and bound to come close to the 2022 record of EUR 4.4 billion.

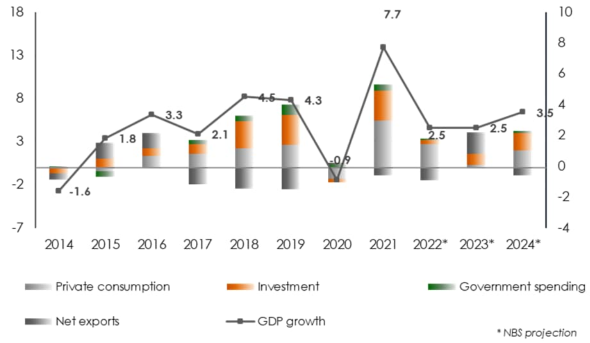
Although current geopolitical conflicts create an environment of high uncertainties that can significantly affect economic results, it is expected that next year the Serbian economy will achieve a higher growth rate than in 2023, in which the GDP was largely supported by one-time factors. The main factors that will support economic activity acceleration are the sustainable downward trajectory of inflation that will positively affect real consumption, as well as the expected mild recovery of the Eurozone, as Serbia's most important economic partner, along with the continuation of the implementation of planned infrastructure projects.

Macroeconomic environment

Economic activity

In the first three quarters of 2023, the economy achieved an average growth of about 1.7% year-on-year, but with a pronounced trend of acceleration during the year. After a modest growth of only 1.3% in the first half of 2022, economic activity accelerated more than expected in the third quarter, with real GDP growth of 3.6% year-on-year. All components of demand, except net exports, had a better result compared to previous quarters, while personal and government consumption recorded a slight year-on-year growth for the first time in 2023 under the influence of slowing inflation. After four consecutive quarters in which it was the main driver of growth, net exports made a slightly negative contribution to GDP in the third quarter, while investments had the best results, achieving year-on-year growth of around 4%. On the production side, industrial production and the service sector contributed the most to the acceleration of growth in the third quarter, while agriculture and construction continued to register solid growth rates, among other things thanks to the comparison with the low base from the previous year.

Graph 1 – Contributions to the annual GDP growth rate (in %)



Source: NBS

4 Macroeconomic Environment and the Banking Sector (Continued)

Macroeconomic environment (Continued)
Economic activity (Continued)

Overall, it is predicted that real GDP growth for the whole 2023 will be at the level of around 2.5%, as indicated by the first estimate of the Serbian Statistical Office published at the end of 2023.

In the next year, the NBS expects that the economic growth of Serbia will range between 3.0% and 4.0%, and return to the pre-pandemic growth trajectory of around 4% p.a. thereafter. The increasing trend of economic activity will be primarily supported by the inflation slowing down, the gradual recovery of economic activity in the most important trade partners, as well as the planned acceleration in the implementation of investment projects, primarily in the areas of transport and energy infrastructure. The achievement of the projected growth rate in 2024 will be facilitated by stronger carry-over effect, resulting from accelerated economic growth in the second half of 2023. The risks to the projection are primarily related to geopolitical uncertainties, global growth prospects, as well as their impact on the global energy and commodities prices.

Inflation

In 2023, inflation was the key macroeconomic challenge and economic policy priority, both in Serbia and in almost all other countries in the world and the region.

After speeding up for twenty months in a row, y/y inflation peaked in March 2023, when it reached as much as 16.2%, while core inflation (measured by the consumer price index excluding food, energy, alcohol and tobacco) was at level of 11.3%. The growth of inflation in Serbia was finally stopped in April, almost half a year later compared to most countries of the European Union, which was primarily influenced by the Government's anti-inflationary measures and the postponement of the upward correction of electricity and gas prices, which had the greatest effect on inflation in 2023.

Since April, inflation has been on a downward trajectory thanks to the weakening of global price pressures (primarily lower energy prices), then the restrictive monetary policy of the NBS, as well as the high base from the previous year. A somewhat stronger trend of disinflation was established from the mid-third quarter, and in the last months of the year, inflation fell to lower levels than projected by the central bank. This was contributed by the strong slowdown in imported inflation, the global drop in oil prices that offset the effect of the increase in excise duties on petroleum products on the domestic market, as well as the fact that the contribution of food prices to inflation was somewhat lower than expected.

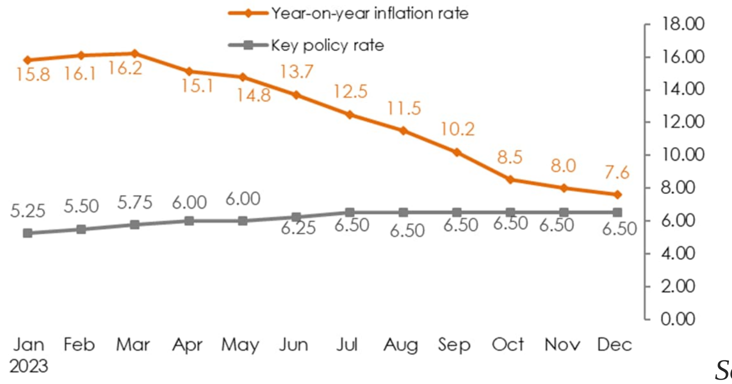
According to preliminary data from the Statistical Office, December inflation fell to the level of 7.6%, which is twice as low as in December 2022. However, despite this, headline inflation in Serbia remained among the highest in Europe. Although it has also been decelerating since April, core inflation is declining at a slower pace than headline inflation, thus confirming the fact that food and oil prices were key disinflationary factors in the previous period.

Compared to 2022, consumer prices in 2023 increased by an average 12.1%.

4 Macroeconomic Environment and the Banking Sector (Continued)

Macroeconomic environment (Continued)
Inflation (Continued)

Chart 2 – Year-on-year inflation and key policy rate trends (in %)



Source: NBS

According to the projection of the National Bank of Serbia, inflation will return to the target range (3%±1.5 p.p.) in the middle of next year, after which it will continue to slow down, approaching the central value of the target range by the end of 2024. Such dynamics of consumer prices will primarily be aided by the effects of past tightening of monetary conditions, while the fall in inflation should be also driven by subsiding global cost pressures, the slowdown of imported inflation and the expected fall in inflation expectations.

Monetary policy

Since the beginning of 2023, monetary policy has been pursued in accordance with the Monetary Policy Program of the National Bank of Serbia in 2023, which was adopted in December 2022. At that time, the inflation target until December 2025 was kept at the level of 3.0% with tolerance band of ± 1.5 percentage points.

The National Bank of Serbia responded to the challenges of still very high inflationary pressures by further tightening of monetary policy, but at a more moderate pace compared to the previous year, in which the key policy rate was increased by a total of 400 basis points. In 2023, however, the key rate was raised by 150 basis points in the year to July, and has been at the level of 6.5% since then. The deposit facility rate was lifted to 5.25%, while the credit facilitiy rate reached the level of 7.75%. Keeping the key policy rate flat until end-2023, the NBS justified with the need to assess the full effects of previously implemented tightening measures in conditions where inflationary pressures are easing both on the global and local market.

Although the level of the key policy rate has been kept unchanged since July, monetary conditions were tightened by increasing the required reserve rate in September, with the aim of reducing dinar liquidity surplus in the system, assessing the effects of this measure at 114 billion dinars fo withdrawn excess liquidity. RR rate on the foreign currency reserve base was increased by 3 pp each (to 23% and 16% for

4 Macroeconomic Environment and the Banking Sector (Continued)

Macroeconomic environment (Continued)
Monetary policy (Continued)

liabilities with contracted maturities of up to and over two years, respectively) while increasing the dinar allocation of foreign currency RR by 8 pp each (to 46% and 38%, depending on the maturity of liabilities). Required reserve rates on the dinar reserve base were increased by 2 pp each (to 7% and 2%, depending on maturity).

The tightening of monetary conditions during the year reflected in the growth of interest rates on dinar corporate and household loans. Interest rate on working capital loans to corporate amounted to 8.4% in October 2023 while on cash loans to households was at 13.7%. The tightening of the ECB monetary policy was reflected in the growth of interest rates on euro-indexed loans. Due to the growth of the Euribor, the NBS passed a decision in September to limit the level of interest rates on euro-indexed housing loans until the end of 2024, so their average interest rate was reduced to the level of 5.4% in October.

In accordance with the monetary policy program for 2023, the NBS continued to implement interventions on the FX market aimed at reducing excessive exchange rate fluctuations and limiting the spillover effect of import price growth on domestic prices. Consequently, the exchange rate was almost unchanged for most of the year, at a level of around 117.2-117.3 dinars per euro, while its stability was also an important factor in anchoring inflationary expectations.

The restrictive monetary policy implemented by the National Bank in the previous period had a decisive impact on the decline in credit activity and the reduction of inflation, aligning domestic demand with supply. In the following period, maintaining price and financial stability in the medium term will remain monetary policy priority, and future decisions will depend on the coming data on the key inflation factors.

Therefore, it is expected that the NBS will continue to carefully monitor geopolitical events and the movement of all key factors from the domestic and international environment that may have an impact on inflation, and to react in a timely manner with all available instruments if some of the risks materialize which would result in inflation moving above the upper limit of inflation target tolerance band tolerance for a longer period. Nevertheless, the projected movement of inflation in the horizon of monetary policy and its factors at the moment indicates that the current cycle of monetary tightening is nearing to its end.

Dinar exchange rate

During 2023, the National Bank of Serbia continued to implement its stable dinar policy, which was assessed as adequate in the conditions of high inflationary pressures, because it limited the spillover of import price growth to domestic prices and contributed to the preservation of overall macroeconomic stability.

Thanks to high FX inflows and an active policy of interventions on the FX market, the local currency in 2023 nominally strengthened by 0.13% relative to euro. At the same time, due to the strengthening of the euro against the dollar, dinar gained 3.9% y/y against dollar at the end-December.

During most of 2023, intense pressures prevailed on the foreign currency supply side, supported by high inflow of foreign capital and favorable balance of payments movements, while occasional depreciation pressures on dinar (at the start and at the end of the year) were caused by seasonally higher demand for

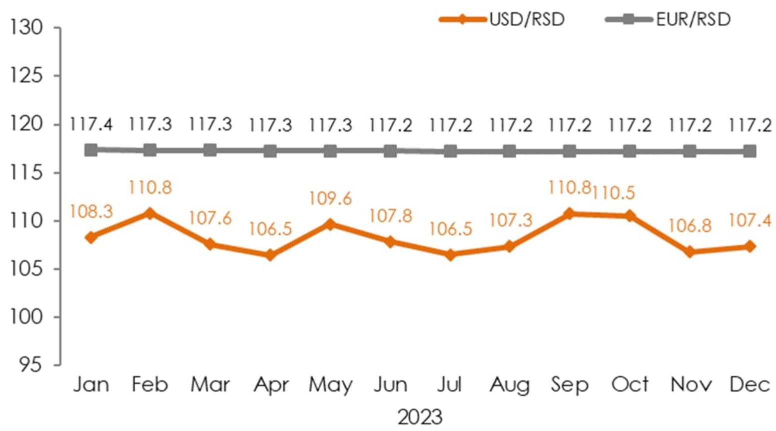
4 Macroeconomic Environment and the Banking Sector (Continued)

Macroeconomic environment (Continued)
Dinar exchange rate (Continued)

as much as EUR 3.7 billion until December 27. This way the year 2023 became the sixth year out of the last seven years that the NBS ended as a net buyer of foreign currency.

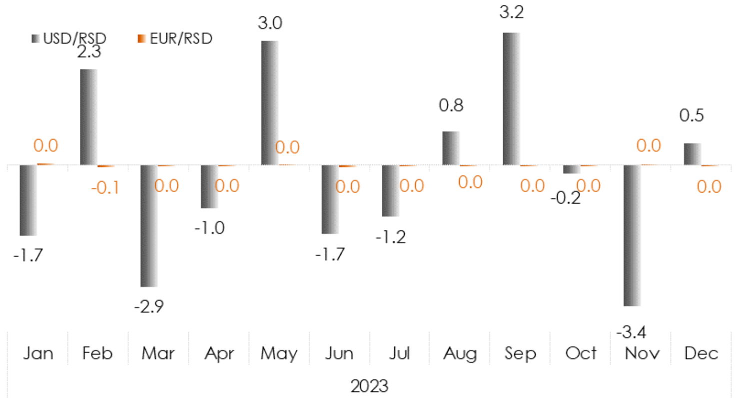
The extensive purchase of foreign currency by the National Bank of Serbia was also one of the main channels for increasing the country's FX reserves, which, in their gross amount, reached the historically highest level. At the end of the year, the NBS announced that gross GX reserves as of December 27 amounted to EUR 24.5 billion, which is about a quarter higher compared to the end of 2022.

Chart 3 – Dinar exchange rate trend



Source: NBS

Chart 4 – Monthly exchange rate changes (in %)



Source: NBS

In the conditions of still very high level of uncertainty at the global level that can lead to a renewal of inflationary pressures, maintaining a stable dinar exchange rate would contribute to softening of those pressures, and therefore represents a good policy of the central bank. Taking into account the high level of FX reserves at their disposal, which stand significantly above the standards that determine their adequacy, the monetary authorities have enough room to continue implementing such a policy, which, among other things, preserves investment and consumer confidence.

4 Macroeconomic Environment and the Banking Sector (Continued)

Macroeconomic environment (Continued)
Current account deficit and external debt

During 2023, the country's external position improved. In the period January-October, the current account deficit amounted to about 1.0 billion euros, which is about 2.5 billion euros lower than in the same period last year. The main contribution to these trends came from improved external trade balance thanks to the growth of exports of goods and services coinciding with a slight decrease in imports.

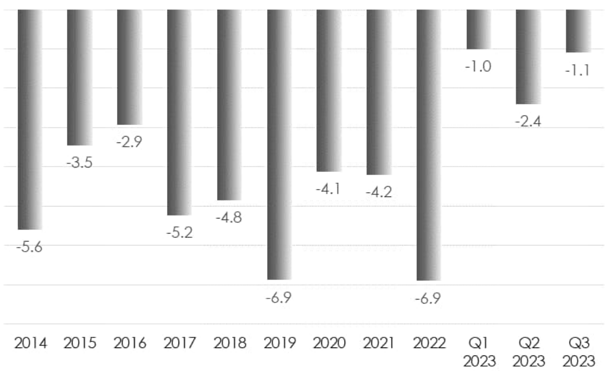
The largest reduction in the external imbalance was recorded on the account of goods trade, which was primarily influenced by a smaller deficit in the energy balance thanks to lower energy prices and smaller imported quantities, as well as the growth of electricity exports. Despite the reduced external demand, the growth of manufacturing exports also had a positive impact.

An important contribution to the reduction of the current account deficit came from the growing surplus in the exchange of services, as the surplus on the services account recorded y/y increase of around 40% in the first ten months of 2023, owing to the growth of exports of ICT, business and transport services.

At the whole year level, the National Bank of Serbia projects that the current deficit will be at a record low level of 2.5% of GDP, which is a significant decrease compared to the 6.9% recorded the year before. The high net inflow of foreign direct investments (FDI) of EUR 3.5 billion in the first ten months was more than enough to ensure full coverage of the current account deficit.

Although balance of payments trends in the coming period will be influenced by factors that are difficult to predict, the NBS projects that the share of the current account deficit in GDP in 2024 will amount to 3.8% of GDP, and that in the medium term it will be at the level of of around 4% of GDP. The increase in the current deficit will primarily be driven by the new investment cycle and the recovery of imports of equipment and raw materials, while the expansion of the country's export capacity and the recovery of external demand will act in the opposite direction.

Chart 1 – Current account deficit (as % of GDP)



Source: NBS

TRANSLATION NOTE: This is a translation of the original document issued in the Serbian language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail.

4 Macroeconomic Environment and the Banking Sector (Continued)

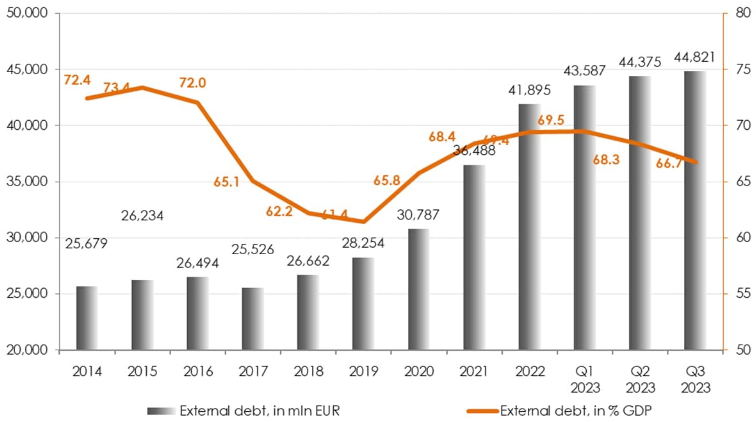
Macroeconomic environment (Continued)
Current account deficit and external debt (Continued)

Serbia's external debt continues to grow as a result of additional borrowing by both the private and public sectors. According to the latest available data, the total external debt of Serbia at the end of the third quarter of 2023 reached the level of around EUR 44.8 billion, having increased by about EUR 2.9 billion compared to the end of the previous year. However, its share in GDP did not deteriorate, due to the higher growth of nominal GDP. At the end of the third quarter, it amounted to 66.7%, remaining below the limit of high indebtedness prescribed by the World Bank (80% of GDP). Growth in absolute terms was registered exclusively in the part of long-term liabilities, primarily in the public sector, which generated more than 80% of the increase. The sustainability of the debt level is supported precisely by its favorable maturity structure, since medium- and long-term debt prevail in the debt structure, with a share of 96% at the end of 3Q 2023.

After a somewhat stronger decline in 2021-2022, the ratio of external debt to exports of goods and services recorded only a slight improvement in 2023, falling from 110.2% in 2022 to 109.8% in the third quarter of 2023, remaining below the lower limit of the World Bank of 220%. Therefore, Serbia again ranks in the category of less indebted countries, given that the ratio of external debt to exports of goods and services has dropped below 132%.

The IMF assesses Serbia's external indebtedness as sustainable in the medium term and projects that the total external debt will be at the level of 66.3% of GDP at the end of 2023, falling to the level of 61.3% by the end of 2025.

Chart 2 – External debt



Source: NBS

4 Macroeconomic Environment and the Banking Sector (Continued)

Macroeconomic environment (Continued)

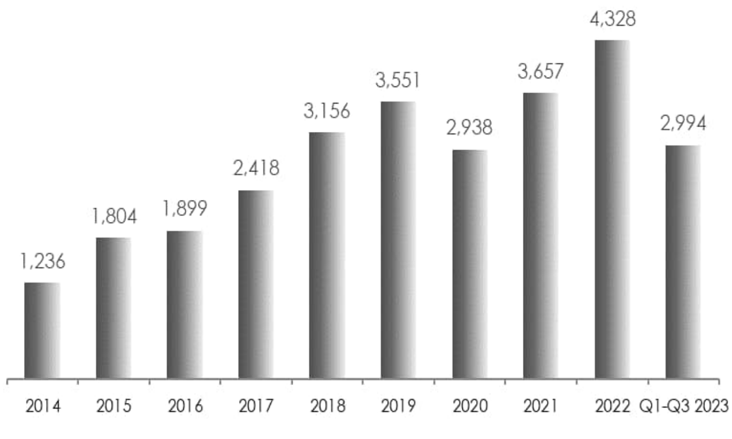
Foreign direct investments

In the first ten months of 2023, the total inflow of foreign direct investments (FDI) amounted to EUR 3.7 billion (net 3.5 billion) and was 8% higher compared to the same period of the previous year. The inflow of FDI was particularly strong in the second quarter, and apparently also in the last one, since, according to preliminary data published by the National Bank at the end of the year, the inflow of FDI reached EUR 4.2 billion by the end of November, and on the whole year level are likely to be around the record level from 2022 (EUR 4.4 billion). Therefore, FDI was a significant driver of growth in 2023 as well, despite geopolitical instability, high borrowing costs and the slowdown in economic activity in countries that are Serbia’s most important economic partners.

As in previous years, more than half of the inflow is directed to tradable sectors, and mostly to the manufacturing, which is the important export sector of the Serbian economy. The largest part of FDI inflows in the first three quarters still originates from European countries (69%), while Asian countries are placed second (31%). In recent years, the growing share of China has been noticeable, which in the first three quarters of 2023 was at the level of 26%.

Since 2015, the current deficit has been fully covered by the net inflow of FDI, and this will be the case in 2023 as well, bearing in mind that, due to improved trade terms, the current deficit has been significantly reduced compared to previous years.

Chart 3 – Foreign direct investments (in EUR million)



Source: NBS

The National Bank of Serbia projects that the net inflow of FDI in the medium term will be around 5% of GDP, with the expectation that the largest part of the inflow will continue to be directed towards export-oriented sectors.

4 Macroeconomic Environment and the Banking Sector (Continued)

Macroeconomic environment (Continued)

Foreign trade

The total value of foreign trade recorded a slight decrease, which is largely due to the drop in imports compared to the last year, when dynamic price changes on the international market had a decisive impact on its value. In the first eleven months of 2023, Serbia's total goods trade reached the level of 60 EUR billion, which is 1.6% lower compared to the same period in 2022, while the exports-imports coverage improved to 78.7% from 70.8% at end-November 2022. The value of exports amounted to EUR 26.4 billion (+4.5%), while the value of imports decreased by 5.8% to the level of around EUR 33.6 billion, which was largely influenced by the reduced import of energy products and electricity. This resulted in the reduction of the total trade deficit by 31%, i.e. by around EUR 3.2 billion, to the level of EUR 7.2 billion by the end of November.

Electrical machinery, apparatus and appliances remained the number 1 export product, with a share of 12.7% in total exports. Power-generating machinery and equipment are in second place (5.8%), followed by ores and scrap metal in third place (5.5%). Agricultural products once again had considerably weaker export results than usual, affected both by the poor harvest in the previous agricultural season and the loss of part of the buyers on the international market, as well as by logistical and transport problems in a good part of the year.

According to the data of the Ministry of Finance available for the first nine months of 2023, the company Zijin confirmed the title of the Serbia’s top exporter, with Serbia Zijin Mining in 1st place and Serbia Zijin Copper in 2nd place, while HBIS (Železara Smederevo) fell to the third position. ZF doo from Pancevo made it to fourth place, while Leoni Wiring Systems was ranked fifth in the list of the largest exporters.

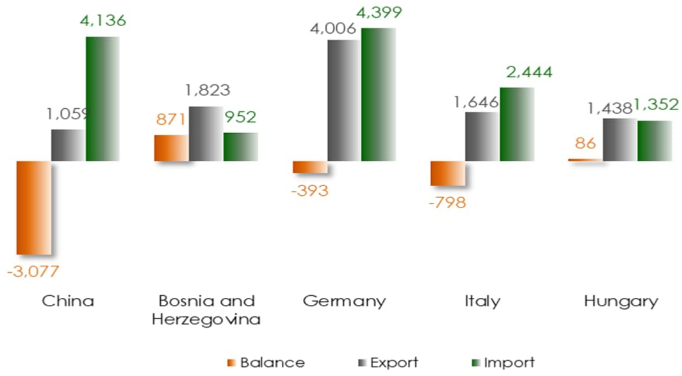
Around 60% of Serbia's foreign trade was directed towards the countries of the European Union, while the CEFTA countries were the second most important foreign trade partner, with which a high trade surplus was achieved (260% export-import coverage). The main foreign trade partners in exports were Germany (EUR 4 billion), Bosnia and Herzegovina (EUR 1.8 billion) and Italy (EUR 1.6 billion), while in imports they were Germany (EUR 4.4 billion), China (EUR 4.1 billion) and Italy (EUR 2.4 billion).

Chart 2 – Foreign trade (in EUR million)

4 Macroeconomic Environment and the Banking Sector (Continued)

Macroeconomic environment (Continued)
Foreign trade (Continued)

Chart 3 – Foreign trade with major partners (in EUR million)



Source: Statistical Office

Fiscal policy

Owing to higher income from contributions and corporate income tax, as well as lower than initially planned outlays for the energy sector support, fiscal developments in the first three quarters of the year were more favorable than planned, with consolidated surplus of RSD 15.8 billion or 0.3 % of realized GDP in this period. However, ad hoc decisions on extraordinary increases of pensions and salaries in certain parts of the public sector, as well as numerous one-off benefits for different categories of the population, which were made in the pre-election period, disabled preferable reduction of the deficit compared to the targeted level of 2.8% of GDP, according to the 2023-budget rebalance. Moreover, with the change in the direction of greater expansion, the fiscal policy began to act pro-inflationary and in opposition to the monetary policy, which was justifiably tightened in order to bring inflation under control.

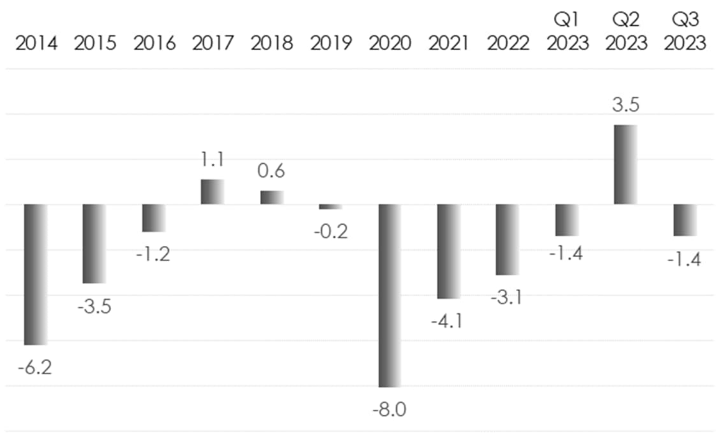
The adopted budget for the next year brings moderate improvements, since it foresees the continuation of the gradual reduction of the fiscal deficit. The fiscal framework for 2024 envisage the deficit at the consolidated level at 2.2% of GDP which should lead to a further decrease in the public debt share in GDP. The Fiscal Council assesses that revenues and expenditures are credibly planned and that, in general, the adopted budget is economically sound, but does not bring major changes in fiscal policy. The budget envisages an average increase in public sector wages of around 10%, an increase in pensions of 14.8%, and a high level of allocation for public capital investments is maintained, at the level of around 7% of GDP.

The amendments to the law on the budget system, which were adopted at the end of 2022, revised the fiscal rules and specified the way the state reacts in case of breach of the limits defined by those rules, which was positively evaluated by experts. However, the implementation of most of the rules will begin in 2025, because both 2023 and 2024 are treated as years in which it will be necessary to continue implementing certain anti-crisis measures.

4 Macroeconomic Environment and the Banking Sector (Continued)

Macroeconomic environment (Continued)
Fiscal policy (Continued)

Chart 4 –Consolidated budget deficit (in % of GDP)

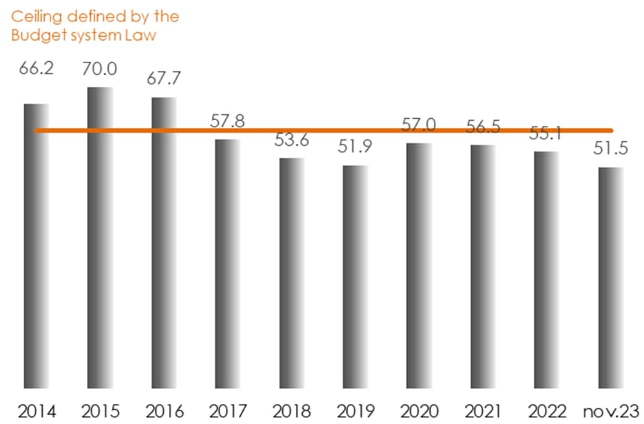


Source: NBS

At the end of November 2023, public debt amounted to EUR 35.6 billion, while the share of debt in (projected) GDP was 51.5%. Majority part of the public debt is still denominated in foreign currency (EUR 58%, USD 13.4%), while around 22% of public debt was denominated in dinars.

Since the beginning of 2023, the public debt has increased by around EUR 2.3 billion, mostly as a result of direct borrowing by the state to finance deficit and maturing liabilities. Since the financing conditions on the global financial markets have worsened, the state secured part of the necessary financial resources through more favorable credit arrangements with foreign governments and international financial institutions, including a stand-by arrangement with the IMF worth c. EUR 2.4 billion. After an additional EUR 400 million was made available after the successful second review of the results within the framework of the economic program (after the first review, EUR 1.2 billion were withdrawn), the Government of Serbia declared that it will continue to treat this arrangement as a precautionary arrangement (one review earlier than planned).

Chart 4 – Public debt (in % of GDP)



Izvor: Ministarstvo finansija

4 Macroeconomic Environment and the Banking Sector (Continued)

Macroeconomic environment (Continued)
Fiscal policy (Continued)

According to the projection of the Ministry of Finance, the public debt should be at the level of 53.5% of GDP at the end of the year. The fiscal deficit of 2.2% of GDP planned by the adopted 2024-budget should allow the public debt (as a % of GDP) to continue moving downward, and the IMF expects that its share in GDP will fall to the level of 52% by the end of 2024.

Banking sector

As of September, the Serbian banking sector comprised of 20 banks. Compared to the previous year, the number of banks decreased by two, which implies continued trend of banking sector consolidation.

The past three years in the banking sector in Serbia were marked with merger annunciations. Starting from 2021 with OTP and Vojvođanska bank, through NLB and Komercijalna next year, it could be said that 2023 was marked with the merger of RBA bank (ex Credit Agricole) and Raiffeisenbank as well as purchase of Eurobank Direktna in the name of AIK bank. In April 2023, the first integration finished – Raiffeisenbank completed acquisition of RBA bank. By the end of 2022, Naša AIK bank (earlier Sberbank) was merged with AIK bank. AIK did not stop there and already in March 2023 announced purchase of Eurobank Direktna. The process finalized in November same year led to significantly improved market position of AIK Group. In the light of the mentioned events, there are indications of further consolidation in the banking sector.
Total assets of the banking sector increased by 4.7% since the beginning of the year. At the end of third quarter, total assets reached RSD 5.7 billion (EUR 48.7 billion).

National Bank of Serbia increased key policy rate for 1.5 p.p. compared to the beginning of the year thus reaching the level of 6.5% at the end of 2023. Unlike the previous year, marked by the rising trend of EURIBOR, the end of the year may indicate slowdown of inflation as well as the overall crisis, which is also implied by the decision of the National Bank of Serbia not to keep key policy rate for the time being at the level of July this year.

Domestic credit activity stagnates compared to the same period previous year as a consequence of the high base from the previous year, maturing loans from guarantee schemes, as well as higher interest rates on loans due to the tightening of monetary policies by the ECB and the National Bank of Serbia. Total loans recorded a modest y/y growth of 0.6% and reached the level of RSD 3.2 billion at the end of the third quarter of 2023.

Corporate loans reached RSD 1,635 billion at the end of the third quarter, increasing by 0.1% y/y. Corporate loans growth is mainly driven by working capital loans and investment loans.

Observed by industry, placements to the processing industry and real estate business sector were the main driver of loan growth while the highest amount of repayments came from enterprises in energy sector.

As of September, loans to individuals increased by 1.6% on the annual level, reaching RSD 1,469 billion. The highest contribution to growth comes from cash loans which make up to 44% of total lans to individuals and thus are dominant cathegory, while mortgages have a share of 40%.

4 Macroeconomic Environment and the Banking Sector (Continued)

Banking sector (Continued)

Dinarisation trend slowed down in 2023 as well. Share of dinar loans in total placements to companies and individuals decreased by 1.3 pp since the beginning of the year, to the level of 33.8% in September. In the corporate sector, the level of dinarisation amounted to 16.3%, while placements in local currency to households decreased to 53.6%.

Deposit base reached RSD 4,179 billion (EUR 35.7 billion) at the end of September 2023, recording annual growth of 12.4%. Deposit volumes increased in both households and corporate segments.

In 2023, NPL ratio remained near the minimum, at the level of 3.2% in September. Even in the tight financial conditions, the quality of bank assets was successfully preserved. In corporate segment, NPL ratio stood at 2.1%, while in household sector NPL ratio slightly increased to 4.4%.

At the end of third quarter, 19 out of 20 banks recorded positive result. Total net income before tax reached RSD 108.6 billion, which is RSD 50.2 billion (86.1%) above the same period last year. Regarding provision expenses, the banking sector noted increase of RSD 0.7 billion or 5.8% y/y.

Significant growth of net income before tax comes from increased operating income on a yearly basis which is a result of 51.7% higher net interest income compared to the same period previous year. While, on the other side, expenses did not fully follow the trend of income growth.

Operating margin for banking sector is 72.9% higher in September 2023, than the same period prior year, reaching the level of RSD 120.7 billion.

The main reason for higher operating margin is operating income (RSD 226.5 billion), which is higher by 37.1% or RSD 61.3 billion in the absolute amount compared to the same period prior year. Higher operating income is result of higher net interest income (RSD +56.4 billion), higher net fee and commission income (RSD +3.8 billion) and higher profit from trading and other operating income (RSD +1.1 billion). Operating costs noted increase of 10.9% or RSD 10.4 billion absolute compared to September previous year, reaching RSD 105.8 billion. The main reason are higher administrative expenses (RSD +6.4 billion) and personnel expenses (RSD +3.2 billion) while depreciation slightly increased by RSD 0.8 billion absolute.

As of September 2023, return on assets (ROA) was higher by 1.1 pp compared to the same period last year, standing at the 2.6%. At the same time, return on equity (ROE) increased by 8.6 pp y-o-y, reaching 19.5%.

The capital base of the banking sector amounted to RSD 785 billion at the end of third quarter 2023. Compared to the beginning of the year, capital increased by 9.0%.

At the end of the third quarter, the capital adequacy ratio of the banking sector amounted to 22.2%, well above the regulatory threshold.

Banking sector liquidity was confirmed with the loan-to-deposit ratio which was at the level of 85.0% by the end of September. Assets quality was confirmed with stable cost of risk ratio being at the level of 0.5%.

4 Macroeconomic Environment and the Banking Sector (Continued)

Banking sector (Continued)

Despite the fact that consolidation trend continues in the banking sector, Banca Intesa has kept its leading position within the key indicators. At the end of the third quarter, Banca Intesa recorded the highest market share in total assets (15.0%) and customer deposits (15.4%), while being highly second ranked regarding customer loans (16.6%) and capital (13.3%). Compared to the same period prior year, loan volume increased by 5.2%. Loan to deposit ratio remained stable at the level of 81.3% while cost of risk ratio decreased from 0.8% to 0.6% on a yearly basis.

At the end of the third quarter of 2023, Banca Intesa noted a major result from the point of view of profitability. Thanks to significant growth of net interest income on a yearly level in amount of 61.6%, the Bank took the first place on the market with share of 16.6%. Also, a strong leading position was noted in terms of net fee and commission income with share of 19.0%. In a year of strict monetary conditions, full of uncertainty for the banking sector as well as for households and corporate segment, Intesa managed to achieve exceptional results, retain existing clients and attract the new ones. This fact is confirmed by a stable and growing client base of 1.39 million clients at the end of November 2023 with widespread network with 147 branches.

5 Highlights of the Bank's Strategy and Planned Development

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

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

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

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

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

II Accelerate digitalization for innovation and growth

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

III Grow business value in lending

Main enablers for grow business value in lending are defined through following strategic guidelines: Current lending product offer integration, Add value on lending business by improvement of penetration and volumes, Price optimization, Cost benefit profiles optimization, Mitigation of existing exposure for riskier industries/sectors and Development of products according to ESG.
In the coming period the Bank will continue on the path of improving credit quality through proactive credit portfolio management and development of actions plans to monitor credit quality. Strategic guidelines that should strengthen credit machine are listed as follows: Credit management process, Improvement of PCM processes and NPL management, Internal process development and People skills improvement and introduction of IT tools.

V Promote people re-skilling

In order to improve people skills the Bank will realize activities aimed at boosting skills in Retail business to support further digitalization (e.g. remote advisory), development of wealth management and insurance businesses, activities focused on development of the skills in the areas of e-commerce platforms and data-monetization (additional revenue streams), transformative activities aimed at

5 Highlights of the Bank's Strategy and Planned Development (Continued)

V Promote people re-skilling (Continued)

supporting Corporate business in introducing ESG, Circular Economy products and services and support in development and implementation of new products, markets, derivatives. Furthermore, in order to support the new and agile way of working the Bank will upgrade managerial capabilities through development programs. Also, transformative initiatives will be aimed at spreading the culture of hybrid and agile working, strengthening the culture and practices of task oriented performance management.

VI Strengthening ESG positioning

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

6 Retail Banking

Individuals

- *New production of personal loans in 2023 again reached exceptional levels and exceeded the previous record in 2022 by +7%. Excellent commercial result was strongly impacted byparallel focus both on the internal potential of our existing client base and on the exceptional commitment to acquisition activities that led to an increase in the number of clients who recieve their income in our Bank by +2.5%, which represents the largest growth of this kind in the last three years.*
- *The increase of Individual deposits throughout the year was accompanied by the increase of the share of term deposits in total deposits. A significant increase in interest rates due to changes in macroeconomic conditions, especially during the savings week/month, also led to an increased demand from clients for term deposits. At the end of November 2023, the Bank introduced a new investment fund and thus enriched the offer of financial products. The new Intesa Invest Alternative fund, whose public call began on 20.11.2023, in just over a month, collected assets under management in the amount of EUR 13.7 million.*
- *The continuous process of educating employees and clients of the Bank in the area of bancassurance continued during 2023, with a focus on strengthening awareness of the importance of protecting the clients themselves, as well as their families and property.*
- *Continuation of the implementation of ESG initiatives in accordance with the Group's strategic commitment, which directly contribute to the improvement of both environmental protection and the living conditions of clients from sensitive social categories. A special focus in 2023 was on our younger clients through the development of the mortgage loan initiative for young people, as well as the beginning of the development of other products intended for this group of clients.*
- *The year ended with almost 640,000 clients who have a contracted digital banking service, of which over 80% actively use the application. During 2023, those clients made over 24 million transactions on digital channels, which is an average of over 2 million digital transactions per month. Compared to the previous year, this represents a growth of +16%.*

In the past year, which was marked by negative macroeconomic trends with a particular impact on the population segment (growth of both inflation rate and reference interest rates), it has been shown once again that our Bank is ready to adequately respond to all market challenges and successfully meet the needs of our clients through a special focus to client centricity. In order for such a challenging task to be successfully completed, there was a continuous investment in improving the competences and skills of the Bank's employees, but also in the development and increase of the quality of services both in physical and digital sales channels. A special focus was on e-banking through the further expansion of the Digical project and the implementation of new functionalities. The trust shown by our clients in this manner of doing business is reflected in the already stable organic growth of the base of active clients with a payment account of +2.07% year-on-year (YoY).

During 2023, despite the challenging macroeconomic implications, the Bank significantly improved its offer of innovative products that enable the satisfaction of a wider range of sophisticated financial needs of clients, while preserving the stability of all relevant business indicators and increasing market share in all key products intended for the population segment. The highlight here is a significant growth in the market share of overdrafts and credit cards of +3%. This led to an extremely high share of 20.3% for overdrafts and 31.2% for credit cards. Additionally, it is important to note that we have a stable increase in the share of personal loans of +0.9%.

By maintaining stability in all business segments, Banca Intesa managed to successfully respond to the dynamic market challenges in the past year and confirm its position of leader in the market. Through numerous innovations and improvements that focus on client satisfaction, as well as transparent communication of price (and non-price) elements of products, the placement of cash loans in the amount

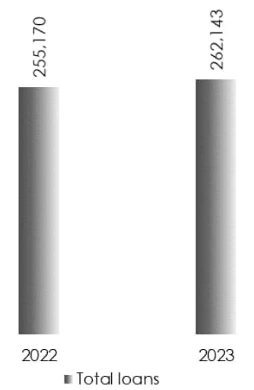
6 Retail Banking (Continued)

Individuals (Continued)

of 447.8 million euros (52.5 billion dinars) was achieved. These excellent business results contributed to the growth of the Bank's market share in cash loans to 14.4%, with a growth in the number of clients with cash loans in use of 4.3% year-on-year (YoY). In 2023 we have also proceeded with continuous improvement and close monitoring of the process of applying for and realizing mortgage loans. It was precisely these quality-designed processes combined with high expertise of our advisors in Intesa Casa centers that led to the preservation of the mortgage loan portfolio and prevented a drop in market share in an extremely challenging year. There were multiple negative effects that intertwined with each other. On the one hand, we had the growth of the Euribor value and the growth of interest rates on the entire banking market. On the other hand, the growth of the inflation rate further eroded the purchasing power of the population, which was only partially compensated by the increase in wages. It is also important to note that the rise in interest rates did not significantly drive a drop in the price of the real estate itself, so clients found themselves in a multiple unfavorable situation that caused a drop in demand for this type of lending. Having in mind the above stated, the production of mortgage loans in 2023 was 113.3 euros (13.3 billion dinars). With this level of activity, the market share was preserved compared to December 2022, with a slight growth of +1BPS.

These facts regarding the multi-year growth of active banking products in the segment of retail banking are pointing to several conclusions: clients appreciation of the high level of service complemented by the Bank's business policy, which is sincerely focused on their specific and real needs; as well as the positive effect that fostering the principle of transparency in every aspect of business has on clients' confidence in doing business with our institution.

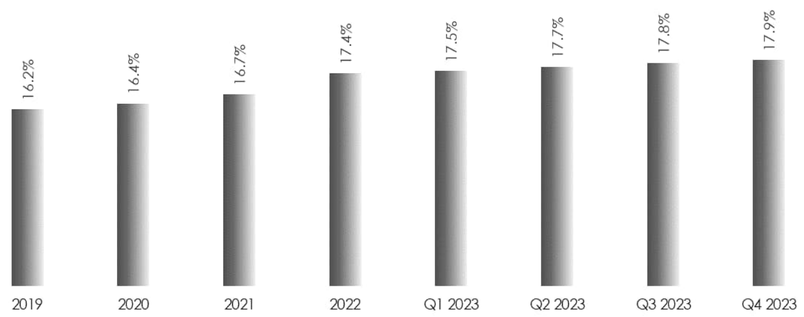
Graph 12 – Loans to individuals (in million dinars)



6 Retail Banking (Continued)

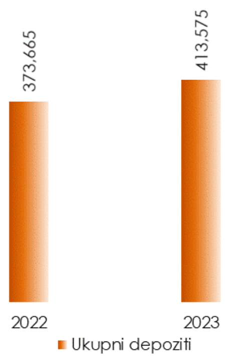
Individuals (Continued)

Graph 13 – Market share in loans to individuals

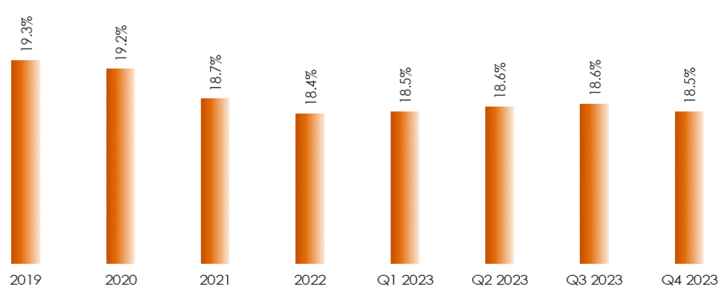


Total private individuals deposits increased throughout the year and reached the level of RSD 413.6 billion in December 2023. The Bank's market share in total private individuals deposits increased at the end of November 2023 by 4 bps compared to December 2022 and reached 18.5%. During 2023, 17.5 billion RSD of private individuals deposits were placed in the investment funds, through the distribution of the Bank.

Graph 14 – Individuals deposits (in million dinars)



Graph 15 – Market share in individuals deposits



Increase in the market share of private individuals deposits throughout 2023 was accompanied by the increase in share of term deposits in total deposits. The increase of the reference interest rates of the

6 Retail Banking (Continued)

Individuals (Continued)

leading central banks and the new macroeconomic conditions have influenced the growth of clients' demand for more favorable interest rates on term deposits. Taking into account the needs of its clients, the Bank has created an offer for term deposits in RSD, EUR and USD, thereby increasing the balance of term deposits and their share in total private individuals deposits.

The increase in the market share of private individual deposits throughout the year was accompanied as well by the increasing interest of clients in investing excess liquid funds in one of the investment funds managed by the Intesa Invest. After 5 years of operating, Intesa Invest collected assets under management in the amount of over EUR 307 million at the end of 2023.

Despite very turbulent market movements and geopolitical events during 2022 and 2023, assets under management of Intesa Invest increased by +70% in December 2023 compared to December 2022. This indicates that the Bank, with the support of the Parent Bank and in cooperation with Eurizon, one of the largest asset management companies in Europe, is perceived as an extremely safe place for all types of savings, as well as other available investment methods for all its clients.

The increase in interest rates starting from the second half of 2022, as well as the Bank's response to the diversified needs of clients, have led to the confirmation of the fact that the Bank is perceived as a very safe bank with a significant increase in assets in general both through the Bank's deposits and through the investment funds, which is confirmed by the final balances of deposits, and also by the balances of investment funds of private individuals at the end of December 2023.

The growth of geopolitical uncertainty and unforeseen events from the previous few years created a greater need for additional security and protection, which resulted in a greater importance of bancassurance as a segment of the Bank's business.

During 2023, the Bank was working on the promotion of bancassurance, raising awareness of the significance and importance of this topic, as well as improving relations with clients through a comprehensive offer of various products in one place. In order to inform and educate in more detail not only its clients, but also the wider social community that insurance policies can be contracted in the Bank, in the course of 2023, in addition to regular marketing activities, the Bank organized in each of its 4 regional centers in 1 branch the so-called "Days Dedicated to Insurance". In this way, the Bank brought bancassurance products closer to the potential users and highlighted the importance of this type of protection. The focus was on satisfying clients' needs for protection, both personal and family protection, as well as protection of property and credit products due to the inability to repay the loan. As the structure of insurance products is dominated by non-life insurance, the Bank's strategic commitment in the coming period will be the development and promotion of life insurance products.

Bearing in mind that client centricity is in the focus, and listening to the needs of clients in 2023, in cooperation with Generali Insurance, intensive work was done on the development of a new life insurance product that will be introduced to the Bank's distribution as early as Q1 2024.

During 2023, the continuous process of educating employees in both the bancassurance and investment sectors was continued in order to provide better quality and comprehensive services - from loans to insurance, from savings to investments, from health to pensions. In the coming period, the Bank will continue with the education of its employees with the aim of increasing the number of licensed insurance agents, all in accordance with the Bank's strategic plans, the needs of the market and the increasingly complex needs of clients.

6 Retail Banking (Continued)

ESG initiatives

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

The wide range of topics covered by ESG, which relate to social responsibility and commitment of banks to sustainable economic activities, from an environmental, social and managerial point of view, and also to management of internal processes and relations with clients, Banca Intesa concretizes through projects of responsible and sustainable business based under the concept of the Circle of Sustainable Ideas and in accordance with the Strategy of the Group.

Within the Retail Sector, over the past two years, several ESG initiatives have been implemented that directly contribute to the improvement of both environmental protection and the living conditions of sensitive social categories of the population, such as: loans for improving energy efficiency, green mortgage loans, subsidized mortgage loans for mothers, a specially designed overdraft product (Mum@work), as well as a cash loan specifically intended for financing MBA studies.

The positive trend of introducing new products that are in line with the Group's ESG policy continued in 2023, with a special focus on clients, both existing and future acquired, who belong to the younger age population group. Our Bank, recognizing the need to solve the housing issue as one of the most important when it comes to young people, in 2023 developed a special product in which the social component of ESG is expressed, which is the Mortgage Loan for Young People. In addition to the lower interest rate, clients are provided with an additional set of benefits that can be attractive to this target group.

Besides working on the social component of ESG, we were also active on the environmental front by introducing Eco plastic for payment cards. During 2023, our Bank started the process of procuring all the necessary amounts of plastic for payment cards, replacing the standard material with Eco recycled plastic. The first cards made of Eco plastic are marked with a special symbol and were issued in June 2023.

Digital channels and e-services
Business with payment cards

In 2023, Banca Intesa maintained its leading position in the card business segment, with a market share of 16% in the number of issued payment cards (15% in the number of debit cards and 27% in the number of credit cards), 22% in the number of POS terminals and 73% in the number of internet POS terminals.

Banca Intesa cards participated with 24% in the total internet turnover of all cards issued in the Republic of Serbia, as well as with 27% in the total number of internet payment transactions in the country and abroad, while participation in the POS turnover of purchase transactions with Banca Intesa cards in the country and abroad was 21%, that is 22% in the number of POS transactions.

The number of transactions made with Banca Intesa payment cards, as well as the total turnover, achieved an annual growth of 17% in 2023, with an exceptional growth of the turnover of payment cards abroad, which increased by 38%. Banca Intesa payment card transactions outside the bank's acceptance network increased by 30%, and the number of transactions by 25% compared to 2022.

6 Retail Banking (Continued)

Business with payment cards (Continued)

As for transactions on the bank's POS terminals, including Internet POS terminals, their number increased by 17%, while the volume of turnover increased by 20% compared to the previous year. In addition, Banca Intesa continued to improve its reception network, constantly expanding the number of new users. During the year, it was possible to accept Union Pay International cards in the bank's acceptance network.

Digital channels and e-services
Business with payment cards

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

With the introduction of the SoftPOS application, the Bank has offered its clients a unique solution that allows merchants to use a single application for accepting both payment cards and IPS payments. In 2023, the Banca Intesa Soft POS service was contracted with 197 merchants, with 1154 terminals. During 2023, DCC (Dynamic currency conversion) and PWCB (Purchase with Cash Back) functionalities were implemented on POS terminals. The implemented improvements in the bank's offer will contribute to defending the existing leading position in the market, especially considering the upcoming new platforms that have opened the door for new competitors to enter the market.

The Bank also continued to expand the sales outlets where credit card installment sales are possible, which is now enabled at over 10,000 locations. The volume of transactions on credit card installments maintained a high percentage of participation in the total turnover on the bank's POS terminals at 29% during 2023.

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

Customer activity on digital channels

Total number of clients who agreed to the digital banking service as of December 2023 is 636,000, which is 25% more than at the end of last year, when the migration from old to new applications and cleaning of the user base from inactive clients was completed. In addition to focusing on digitizing the client base, there has been a special emphasis on the actual use of the application: 530,000 active users, which is over 80% of the number of contracted clients, is a result that speaks in favor of successful onboarding of digital users.

The number of transactions executed on digital channels during 2023 reached 24.3 million, which is 16% more than in the previous year. The number of users who perform transactions through digital applications on a monthly basis is 337,000, which is as much as 40,000 more than at the end of last year.

6 Retail Banking (Continued)

Digital channels and e-services (Continued)
Customer activity on digital channels (Continued)

This growth in the number of digital transactors and completed transactions was mainly driven by the Engagement project: the target group was users of digital services who had not previously used applications for transactions, and who, according to predictive (machine learning) models, had the highest probability of starting to use applications for everyday payments. Campaigns in which video messages and tutorials were communicated to clients were conducted via Viber and in-app communication, and recorded over 20% response rate.

The introduction of the possibility to submit applications for cash loans and overdrafts through the mobile application has led to an increase in sales of cash loans on digital channels.

Increase in sales on digital channels in the number of cash loans compared to last year is 11%, and the share in total sales is 22.5%. (1.5pp higher than in 2022.)

Sales of overdrafts on digital channels grew by 10% in 2023 compared to the previous year, and the share of digital channels in total sales of overdrafts is 17% (3pp higher than in 2022.).

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

In April 2023, Banca Intesa ad Beograd became the first registration agent of the Office for Information Technology and Electronic Administration that enabled the online issuance of a qualified electronic signature, through digital banking applications for individuals, thus achieving the most important prerequisite for improvements in the field of further digitalization of processes in the bank.

By applying the documents signing with the use of the Consent ID application, Bank has made it possible to increase the limit for cash loans that can be processed through digital banking applications. Since a qualified electronic certificate is a substitute for a handwritten signature, we have overcome the legal limitations regarding two-factor authentication.

The process will be applied primarily for cash loans (Intermezzo, Easy Cash and Senior loans), and then for other loan products.

With the introduction of a qualified digital certificate in the Bank's operations, a prerequisite for the introduction of paperless operations in branches was also achieved. Therefore, Paperless branch project was launched in 2023, with the aim of presenting the documentation that is currently printed in various processes to the client in an electronic format, enabling the client to sign it with a qualified electronic certificate using the ConsentID application.

The signed documentation is automatically forwarded to the client on digital banking applications or by email, and on the bank's side it is automatically archived in the dedicated archive.

The project will contribute to a significant increase in the efficiency of advisers in branches, savings on printing costs and physical archiving of documentation, as well as the Bank's commitment to sustainable business.

6 Retail Banking (Continued)

Digital channels and e-services (Continued)
Consent ID - Banca Intesa, the registration authority of the Office for eGovernment (Continued)

The implementation is carried out in phases, and it is planned that in the first phase of the project, the paperless process will be applied to the client information form of a private individual and the KYC questionnaire in Q1 2024. Immediately after them, in the second phase, to the process for cash loans - during Q2 2024. Process for client information form is being piloted for friends and family from the end of 2023. After the successful production of the first two phases, it is planned to enable the new process for other products offered by the Bank.

In parallel with the Paperless branch project, there is an active Remote offer project where, unlike the Paperless process, the client is not physically present in the branch. The implementation of the project is expected in 2024.

In addition to the effects listed for the Paperless process, the Remote offer brings improvements to sales processes and has significant potential for improving services which clients could use without coming to a branch.

The remote offer project includes the same processes as the Paperless branch and it is planned that improvements to the client information form and the KYC questionnaire will also be in production at the end of Q1 2024. The production of cash loans through the Remote offer process is planned for Q2 2024.

Donations

In accordance with the ESG policy, a new functionality was created within mobile banking for individuals, which enables clients to donate to humanitarian purposes within the payment order, by rounding up the transaction amount. The client has the option of choosing the beneficiary of the donation from a pre-defined list of humanitarian organizations. In 2023, the bank signed a contract with the following humanitarian organizations: SOS Children's Village, UNICEF, Food Bank Belgrade and Belhospice Belgrade.

In 2023, there were a total of 104,000 donations, raising a total of 12.9 million euros.

Public Portal

During 2023, the focus of activities on the Bank's Public Portal was aimed at further improving the Bank's website as one of the important points for collecting client and prospects leads.

At the beginning of 2023, a complex Questionnaire - calculator for home loans was developed on the bank's website, which enables clients to calculate loan installments more accurately, the total amount to repay the loan, the maximum loan amount and the installment that the client can receive, as well as a complete overview of all loan costs. The calculator for housing loans is placed within the Retail segment, as well as within the Magnifica segment. The client or prospect has the option to schedule an appointment at the branch as the next step in the home loan application process.

6 Retail Banking (Continued)

Digital channels and e-services (Continued)
Public Portal (Continued)

In order to improve the collection of leads on the Public portal, the existing calculators for car loans and cash loans were improved by adding new conditions and loan options. Also, contact forms have been introduced through which the client can express interest in opening a standing order for investment funds, as well as contact forms for CPI leads.

The total number of leads collected from loan calculators in 2023 via the Bank's website amounts to 6,500 leads collected from calculators for cash loans, car loans and home loans, while a total of around 8 million euros was realized.

Cash in/Cash out

During the last three years, the Bank has worked intensively on expanding the network of multifunctional self-service devices. A total of 105 devices have been installed that offer our clients in the segment of natural persons the possibility to quickly and easily make dinar payments/withdrawals, as well as the possibility of making payments/withdrawals in euros from their foreign currency payment account. The dinar payment option at self-service devices is used by over 90 thousand users with a participation of 74% of these transactions in relation to the same transactions performed at counters in branches, while over 20 thousand clients use the EUR currency payment on self-service devices. With 1.3 million of these types of transactions, the Bank participates with over 19% in the Serbian market.

Over 900,000 clients of the Bank's private and legal entities segment used the dinar withdrawal option at 395 ATM machines last year. With 19 million of these types of transactions on the devices of Banca Intesa on an annual level, the Bank participates with 20% (which amounts to almost 300 billion dinars) in the sum of total disbursed dinars on the entire market.

The bank also worked intensively and succeeded in installing specialized devices for market payments in the last three years and providing this functionality needed by the segment of legal entities and entrepreneurs on 111 devices in 108 branches. By using these devices, almost 20,000 clients of legal entities and entrepreneurs migrated 64% of market payments from branch counters at the level of the entire business network, while the migration rate of market payment transactions in branches where the device exists is around 80%, which provided additional time for colleagues from branch office for advisory services and sales of more complex products and services.

Smart Notification Engine (SNE)

In 2023, the second phase of the SNE project was finalized, which involved migrating sending, improving notifications, and optimizing the process for the following communications:

- Statements for current accounts (both EUR and RSD) and foreign currency accounts of individuals
- Statements for credit cards of individuals and legal entities

Over 15 million statements for individual accounts and credit card statements for individuals and legal entities were sent through the SNE system in 2023.

6 Retail Banking (Continued)

Digital channels and e-services (Continued)
Smart Notification Engine (SNE) (Continued)

Through the implementation of the project, the design of statements for accounts and cards was redesigned, allowing for sending personalized marketing messages for each type of account and card. The sending process has been optimized, significantly reducing delivery costs. Significant improvements have also been made to internal processes, further improving the efficiency of the entire process of creating, verifying, and sending statements. The time required to deliver statements to customers has been significantly reduced, from several days previously to just one day for sending over a million messages.

The implementation of the third phase of the SNE project also began in 2023, which includes, among other things, the migration of foreign currency statements for legal entities and accompanying notifications, as well as the migration of remaining SMS notifications.

The fourth phase of the project is planned for 2024, which will involve sending reports to merchants and notifications about foreign exchange purchases and sales for legal entities, thus completing the migration process from the old notification system to the new platform.

Activity of clients - legal entities on digital channels

The activity of legal entities on digital channels continued its upward trend in 2023.

- Total number of contracted users: 86,366, which is 4% higher than at the end of last year.
- Number of clients with login, active clients: 64,412, 10% more than at the end of 2022.
- Number of clients with transactions: 55,625, 9% more than at the end of 2022.
- Total number of payments made on digital platforms in 2023: 28,235,218.

In mid-2023, the BizMobi app started offering the ability to apply for and receive BizMinus and BizObrt credit products without visiting a bank. This new process allows entrepreneurs who meet pre-defined criteria to apply for BizMinus and BizObrt loans up to €5,000 through the BizMobi app. The process is straightforward, and loan approval, in most cases, takes less than a day. Since the launch of this solution, 1,458 loans have been processed, totaling €4,080,802.

In 2024, this process is planned to be further improved by introducing qualified digital certificate signing, which will make this service available to other small business clients.

Implementation of foreign currency payment functionality in the BizMobi app began in 2023, with a planned launch in the first half of 2024. Work is also underway on integrating the BizMobi app with the Crisp solution, which will display product catalogs and campaigns within the app and offer another way to initiate sales and establish a new touchpoint with clients.

Other promotions
Self-service devices

In 2023, 1,068,992 payment transactions were made in RSD in the total amount of RSD 33,055,429,360, as well as 229,502 payment transactions in EUR in the total amount of EUR 189,140,040.

6 Retail Banking (Continued)

Business network

During the previous year, in cooperation with Parent bank, a new distribution model project was opened, one of the main goals of which is the accelerated modernization and transformation of the Bank's business network, improvement of service models with the aim of increasing commercial focus and productivity, as well as empowering employees through training, development of new skills and opening up new opportunities for advancement.

In order to strengthen its availability to clients in strategically important locations, the Bank opened two new locations in 2023: a branch in the new urban residential and business complex in Belgrade - Belgrade on the Water at Hercegovačka No. 21 and in the central Niš city municipality - Byzantijski Boulevard 21.

The contact center has been further strengthened and restructured as a final step towards taking the position of the preferred point of contact for Banca Intesa customers with the Bank's "omnichannel" ecosystem, both for support and advisory services.

During 2023, the Contact Center maintained a high level of availability with a significant focus on sales activities, both through all incoming channels and through a series of outgoing telephone campaigns targeting the Bank's existing clients. Due to the adjustment of the organizational structure and the introduction of teams as the basic unit for organizing and monitoring activities and business results, a high level of efficiency was achieved while maintaining a high quality of service activities.

In 2023, Banca Intesa's contact center recorded over 1.15 million interactions with clients, which were opened through available communication channels, incoming calls, outgoing calls, chat and email channel. The most dominant channel of communication is still incoming customer calls with a share of 87% in total interactions.

It is important to point out that the clients of Banca Intesa increasingly recognize the importance and quality of this channel, which is confirmed by the growing number of interactions from year to year, as well as the high rating of satisfaction with the service provided and the quality of service received by a significant number of clients during 2023.

Segment of Small business and Registered agricultural households' clients

- *Stable support to the economy in difficult operating conditions*
- *Development of innovative solutions for even more comfortable business operations of business entities*
- *Continuation and development of cooperation with renowned financial institutions*

The year 2023 brought a series of challenges to small and medium-sized enterprises. Economic activity faced the serious task of adapting business plans to the market reality, which consisted of a double-digit annual inflation rate, a high reference interest rate, disrupted supply chains and an unstable situation on the energy market and labour market. All these circumstances together made the economy behave more restrained when it comes to more ambitious investment ventures, that is, business models are adjusted in order to maintain the quality of products and services with a cautious approach to the expansion of business activity.

6 Retail Banking (Continued)

Segment of Small business and Registered agricultural households' clients (Continued)

The banking market (on the other hand) continued with the tendency to consolidate, and the market is facing increasingly fierce competition. This result, among other things, in a better quality and richer offer of innovative and traditional financial products intended for all categories of users of financial services.
In the aforementioned market environment, Banca Intesa continues to strongly support the segment of the economy consisting of micro and small businesses, as well as registered agricultural holdings. A holistic approach to the needs of users, the desire to build long-term partnership relationships with an understanding of the specifics of different types of business activities and different requirements that come with different stages of a company's life cycle, make Banca Intesa maintain its leadership position on the market.

In the business environment of companies belonging to the small business segment, to Banca Intesa 119.1 thousand legal entities and entrepreneurs have shown their trust. Of the mentioned number, as much as 14.6% or 17.4 thousand are credit clients. The total outstanding of small businesses at the end of 2023. amounts 312.2 million EUR. With the aforementioned outstanding, Banca Intesa once again confirms its position as the absolute market leader. It should be emphasized that the impressive new sales figure of 245 million euro during 2023 is accompanied by the exceptional quality of the portfolio, as evidenced by the NPL rate of 4.28%.

Agricultural producers have also found a firm support in Banca Intesa. Banca Intesa market share related to registered agricultural holdings is 14%. Out of the total number of agricultural farms registered in Banca Intesa (70.8 thousand of them), as many as 6.4 thousand of them are loan beneficiaries. Credit outstanding in the agriculture segment reached the amount of 104.1% in 2023, which is an increase of 14.6% compared to 2022.

Small business segment

In order to provide adequate support to the economy in a challenging market environment, Banca Intesa continued with innovations in its offer as well as with traditional support through cooperation with renowned financial institutions and the state.

Aware that time is the most important resource, with the aim of being available to our users at any time and from any destination, we are especially proud of the innovation in business that is the End-to-End credit process. The bank enabled its clients (in the first phase only entrepreneurs) to submit requests for credit products, as well as to implement them through the mobile banking application (BizMobi) for legal entities and entrepreneurs. The process enables the conclusion of a contractual relationship for credit products by using two-factor authentication, as well as by using a qualified electronic signature. During 2023, through this functionality, 1,458 contracts were concluded with a total value of 4.1 million EUR. The platform that enables the entire process, which in addition to the above contains a number of benefits related to the daily business of the user - BizMobi application for legal entities and entrepreneurs, was awarded for the best mobile application for legal entities on the market in 2023.

In 2023, we also introduced softPOS applications, functionality where a mobile phone becomes a POS terminal, which enables greater availability of the receiving network, especially for small merchants.
Traditionally, we have continued to support the economy with placements through arrangements with renowned financial institutions.

6 Retail Banking (Continued)

Small Business Segment (Continued)

Determined to continue with initiatives that have a broader socially beneficial aspect (emphasized ESG component), we expanded cooperation with the European Bank for Reconstruction and Development in the part of supporting sensitive market niches consisting of young businessmen and women owners and managers in companies. Through the EBRD Youth in Business program, Banca Intesa has developed a platform intended for young entrepreneurs. Through the mentioned platform, based on a tried and proven concept that has been available to our ladies who have stepped in the economic flow (EBRD Woman in Business) since 2015, in addition to financial support through loans for working capital and investments, we also provide support to our clients through education and networking programs. Banca Intesa, as the first bank on the Serbian banking market, joined the EBRD program, and through the support program for young entrepreneurs, 264 loans in the value of 5 million EUR were placed.
Banca Intesa concluded already the sixth loan agreement in a row with the European Bank for Reconstruction and Development within the program aimed at supporting women's entrepreneurship. Through the aforementioned program, we have already supported 3,323 (173 in 2023) different business ventures in the total amount of 37 million EUR (3.2 million EUR in 2023).

Cooperation with the European Investment Fund (EIF) continued through the well-known and extremely attractive COSME program. In 2023, legal entities and entrepreneurs had at their disposal loans for working capital with an extended maturity and a grace period of up to 6 months.

In September 2022, Banca Intesa and the American Development Finance Corporation (DFC) signed a Guarantee Agreement with the aim of encouraging credit activity with the use of the DFC guarantee for proportional risk sharing. In this way, the Bank and DFC continue the successful cooperation that began in 2021 with the signing of the guarantee agreement that enabled the Bank to use the DFC guarantee for the needs of long-term loans for investment in agriculture (DFC Farmer Invest loans). The new business arrangement achieved the goal of further strengthening the Bank's ability to provide support to micro, small and medium-sized companies and registered agricultural holdings through attractive credit products. In 2023, companies belonging to the small business segment were granted 647 loans in the total amount of 23.6 million EUR through DFC loans for working capital and investments.

The support program for the purchase of equipment launched by the Ministry of Economy always receives an exceptional response from the domestic business community. This year, Banca Intesa was one of the 8 banks that participated in the Ministry's Program.

Deposits are coming back into focus, and Banca Intesa met the end of 2023 with a total balance of deposits of 739.4 million EUR and compared with 2022 represent growth of 15%.
Investment funds are available to our businessmen as an attractive alternative to classic savings. 2023 also marked the growth of demand for investment, which increased AUM in small business by 21.7M by 64%, as well as the further process of regular licensing of advisors, which helps us to have 98% coverage of advisors with a license to sell investment funds.

6 Retail Banking (Continued)

Registered agricultural householdings

In the business segment with registered agricultural holdings, during 2022, signs of the coming recession were felt, which marked the entire year 2023. After the good results achieved by the agricultural sector in 2022, analyzes at the end of 2023 show that the overall profitability in the farming sector has dropped significantly. As for animal husbandry, the trend of reducing the total livestock and the number of farms in Serbia continued, which as a result, regardless of the high input prices, led to an increase in meat prices, and thus the overall profit in the entire segment.

The second year of the war in Ukraine had the greatest impact on the world prices of finished agricultural products. The closure of the ports on the Black Sea almost completely prevented the export of grain from Ukraine. In order to solve the problem of full capacity, Ukraine placed goods on the Western market at lower prices than in 2022. On the other hand, the EU and the USA additionally introduced new sanctions against Russia, to which Russia responded by marketing its finished agricultural products at lower prices to other markets, primarily the Asian continent. All of the above had an impact on a significant reduction in the prices of agricultural products on the world market, which directly affected the Serbian market.

The changing climatic conditions, primarily supercell storms during the summer period, caused enormous damage to crops in the territory of the whole of Serbia and thereby additionally affected the reduction of yields and the quality of finished products, which generated an overall decline in the volume of agricultural production at the end of the year.

At the end of 2022, the state introduced several measures aimed at stabilizing the economy shaken by the recession and the war in Ukraine, of which the most important measure in the agricultural segment is the possibility of activating a moratorium on the repayment of all loan obligations, in order to postpone the payment of loan obligations for agricultural loans and thereby enabling the continuation of regular operations through new investments for the start of the agrotechnical season in 2023. The largest number of implemented moratorium measures was during the first 4 months of 2023, of which a moratorium on repayment was activated at Intesa Bank on 719 placements in the total amount of EUR 9.4 million.

Regardless of the turbulence on the market of agricultural products and the state of agriculture in Serbia, Banca Intesa achieved a market share of 14% in the agricultural business segment in 2023 and thereby additionally strengthened its position among the leading banks in this market segment as well.
In 2023, the activity of business entities in the agricultural segment reached EUR 60.2 million, with 4,613 sold placements. The loan portfolio recorded a growth of 14,6% compared to 2022, reaching a record level of EUR 104.1 million at the end of the year.
Over the years, Banca Intesa has positioned itself in the group of leading financial institutions in the field of cooperation with registered agricultural holdings. During 2023, we continued to introduce new products and improve processes in this segment so that the effects of implementation were more than recognized and brought exceptional results.

DFC loans

A special guarantee program of investment loans created in cooperation with the American International Development Finance Corporation (DFC), with an additional focus on agriculture, women business owners, underdeveloped municipalities and start-up loans.The DFC guarantee lowered the risk costs of these loans and opened up space for lower prices of these loans compared to the Bank's standard offer and for the liberalization of the collateralization of these loans, which was well received by agricultural producers.

6 Retail Banking (Continued)

Registered agricultural householdings (Continued)

The first program started in 2022, and so far 14,1 milion USD has been placed of the approved 15 million USD.. At the beginning of 2023, a new guarantee program started with a budget of 82 million USD, which, in addition to AGR, also included clients of small businesses and SMEs. By the end of 2023, over USD 68,9 million was realized, of which USD 10,9 million was placed in the agriculture segment alone.

Loans for women in agribusiness

By placing an additional focus on the ESG component of the Bank's business, as well as strengthening competitiveness in the AGR client market, a new credit product for AGR clients was created at the end of 2023 with the aim of facilitating access to funding sources for the market niche of women in agribusiness.

Bank Intesa grants loans for financing working capital and investments to registered agricultural holdings owned by women, on more favorable terms than standard loans for the same purposes.
These loans are intended exclusively for registered agricultural farms owned by women, and a lot is expected from this program in the coming year 2024.

Loans for young farmers

As is the case with loans for women in agriculture, where the focus is on the ESG component of business, our bank has created another new loan product for a special group of AGR clients who are under 40 years old. The main goal of this product is to facilitate access to sources of financing for the growing market segment of young agricultural producers in agro business. Loans for financing working capital and investments are intended exclusively for registered agricultural holdings whose holders are persons under 40 years of age.
Considering the recognized needs of young farmers, a special focus can be expected in the part of financing the lease of agricultural land (current assets) and in the part of purchasing agricultural land (fixed assets).

KFW credit line

At the end of 2022, an agreement was signed with the German Development Bank KFW, which, among other things, defines a special program of financial support for the agricultural segment with the main goal of improving and developing agricultural production on the territory of the Republic of Serbia.
Through more favorable sources of financing, it is possible to lend to a wide range of clients and market a more diverse structure of new credit products offered by our bank. This program started in April and so far over 1 million euros.

EaSI Farmer investment loans

In the third calendar year of the realization of this investment loan, the successful implementation of the loan continued, the effect of which was mainly reflected in the improvement of the maturity structure of the agro portfolio and the additional stabilization of the quality of the portfolio. During the year 2023, over 4 million euros in loans were placed through the mentioned program, while the total realization since the beginning of the program amounts to 19.8 million euros.

6 Retail Banking (Continued)

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

This program traditionally occupies a very important place in the Bank's offer for AGR clients. During 2023, Banca Intesa sold over 12 million euros in loans in cooperation with the Ministry of Agriculture, Forestry and Water Management.
As in previous years, cooperation with a large number of local self-governments throughout Serbia continued through programs to finance farmers with loans, where municipalities subsidize part of the loan interest.

7 Corporate Banking

- *Strategic partnership and support for economic development through the strengthening of long-term relations with domestic and multinational companies*
- *“Net-zero” transition – strong support for the economy leading to transformation towards carbon neutrality, sustainable business and a green economy*
- *Development of modern digital solutions through innovation in order to achieve a higher level of efficiency and customer satisfaction*

In 2023, the dynamic and challenging business environment also affected the architecture of the banking industry. Higher interest rates, reduced demand for loans, stricter regulation, climate change and geopolitical tensions are key drivers for transformation.

Despite the complex global circumstances, the macroeconomic and financial stability of Serbia had a positive impact on the record inflow of FDI (4,2 billion euros as of November 2023).

The struggle with inflation was the most important task and a challenge at the international level. After the accelerated inflation in the first quarter of 2023, the average inflation during 2023 was at a level of 12,1%, which stabilized and slowed down to 7.6% in November and December.

In conditions of rising base interest rates, the main goal of the monetary policies of the European Central Bank and the National Bank of Serbia is to reduce credit activity as one of the most significant generators of inflation.

The key policy rate was kept at the level of 6,5%, having in mind the further dissipation of global inflationary pressures as well as the established downward trajectory of domestic inflation.

In line with the higher cost of financing, credit activity slowed down, but the interest rates for corporate loans stabilized in the last few months of 2023.

Despite the challenging circumstances, Corporate and SME Division recorded a 7,0% growth in loan portfolio compared to the previous year, providing a market share of 17% (Dec-2023). The total balance and off-balance portfolio exceeded RSD 320 billion.

In the light of the various limitations and conditions, Corporata and SME Division generetad more than 1,6 billion euros of cash new production.

7 Corporate Banking (Continued)

The increase in credit exposure volumes is followed by the preservation of the quality of the portfolio, the share of Non-Performing Loans in Total Loan Portfolio is at a historical minimum (Corporate 0,8%, SME 2% as of Nov-2023) and below the market average.

With the ambition of becoming the market leader in green financing, we supported the clients who were ready to fully align their business with the principles of corporate and social responsibility, as well as environmental protection, with over 90 million euros.

Supported by its parent company, Banca Intesa Belgrade has successfully granted 50 circular economy transactions and laid the foundations for building a sustainable future.

As far as deposit transactions with legal entities are concerned, the Bank also records an increase in the volumes of deposits, which leads to market share of 15,5%. In comparison with the end of 2022. Bank increased deposit balance by 21,1%. Deposits in local currency, which make up to 64% of total deposits, represent the main source of financing for the growth of the loan portfolio. In the total deposit structure, a vista dinar deposits make up to 60% of total Corporate Deposits.

Bank recorded an increase by 4% in documentary activities related to issued bank guarantees and letters of credit.
In the Segment for Large and Institutional clients, the stability of the portfolio was preserved with a double-digit growth of loans of 17% yoy, as well as deposits by 28% compared to 2022. Strong support this year was also directed to strategic infrastructure projects in the country and also to the public sector, which has a dominant participation in placements with 29.2% share.

The acquisition of new multinational companies and the adaptation of products and services to their specific needs marked the activities of the Multinational client department.

In addition to the above, in the Small and Medium Enterprises Segment, beside a strong focus on client satisfaction, the improvement of business processes continued as well as the provision of attractive credit lines in cooperation with foreign creditors. Since the beginning of the year, the loan portfolio grew by 4%, while deposits grew by as much as 21%.

In a relatively short period of time, the banking industry experienced a transformation of its operations in terms of the introduction of new business activities and the way in which certain tasks are performed. Digitalization has completely changed a significant number of business processes inside the Bank, including the way of reporting, monitoring of business activities and results, analysis of client behavior, projecting achievements, etc. Today, the Bank knows better than ever who its clients are, what their preferences are, how much they choose us rather then competition, which products/services bring us the most profit, what the trends tell us, what the projections are, what the Bank's market position is, etc... We cannot provide answers to these and many other questions without data, analytical tools and quality analysts who know how to turn raw data into valuable business information. The Corporate Division in the field of data monetization and development of new sales tools actively participates in both local and joint initiatives with the parent bank, and sets standards of good practice and has a significant role in the implementation and use of the most modern solutions. This is reflected in the application of one of the world's best CRM tools (Salesforce), the application of advanced analytics, the improvement of the reporting system and the visualization of reporting in accordance with world standards.

7 Corporate Banking (Continued)

In 2023, the Bank also participated in the Benchmark study conducted on the domestic market by the renowned international consulting company PWC. The mentioned study, whose results cover more than 90% of the domestic banking market, showed that the Corporate Division of our Bank continuously achieves enviable results and keeps a leading position in all business segments despite the increasingly intense competition and consolidations that are taking place on the domestic banking market.

Figure 16 – Corporate loans (in RSD million)

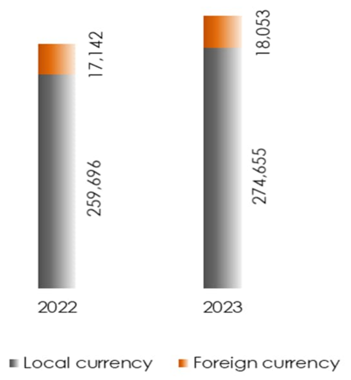


Figure 17 – Market share of the Bank in corporate loans

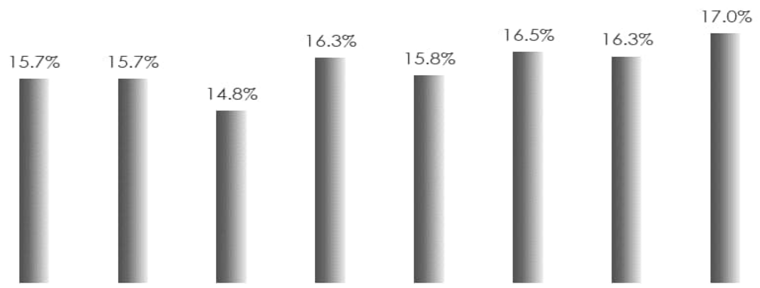
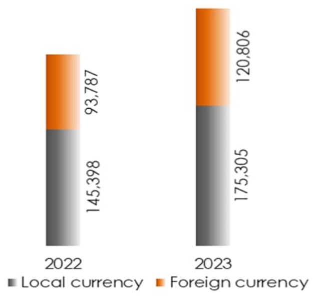
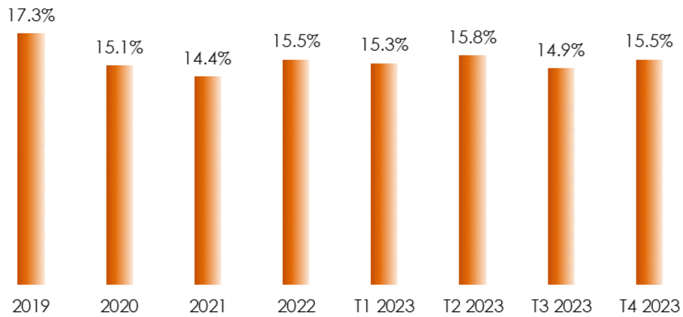


Figure 18 – Corporate deposits (in RSD million)



7 Corporate Banking (Continued)

Figure 19 – Market share of the Bank in corporate deposits



Transaction banking

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

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

The portfolio of users of the Payment Factory service (almost 100% of users from the MNK segment and one SME client) is expanding with a tendency of continuous growth and new clients in onboarding status for upcoming period.

In 2023, the share of PF accounts in the total number of MNC commercial transactions is as follows:

- In dinar PP 10,1% in the number of orders and 4,6% in volume
- In foreign currency PP 61% in the number of orders and 32% in volume

Following new trends and continuously investing in the development of better products and better payment services, we strive to create solutions to customer needs and this full commitment further strengthens our partnership with them, taking into account the continuous improvement of service quality, in order to simplify and speed up their issuance in accordance with the needs of our clients and their partners. During 2023 Banca Intesa has improved Payment Factory service by introduction of CAMT053 messages.

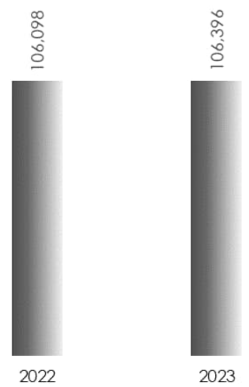
In this way, in 2022 - 2023, we managed to acquire many targeting clients through transactional banking services, who decided to do business with Banca Intesa, relying on new services, a wide global network and rich experience.

7 Corporate Banking (Continued)

Advisory approach, knowledge of market trends and efficiency in the implementation of client requirements are the key to good business and results.

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

Chart 20 – Guarantees and other commitments (in RSD million)



Factoring

Factoring operations achieved identical level of outstanding at the end of year 2023 comparing to year 2022, i.e. 106 mm EUR.

From the development activities, we would point out the following:

- Technical solution of international factoring platform is adequately aligned with Banca Intesa Belgrade requests.
- Digital Factoring Platform is implemented, onboarding of clients is ongoing

The implementation of the above mentioned new digital solutions allows the clients to perform factoring transactions quickly and efficiently, without papers.

Structured (project) finance

Banca Intesa strives to be recognized and proven on the market as a reliable partner that provides stable support to clients in project financing, i.e. financing projects with real estate and renewable energy sources. The Bank has recognized the potential and advantages of this type of financing, with the orientation of business to market leaders, and the most relevant projects and real estate and capacities in renewable energy sources. Financing is realized in accordance with the rules and principles of project financing.

7 Corporate Banking (Continued)

The focus in 2023, which will remain in 2024, was the continuity of growth and improvement of the project-financing portfolio, with careful monitoring of the results of ongoing projects. The aforementioned activities resulted to the highest historical earnings followed by new projects to be implemented in 2024 and confirmed the quality and stability of our portfolio:

- Quantitative indicators:
  - Outstanding/portfolio exposure recorded a decrease of 6.5% compared to the previous year.
- Qualitative indicators:
  - Projects record a stable business result, on a strong foundation and sustainable repayment capacity, with regular settlement of obligations of all projects / clients to the bank and without NPLs and any debt due, with a very good risk profile and diversification of project financing portfolio.

Considering all the activities from previous years, the portfolio was improved with new projects in the real estate segment (with good diversification of various projects in the area of housing and commercial real estate), renewable energy segment as well as new M&A financing in 2023Y. The total amount of financing in our portfolio is EUR 203 million, which represents a slight decrease compared to the record level of EUR 210 million, achieved at the end of 2022. The positive effects of activities in 2023Y will be visible in the coming years as well.

In 2024, the bank will strive to further increase its profitability and project-financing portfolio through the implementation of existing projects. At the same time, the Bank is increasing its presence on the market through quality new projects, which arise from market potential and upgrading of relations with domestic and international investors, increasing focus on projects in renewable energy sources, and optimization of internal processes. The focus will remain on continuous monitoring of both existing and new projects, with additional attention focused on the negative effects of global market destabilization recorded in the previous year. In the coming period, the bank will try to use any quality opportunities on the market in the M&A as well as the agency field, and improve the process of providing these services. In addition, the Bank respects and acts in accordance with the Equator and ESG principles in its operations.

EU desk

During 2023, the bank continued to use the available credit lines of international financial institutions in order to provide support to the business operations of the economy, primarily small and medium-sized enterprises, and also contracted the use of new credit lines.

In cooperation with the European Investment Bank (EIB), the Bank continued to use a credit line in the amount of 40 million euros for the recovery and support of the development of small and medium-sized enterprises, as well as enterprises of medium market capitalization, through the financing of new investments. As a continuation of the successful cooperation, a new Agreement was signed with the EIB, providing an additional 100 million euros under the same conditions defined by the previous line. In cooperation with the European Bank for Reconstruction and Development (EBRD), the Bank continued utilization of credit line in the amount of 20 million euros, contracted in 2022, from the EBRD's SME Competitiveness program, for the competitiveness of small and medium-sized enterprises.

7 Corporate Banking (Continued)

Structured (project) finance (Continued)

During 2023, new agreement was signed between the Bank and EBRD, which secured as much as 100 million euros with the aim of further joint support for the development of small and medium-sized enterprises in Serbia. As part of the financial package, the Bank undertook to develop a transition plan based on the goals of the Paris Agreement in the field of climate change, as well as to increase the level of green placements by investing at least 10% of the funds from the credit line in projects that are in line with the approach to the green transition of the European Bank for Reconstruction and Development, thereby approaching the fulfillment of the goals in the field of application of ESG principles of the parent group.

In addition, the Bank signed an agreement on a new credit line, worth a total of 20 million euros, which is part of the EBRD Program of additional support for small and medium-sized enterprises in Serbia (Reboot SME Programme), whose goal is to contribute to the recovery of business after the coronavirus pandemic. It is planned that about 70 percent of the funds will be directed to investments of small and medium-sized enterprises in green technologies and improvements in the field of improving their energy efficiency and reducing carbon emissions. The remaining funds will be used to support investments in automation, increase productivity, product quality and business safety.

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

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

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

With a total portfolio of over 1 bilion euros (in four different programs implemented in cooperation with the EIF), Banca Intesa is the absolute leader on the domestic market by regarding the size of the available portfolio, the number of supported clients, the total realized amount, but also the variety of products available through EU Programs.

7 Corporate Banking (Continued)

EU desk (Continued)

When it comes to EU programs that should succeed the existing ones and ensure continuity in the implementation of similar guarantee schemes, a new agreement between Bank and EIF was signed at the end of 2023, for a new guarantee scheme within WB EDIF Guarantee 4SME Resilience facility, which aims to improve the resilience of small and medium-sized enterprises in the face of emerging circumstances and to provide them with access to financing with reduced collateral requirements and a potential reduction in the interest rate. The new agreement enables building of a portfolio of 77 million euros, which will be secured by a first call guarantee from the EIF.

In 2023, Banca Intesa continued monitoring of loans included in the first and second Guarantee Schemes of the Republic of Serbia, within which placement was possible until the middle of 2022. Since signing the initial Agreement on Guarantee Scheme 1 with the Ministry of Finance and the National Bank of Serbia in 2020, the Bank has successfully applied for several increases in the amount of the maximum Insured Portfolio, which enabled it to place around 9,300 loans to its clients through this Program in a total amount of over 409 million euros. Through the Guarantee Scheme 2, as a measure of additional support to the economy due to the prolonged negative impact of the COVID-19 disease pandemic, as a separate Program for the support of business entities that are characterized as the most vulnerable, the Bank has placed loans with a total value of over 15 million euros.

In 2023, the bank started successful implementation of loan portfolio agreed with the American Development Finance Corporation (DFC), creating the possibility to provide guarantee support for the placement of an additional 82 million dollars for the development of micro, small and medium-sized enterprises, registered agricultural farms, as well as companies that run by women and those who do business in less developed regions in Serbia. The guarantee is provided with the strong support of the Ministry of Finance of the Republic of Serbia and in partnership with the American Agency for International Development (USAID), which promotes equal opportunities for the development of micro, small and medium enterprises in Serbia.

The arrangement in question provides a guarantee for the realization of loans for working capital and capital investments with the aim of contributing to economic stabilization after the pandemic, stimulating the creation of new jobs and economic growth, as well as strengthening their resistance to future economic changes. The total portfolio of loans covered by the DFC guarantee, which Banca Intesa will market to clients, is aimed at the agricultural sector, underdeveloped regions, companies owned by women, as well as startup companies.The success of this program is confirmed by the fact that at the end of 2023 total portfolio level reached 70 milion dollars.

8 Asset Management and Investment Banking

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

During 2023 the Ministry of Finance sold a total amount of RSD 210.78 billion of government bonds denominated in domestic currency and EUR 37.53 million of government bonds denominated in euros through primary auctions. Domestic government bonds issued in dinars in 2023 had initial maturities of 2, 8, 10 years and 12 years, while domestic bonds issued in euros had initial maturities of 2 years. Also, in 2023, two issues of Eurobonds denominated in US dollars were successfully settled on the international financial market with maturities of 5 and 10 years in the total amount of 1.75 billion dollars.

In comparison to 2022, the total turnover on the secondary market of government securities – was lower. Regarding activities in the secondary market, investors mainly concentrated on government bonds denominated in local currency. Total turnover in currency RSD in the secondary market did not exceed the amount of bonds sold in the primary auctions while in currency EUR exceeded the amount of bonds sold in the primary auctions

During 2023, Banca Intesa participated in primary auctions and in secondary market of government securities of the Republic of Serbia for its own account and on behalf of its customers, actively supporting the development of this key segment of the bond market and government fiscal policy. In this regard, Banca Intesa applied a proactive approach in informing clients about the possibilities of investing in government securities and introduced its brokerage services to all interested institutional and individual investors.

During 2023, the portfolio of the Bank remained diversified and consists of debt securities issued in the domestic market in the Republic of Serbia, in RSD and EUR currency as well as from debt securities of the Republic of Serbia in EUR currency issued on the international financial market.

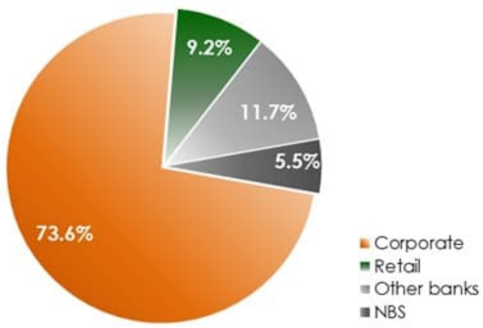
In 2023 Banca Intesa continued to be the leading bank regarding the offer of financial instruments for dinar and foreign currency liquidity management. Currency swap contracts and dinar-denominated bonds of the Republic of Serbia are available to customers, primarily intended for investors who prefer to completely or partially hedge the foreign exchange risk.

Banca Intesa retained its leading position in foreign exchange trading operations, with a market share of 13.09% in 2023. The Bank provided the EUR-NET Exchange Rate to its clients, which applies in transactions through the Intesa Mobi application and Intesa On-line e-banking service and represents the most favourable exchange rate since it follows trends in the interbank foreign exchange market in real time. During 2023, the volume of EUR-NET transactions posted a decrease of 9,23% compared to previous 2022 year due to global unforeseen circumstances in 2022

8 Asset Management and Investment Banking (Continued)

	2019	2020	2021	2022	2023
Corporate	4,418	4,004	5,591	7,260	**6,415**
Retail	492	545	623	898	**800**
Other banks	754	676	708	1,560	**1,022**
NBS	183	187	448	821	**483**
Total	5,847	5,412	7,370	10,539	**8,720**

Graph 21 – Customer shares in foreign exchange trading



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

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

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

9 Research and Development Activities

Customer Satisfaction management

The year 2023 confirmed Banca Intesa dedication to regularly research the customer experience and key aspects of satisfaction and dissatisfaction with the bank's products and services, all with the aim to achieve the vision of continuously setting higher standards in the field of customer satisfaction management. These standards provide a significant competitive advantage and represent one of the Bank's pillars for acquiring and maintaining a leadership position on the market.

During 2023, the bank conducted researches for the individual segment, small business, agribusiness and small and medium-sized enterprises with the use of proven and effective methods. Thanks to the insights into the level of satisfaction with various aspects of business, action plans were created in order to overcome the identified pain points with the ultimate goal of having a base of satisfied and loyal clients who further promote our products and services.

Thus, during 2023, the bank conducted the following researches:

- Mystery shopper, as a research method for measuring the quality of service and the level of compliance with the rules and standards set by our bank for its employees in the business network, is carried out by independent agencies that have trained "secret clients" whose identity is unknown to those among whom the research is conducted. Secret clients perform special tasks according to predefined scenarios. This type of research, among other things, allows each branch office to be viewed as a separate entity and, based on the results obtained, to initiate and implement activities that improve the quality of the service provided and, consequently, to directly influence the experience and satisfaction of clients who frequently visit these branches.

  The overall results are excellent, but with regional differences and with several recognized areas for improvement. What can be particularly highlighted is the Mortgage service model, which has been evaluated as the best practice in the ISBD group.

- Instant feedback (Bottom – Up NPS[1]) - this type of research has been continuously conducted since 2021. The specificity is reflected in the fact that the client is contacted immediately after interacting with the Bank's products and services (the so-called "touch point"), so feedback is received while the experience is still "fresh". This enables the Bank to react quickly in terms of eliminating potential causes of dissatisfaction, as well as improving the satisfaction of each individual client. In this way, the cause that led to the dissatisfaction is effectively resolved and at the same time it prevents further escalation in the direction of a potential complaint. The Instant Feedback NPS score has consistently recorded high values throughout 2023, while among the various aspects evaluated, customer advisor services scored the best results.

[1] NPS - Net promoter score is a metric used to measure customer loyalty and their willingness to recommend the bank to others.

9 Research and Development Activities

Customer satisfaction management (Continued)

- The Top-Down NPS survey has been regularly conducted since 2022 for the individuals and small businesses client segments. In October 2023 the agribusiness segment is also included in the program. The main difference compared to the Instant Feedback approach mentioned above is reflected in the fact that this approach enables the contact of a larger number of clients and the possibility for the client to answer additional questions, through which, in addition to standard NPS indicators, it is possible to obtain more detailed information about what makes clients (more or less) satisfied. For the individual segment, the NPS result in 2023 records a significant increase compared to the previous year (+11), and even more significant if we look back at another year in the past, which was particularly challenging due to the introduction of new mobile and internet banking, but also due to the continuation of stabilization of the bank's new core system (NPS result in 2023: +21 compared to 2021). The small business segment records stable results, while the agribusiness segment records very high scores of satisfaction and takes first place compared to the other two mentioned client segments.

- The surveys of customer satisfaction and loyalty of small and medium-sized enterprises recorded a positive YoY trend in all evaluated aspects. In addition to the internal research, which involves interviewing the clients of Banca Intesa, and which has been receiving high values for years, a Benchmarking survey of satisfaction and loyalty of the bank's clients and its competitors was also conducted. Through benchmarking research, a clear picture of where we are and where our competitors are in terms of the quality of the services provided is obtained. This feedback serves as a basis for identifying possible improvements and making strategic decisions to improve overall customer satisfaction. Banca Intesa records excellent results in this type of research for the small and medium-sized enterprises segment, which confirms its leadership position on the market and ranks the Bank at the top of the ranking in various research areas.

There is one thing in common in all conducted researches: clients highly appreciate cooperation with bank employees, which leads to the conclusion that the employees of Banca Intesa are BIB’s main strength.

All conducted research complements each other and enables the bank to constantly improve the quality of services provided in all aspects and business segments, as well as to provide a personalized service that meets the needs and expectations of clients.

The bank continues to proactively conduct various types of satisfaction surveys using modern methods with the aim that clients in the future, as well as up to now, will be a source of valuable feedback and therefore drivers of the bank's further development**.**

Product and service development

During 2023, BIB's development activities were focused on the development of new products and services and the improvement of existing ones, as a result of meeting the needs and expectations of clients, market development and trends on the same and in accordance with the ESG strategic goals of the Bank and the Group, with the continuation cooperation with state and international institutions.

9 Research and Development Activities (Continued)

Product and service development (Continued)

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

Small business and Agro segment

Loan for women in agriculture – Further integration of ESG principles into operations with the Agro segment of clients resulted in the introduction of loans intended exclusively for registered agricultural households run by women with the aim of responding to the specific needs of this client niche, but also strengthening the Bank's competitiveness in the part of lending to the agrarian sector. Loans can be used to finance working capital and investments and are available under more favorable conditions compared to standard loans for the same purposes.

Compared to the standard offer of loans for working capital and investments, the mentioned product will differ in terms of the price of the product for clients, which will be lower, as well as in numerous additional benefits for loan users.

Loan for young farmers – Aware of the importance of providing support to new generations of young agricultural producers for the overall development of agriculture as a strategically important branch of the domestic economy, Banca Intesa has included loans for young farmers with a pronounced ESG component in its offer. Loans for financing working capital and investments are intended for registered agricultural households whose holders are under 40 years of age and are designed in such a way as to enable them to have better access to financing through favorable borrowing conditions.

Considering the recognized needs of young farmers, the greatest interest of clients can be expected in the part of financing the lease of agricultural land (current assets) and in the part of purchasing agricultural land (fixed assets).

As with products for women in agriculture, loans differ from the standard offer in terms of a lower price for clients, as well as numerous additional benefits for loan users.

Loans with a DFC guarantee (U.S. International Development Finance Corporation) - In order to provide its clients, legal entities, entrepreneurs and registered agricultural households with even easier access to the necessary sources of financing, Banca Intesa made available to them loans for financing working capital and investments within the framework of the guarantee agreement with the American International Development Finance Corporation (DFC). Thanks to the DFC guarantee, these loans are available with a lower interest rate compared to the Bank's standard offer, as well as with relaxed collaterals.

10 Risk Management System

- *The credit portfolio quality remained stable comparing to the December 2022, if measured by NPL ratio. NPL ratio has slightly increased (from 2.65% to 2.82%) considering principal only, but it is still significantly below banking sector average.*
- *Stage 2 exposures in 2023 have stayed stable, on the level of 19% of balance sheet portfolio, in comparison to previous year. Bank has kept prudent approach during 2023 on the uncertainties related to the current economic crisis, increase of interest rates, very high inflationary pressures, energy crisis, war in Ukraine, sanctions against Russia and Belarus, and for the sake of prudent credit portfolio management and potential effects on the performance of Clients assessed as more affected to these changes.*
- *At the time of creating this Report, the Bank has not received a new Supervisory Review Evaluation Process (SREP) from the National Bank of Serbia. In the last SREP letter from May 2023 (conducted at reference date as of 31/12/2021 and taking into account Recovery Plan approved at the meeting of BoD on 16/9/2021) the risk assessment for each field of evaluation remained on the same level as it was last year (medium-low risk). National Bank of Serbia issued 3 recommendations for qualitative improvements which Bank consider as fully completed and states that it will be subject of control during the next Supervisory assessment.*
- *During 2023 PD Corporate model was re-estimated and PD SME Retail model was calibrated and expended to SB-SE clients.*
- *In 2023 NBS conducted Control of the application of regulations in the area of financial services' customer protection related to payment cards and other payment instruments, control of operational risk management with a focus on operational risk events related to misuse of payment cards and other payment instruments, and control of credit risk management with a focus on the process of approving credit cards to individuals. NBS has issued in its Report a few recommendations related to better monitoring, which the Bank shortly implemented. As a result, NBS formally sent the notice on the elimination of the remaining deficiencies mentioned in the NBS Report in October 2023.*
- *During 2023 the Bank has significantly improved and transferred part of the internal reporting related to past due analysis to Power BI Platform.*
- *The ESG risk management process was further strengthened by the implementation of internal documents that defines specific criteria for the identification of sustainable credit products and credit transactions). In addition, Committee for Environmental Protection, Social Policy and Corporate management (the "ESG Committee") has been established, a permanent consultative committee of the Bank with main objective to coordinate and manage "ESG" issues (issues related to environmental protection, social policy and corporate governance), as well as to ensure the correct implementation of the ISBD ESG strategy and the appropriate guidelines of the ISP Group at the level of the Bank. Also, the Bank, in cooperation with the Parent Bank, participates in a project aimed at creating data, infrastructure and processes for creating reports from the domain of ESG (EU Taxonomy and Pillar 3 reporting).*

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

10 Risk Management System (Continued)

Main objectives of the risk management process are related to the protection of the Bank's capital and its optimal allocation, increase in economic value for shareholders, monitoring of risk limits and/or risk measures for all identified risks. The existing system of limits, defined in the Risk Appetite Framework (RAF), gives the highest priority to the monitoring and controlling of minimum requirements related to capital adequacy, liquidity and operational risks. In addition, the RAF system covers credit concentration limits, limits of exposure to interest rate risk and funding limits. The resolvability indicators, profit stability, market and macroeconomic stability, asset quality, non-financial risks and AML represent additional RAF measures. In 2023, additional indicators were introduced within Early Warning indicators (MREL, Survival period and IT risk – incidents in the last 12 months) as well as within AML early warning indicators (Average aging of SARs[2]).

The Bank ensures the compliance of the strategic guidelines defined in the business strategy, capital plan, operating plan – budget and recovery plan, with the Bank's risk profile defined in the RAF system. The RAF limits also make an important part of the Internal Capital Adequacy Assessment (ICAAP) Report/Book, Stress Test Book and other strategic documents of the Bank.

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

In the last SREP letter that the Bank received from the NBS in May 2023 (conducted at reference date as of 31/12/2021 and taking into account Recovery Plan approved at the meeting of BoD on 16/9/2021), the risk assessment for each field of evaluation remained unchanged compared to the last year (medium-low risk). The National Bank of Serbia issued 3 recommendations for qualitative improvements, but which the Bank considers fully completed and that the same will be verified and assessed by the NBS during the next Supervisory assessment.

Within the project "AIRB Implementation" the Bank has already covered most of its credit portfolio by the internal credit rating system (corporates, small businesses, individuals). The Bank is near completed development of LGD models for Legal Entities and Entrepreneurs, whose implementation will enable the Bank to have the full insight and use these models for managerial purposes. The project was closed in January 2023 while activities related to model development, monitoring and reporting continued. As most important activities completed during 2023 we would stress: development of LGD and EAD for Private individuals, Establishment and implementation IRB data quality system, incorporating real-time rating assignment in loan approval processes.

The IRB (AIRB/FIRB) Implementation activity continued in 2023 through new initiatives of the Parent Bank updated ISP Roll-out Plan supported with introduction of Unique Platform for Credit Risk Management (UP4RM). BIB and PBZ are the pilot banks in the Unique Platform Head Office Project that provides homogeneous solution system for the entire life cycle management of credit risk models for ISBD Foreign Banks. The new IRB activities presents a challenging initiative for the Bank which implies needed strong commitment on the updated IRB roll-out timeline, with Retail (Individuals) models being priority in the first phase followed by Corporate models in the second phase. On July 2023, the Group IRB roll-out plan has been approved by the ISP HO's Board of Directors and sent for approval to the Supervisory Authority.

[2] The average age from the moment of occurrence of a suspicious event to the moment of reporting it to the Directorate for the Prevention of Money Laundering.

10 Risk Management System (Continued)

In the ISP Group plan date of submission authorization package to Regulator will be the end of 2025 for Retail regulatory class (Individuals segment) and the end of 2026 for Corporate regulatory class.

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

Credit risks

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

During the year, the Bank performed regular monitoring and reporting activities, the annual review of internal acts regulating the credit risk area and activities related to supporting the governing bodies in the decision-making process. During 2023 the Bank continued to make improvements to the risk management system.

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

Internal reassessment and monitoring of the value of real estate collaterals has been carried out. The Bank has performed internal reassessment and statistical monitoring of residential real estate. In 2023, 3,153 of real estate collaterals have been reassessed internally (with total underlying exposure in the amount of EUR 106 million) enabling them to be used for credit risk mitigation which results in decrease in provision expenses and increase in Capital adequacy of the Bank (through decrease of risk weighted assets). Internal appraiser determines the market, construction and liquidation value of the real estate by applying a "desk-top" model of revaluation to each individual real estate in the portfolio that is the subject of the revaluation. Statistical monitoring of the value of real estate collaterals is performed by applying the index of change in the value of real estate to the market value of residential real estate from the valuation of authorised appraisers. After quality controls, the final value of the property from statistical monitoring is adopted. Properties that do not pass controls are subject to revaluation by a certified appraiser. In addition to this, the Bank performed monitoring of commercial real estate collateral by applying the index of change in the value of real estate to the market value of commercial real estate from the valuation of authorized appraisers. The purpose of monitoring is to determine whether there is a significant impairment of the market value of the property that serves as collateral in Banca Intesa Beograd, if available data indicates that the value of the property may have declined materially relative to general market prices, properties are subject to revaluation by a certified appraiser. Also, further improvements of the system for consolidated credit risk and financial reporting (Finrep and Corep) to the Parent Company has been conducted.

10 Risk Management System (Continued)

Credit risks (Continued)

Improvement of the first and second-level credit controls performed by the Credit Quality Monitoring and Control Office, Credit Portfolio Analysis and Administration Department and Rating Desk, has been performed. In 2021, new tool for the second-level controls has been introduced and during 2023 further strengthened to insure effectiveness of these controls. In addition to this, a more granular assessment grid is implemented for each individual customer outcome within single name controls, and, a scoring model for calculating the overall control assessment is introduced in order to have a synthetic and homogeneous view on control results.
During 2022 the Bank has started with the implementation of the „Loan Tape“ project related to analytical reporting to the Group with additional data related to client attributes, characteristics of lending products and information on collaterals used. The Project consists of two phases and additional controlling requirements. Its full implementation is expected during 2024.

In 2023, Banca Intesa continued developing and updating its internal credit rating models for the purpose of converging to advanced credit risk measurement standards.

Revision of the PD Corporate model was done in order to consider regulatory changes with particular reference to the EBA “Guidelines on PD estimation, LGD estimation and the treatment of defaulted exposures” (EBA/GL/2017/16) and to align with methodology of the Parent Bank. During the model revision recommendation of NBS within FIRB Corporate application process were considered as well as recommendations issued by the Control Functions of the Bank – Internal Validation (IV) and Internal Audit (IA). Revision of the model includes the following changes: changing the boundaries within current list of model’s variables in order to maintain stability and business logic of variables; development new master scale; calibration model to adjust PDs to long-run default rate and qualitative questionnaire revision. The time series used for model revision were updated in order to include the data referred to the latest years. Re-estimation was completed during Q2 2023 and implemented into IT system during December 2023.

During 2023 PD SME Retail model calibration was done with the inclusion of SB-SE clients. Clients which are in single-entry bookkeeping system (SB-SE) are those which until 2019, had only income statement in the Bank’s system, while starting from 2019. have both income statement and balance sheet. Based on the representativeness, stability and discriminatory power analyses it was concluded that new application portfolio (SME Retail including SB-SE) is similar to the development sample of SME Retail and the model provides adequate performance. Model calibration and extension SME Retail model on SB-SE clients was implemented during December 2023 into IT system. With implementation these changes PD SB-SE model is abandoned.

Slotting SL and Individuals PD models were not changed in 2023. Last update of these models were during 2022.

For the purposes of approving agricultural loans, new PD RPG model was developed starting from the long list of variables. The design of the new model is the same as the current and consists of three modules:

- Module based on data from Credit Bureau;
- Module based on data from MAPS (Master Application Processing System serves as a working environment for implementing and monitoring the credit process for agricultural loans, in which RPG rating will be displayed);
- Module based on usage of BIB loan products.

10 Risk Management System (Continued)

Credit risks (Continued)

After completion testing model and comparison with current model, it will be decided whether new model will replace current one.

Within project IRB & Unique Platform for Risk Management (UP4RM) new PD, LGD and EAD models for Individuals segment will be developed during 2024 and 2025. in accordance with IRB regulatory requirements methodology of the Parent Bank.
Main activities within the project are:

- Setting up new Unique Platform environment Analytics lab for development activities and Exposure/Execution layer for models implementation;
- Data preparation - implementation and execution controls and calculation key quality indicators for certification reference data set;
- Development, validation and implementation of internal models (PD, LGD, EAD);
- Integration of internal models into all risk management processes and activities;
- Supervisory authorization phases.

The adoption of Unique Platform will enable potential savings and also the possibility to use new and innovative open-source programming languages, advanced algorithm and Business Intelligence ready-to-use solutions.

In addition to PD, LGD and EAD models the Bank updated the IFRS 9 models in November 2023 on the request of the Parent Company. The update included the following changes: transition from the "First group – First approach" model to the "Second group - First approach" for the SME Retail segment including SB-SE; re-calculation historical matrices in accordance with revised PD Corporate model ;COVID adjustment; expansion of time series data (including data until 31.12.2022); use new EBA stress coefficients values for LGD; new scenarios for PD Satellite models.
As a part of the improvement IFRS 9 methodology during 2023 the Bank works on applying new calculation for staging criteria - significant increase in credit risk (SICR) ,delta lifetime PD criteria for PD Corporate model. This methodology was defined by Parent Bank and consists of three steps:

- Determination pre-calibration thresholds
- Thresholds calibration
- Fine tuning

SICR will be implemented during 2024 firstly for PD Corporate model and later for other PD models.
The input parameters for calculating the cost of risk and cost of capital as a components for defining level of interest rates for loans to Corporate and SME and SB clients was updated in accordance with the revised PD Corporate, PD SME Retail and IFRS 9 models. These changes will be implemented during January 2024.

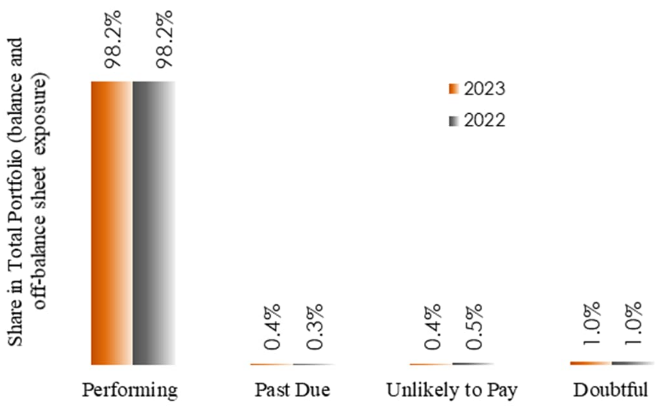
The CSA model, which was implemented last year (2022) is successfully used throughout 2023. This model assumes a structured way of granting discounts and premiums on the standard price to clients in corporate regulatory segment according to the prescribed methodology. The main strategic goals of the CSA model are encouraging lending to highly attractive clients by approving special discounts within interest rate and applying additional premium to clients with a high level of risk by increasing interest rates with add-ons. During the development of CSA model, an important variable was the assessment of ESG risks which is used in order to assess the attractiveness of sectors.

10 Risk Management System (Continued)

Credit risks (Continued)

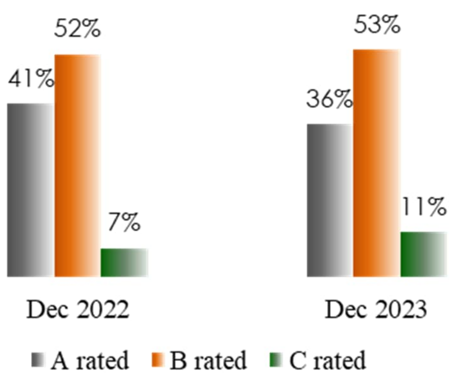
The quality of the credit portfolio is on the same level compared to December 2022,if measured by NPL ratio considering both on balance and off balance sheet exposure (from 2.1% To 1.9%), while the NPL ratio has slightly increased (from 2.65% to 2.82%) considering principal only, and it is still below banking sector average. NPL inflow (over the course of the year) mostly referred to private individuals (EUR 50.9 million, out of EUR 62.7 million). On the other hand, the inflow is largely offset by NPL collection activities (EUR 25.1 million), return to performing status (EUR 12.3 million) and transferring to off-balance sheet (EUR 12.7 million). In addition, in 2023, the level of NPL exposures in probation period that are potentially eligible for returning to Performing status after the expiration of the defined time period, increased from EUR 15.3 million to EUR 21.4 million.

Graph 23 – Credit portfolio quality by class (balance and off-balance sheet exposure)



In addition, the Bank also posted a large increase in new production, both in Retail and Corporate segments. Credit portfolio growth in the amount of RSD 66.8 ban was achieved keeping adequate level of credit risk in terms of rating distribution. Low-risk clients account for 36%, medium-risk client's account for 53%, while high-risk clients account for 11% of all internally rated clients.

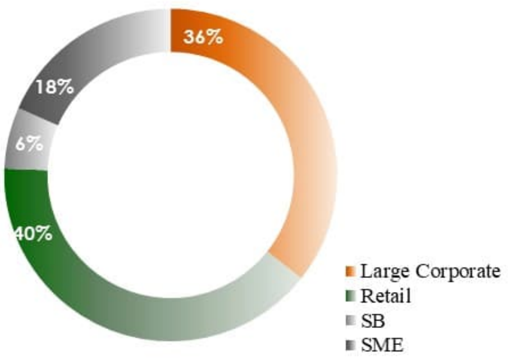
Graph 24 – Credit portfolio quality based on internal rating zones



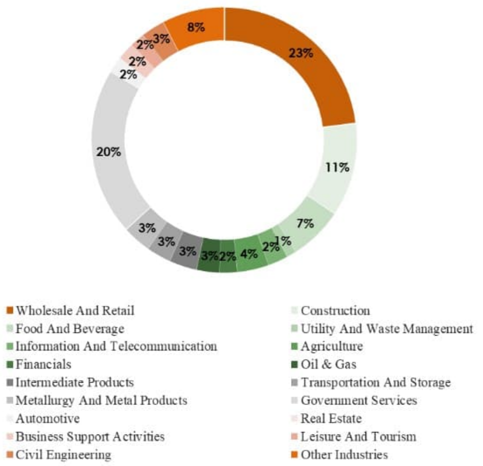
10 Risk Management System (Continued)

Credit risks (Continued)

Graph 25 – Portfolio distribution by segment



Graph 26 – Portfolio distribution by industry



Credit portfolio distribution by industry points to relatively good portfolio diversification. In accordance with the official industry classification (NACE), the largest portion of credit portfolio belongs to Wholesale and Retail (23%), Construction (11%) and Food and Beverages (7%).

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

General principles of market risk management are defined in accordance with regulatory rules, ISP Group standards, international best practices and standards, as well as internal acts. The system of market risk limits, defined in coordination with the Parent Group's relevant structures and approved by the Board of Directors, operationalises the market risk monitoring process. The system of limits is aligned with the strategic goals of the Bank, RAF system and regulatory requirements. Market risk limits utilisation is reported to the relevant functions of the Bank on a daily basis, while reporting to the ALCO

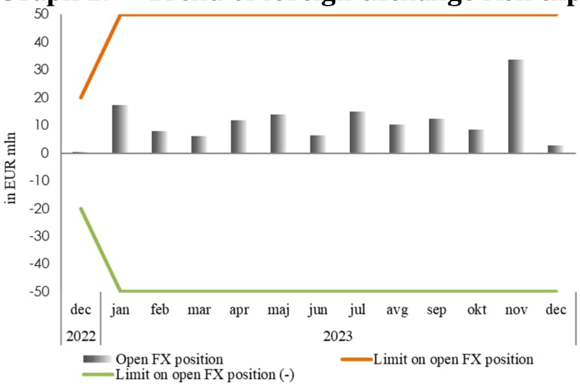
10 Risk Management System (Continued)

Market risks (Continued)

is on a monthly i.e. to the Board of Directors on quarterly level or more frequently, if necessary. The ALCO i.e. Board of Directors monitors market risk exposures on a strategic level and provides guidelines for general management of the Bank's balance sheet within its responsibility.

In 2023, the foreign exchange risk exposure was significantly below the maximum level prescribed by the regulator. Internally established limit for open foreign exchange position was increased in the first quarter of the year while limit for foreign exchange Value at Risk was not revised. The FX position limits were breached on a few occasions (primarily due to the disbursement of the loan with FX clause and conversion of funds from RSD to EUR for our clients) as a consequence of preapproved and agreed business actions requiring open FX position not to be closed immediately but in the short period of time. Limit overutilization were anticipated and made according to the procedures, with the prior approval of two Executive Board members. During 2023, the Bank was in line with the FX VaR limit.

Graph 27 – Trend of foreign exchange risk exposure



Regarding interest rate risk, the Trading Book was constantly within the defined limits for all risk measures: position, Value at Risk, duration. In the first quarter of 2023, the Trading book VaR limits were revised and increased in accordance with Parent bank proposal. These changes were adopted by the BIB’s Board of Directors.

As for the Banking Book, interest rate risk indicators were below the prescribed limits throughout the year. At the beginning of the year, the both interest rate risk limits (EVE and NII) were increased with the approval of the Parent bank and adopted by the BIB’s Board of Directors.

In the second quarter of 2023, interest rate risk measured as Economic value of equity (EVE)+100 bps increased significantly as the consequence of the increase in both duration and position of fixed rate Securities (since part of the bond portfolio matured while new bond with longer duration was bought) which had the negative effect on indicator. At the end of the third quarter of the year, the increased duration over a one-year period of the floating rate loans to customers caused by implementation of new decision issued by National bank of Serbia (which caps the floating interest rate for mortgage loans until December 31st 2024), resulted in negative effects on the indicator.

Until the end of third quarter of 2023, the Net Interest Income (NII) limit utilisation remained nearly the same as the previous year, inside the prescribed limit. At that point, the introduction of a new National Bank of Serbia decision that caps the floating interest rate for mortgage loans until December 31st 2024, had a considerable positive effect on indicator.

10 Risk Management System (Continued)

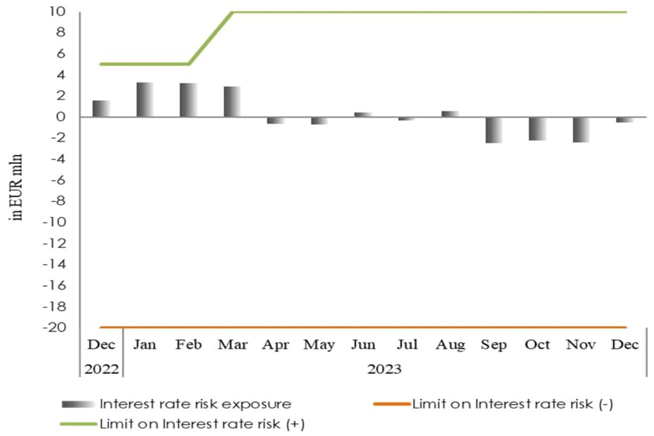
Market risks (Continued)

Namely, the impact of the decision was reflected in decrease in the position of floating rate loans to customers in the time buckets up to one year (which is included in the scope of the indicator) as a result of an increase in the duration of mortgage loans caused by repricing movement over a one-year period.

During 2023, the Bank was in line with the HTCS VaR limit. The greater utilisation of the HTCS VaR limit was recorded in the first half of the year then gradually decreased until it reached a minimum at the end of the year which was at the same level as it had been before Russian – Ukraine crisis. A similar trend had the Total (Trading + HTCS) VaR indicator. In the 2023, Parent bank revised and increased both HTCS and Total (Trading+HTCS) VaR limits.

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

Graph 28 – Trend of interest rate risk exposure



Liquidity risk

The Bank's adequate liquidity position, supported by suitable liquidity reserves/HQLA and the significant contribution from the large customer deposits base, remained within the risk limits (regulatory ones and those defined by the Group) during the whole 2023. The main liquidity indicators, LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio), were well above the minimum requirements which confirms the solidity of the Bank's liquidity position. Level of LCR indicator measured according to local regulation was also highly above the regulatory limit of 100% (in average close to two times). Although there are some methodological differences, the indicator required by NBS (LCR_NBS) followed the same trend as the LCR ratio which is calculated in accordance with the request of the Parent bank.

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

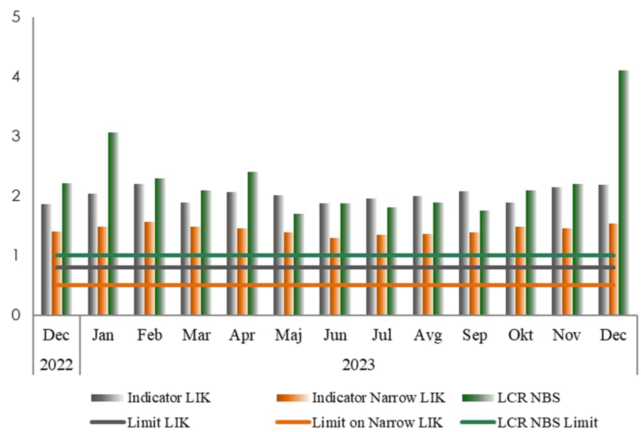
10 Risk Management System (Continued)

Liquidity risk (Continued)

At the end of December 2023, the amount of liquid reserves/HQLA was at high level which together with large deposits base (retail deposits have significantly increased despite high uncertainty due to negative effects of inflation and energy crisis followed by the conflict in Ukraine on the economy, along with registered strong steady growth of newly acquired corporate deposits) provides strong liquidity support. However, all the necessary preventive management and control measures are in place to detect any signs of potential exacerbation of liquidity conditions. Due to remained volatility in the global economy emerged as result of pandemic and Russian Ukraine crisis, the Bank withdrawn long term subordinated loan and MREL senior loan from the Parent bank as precautionary measures in order to preserve strong liquidity indicators and

even strengthen overall Bank's liquidity position. Experience demonstrated the importance of liquidity monitoring in stress situations, especially in these days caused by COVID-19 and Russian Ukraine crisis. For that purpose besides annual liquidity exercise which lasted five consecutive days at the end of October 2023, and was monitored by the ECB, as of September 2023 SSM Liquidity Exercise is performed on weekly basis in accordance with ECB requirements. The exercise assesses the Bank's overall liquidity position which is at a satisfactory level and it is conducted for the purpose of consolidated reporting to the European Central Bank.

Graph 29 – Trend of regulatory liquidity indicators



Operational risks

Operational risk represents the risk of possible negative effects on the bank's financial results and capital due to omissions (unintentional and intentional) in the work of employees, inappropriate internal procedures and processes, inadequate management of information and other systems in the bank, as well as due to the occurrence of unpredictable external events. This definition also includes legal risk.

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

Banca Intesa complies with the requirements related to the regulatory capital defined by the NBS and applies a standardised approach to the measurement of capital requirement for operational risk.

10 Risk Management System (Continued)

Operational risks (Continued)

Operational risk identification, assessment and monitoring are undertaken through the process of collecting data on operational risks/losses and the process of assessment of exposure to operational risk.

Data on operational risks/losses are analysed on a monthly basis, while the process of assessing the exposure to operational risk (Self-Diagnosis) is carried out once a year, including a subjective assessment of operational risks for the period of 12 months.

Various scenarios are analysed and the possibility and frequency of occurrence of operational risk are assessed, as well as the average and the worst possible loss in case of occurrence of each scenario. The process of operational risk exposure assessment also includes an evaluation of the business environment through an analysis of the level of risk factor management, identification of potential critical operational issues and mitigation actions proposed to reduce the operational risk exposure. The process also encompass ICT risk analysis, which applies to infrastructural services, IT governance, the Bank's applications, information security and business continuity.

By applying an advanced measurement model, the Parent Company calculates the level of expected and unexpected operational losses, i.e. the level of capital required to cover operational risks.
Exposure to operational risks is also monitored and controlled through RAF (Risk Appetite Framework) limits. Within the RAF, two limits refer to Operational risks:

• Ordinary events – the limit is set on the indicator of losses due to operational risks that have been booked during the previous year and that have occurred in the previous five years.
• Large event – refers to individual events that exceed the set limit. The bank has set the limit at 0 (zero) - it has no tolerance for losses that occurred as a result of operational risk events over the defined threshold.
Both RAF limits are in the group of Top of the House limits, which represent Hard limits for which escalation plans with urgent deadlines are provided.

Both RAF limits are in the group of Top of the House limits, which represent Hard limits for which escalation plans with urgent deadlines are provided.
During 2023, there was no breach of the RAF limit and the utilization of the Ordinary Events limit was at a relatively low level throughout the year.

Based on controls of ECB Joint Supervisory Team performed in the Parent Bank, related to Conduct Risk, some inquiries regarding the treatment of lawsuits related to the Loan processing fees and NKOSK cases have been made to BIB. Parent Company required to treat all those cases as two macro-events (Loan processing fees and NKOSK fees) and consequently to aggregate losses for each macro-event. Previously we have treated each lawsuit as an independent case. This methodological change could affect utilization of Large events limit.

During the year National Bank of Serbia's conducted control of the application of regulations in the area of financial services' customer protection related to payment cards and other payment instruments, control of operational risk management with a focus on operational risk events related to misuse of payment cards and other payment instruments, and control of credit risk management with a focus on the process of approving credit cards to individuals. National Bank of Serbia in its Report has issued a few recommendations related to better monitoring which Banca Intesa Belgrade shortly implemented. In October 2023, the National Bank of Serbia formally sent the notice on the elimination of the remaining deficiencies mentioned in the NBS Report.

10 Risk Management System (Continued)

Operational risks (Continued)

Operational risk management system is additionally monitored through set of Key Risk Indicators (KRI). It is an early warning system for operational risk that should support a timely identification of increased operational risk and allow preventive actions that could mitigate identified risks. KRI indicators are updated once a year and more often if it is necessary.

The Bank prepares monthly and quarterly Report related to management of Operational risks.

The Risk Management Department regularly reports to the Operational Risk Committee, Executive Board, the Board of Directors and the Parent Company on operational risks and measures for their mitigation.

11 Events after the Reporting Period

There have been no significant events after the reporting period, which would require disclosures in the Notes to the Financial Statements of the Bank as of and for the year ended December 31st 2023.

12 Non-financial Statement

12.1 Introduction

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

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

The Highlights on CSR activities represent an overview of Bank's governance model and strategies, selection of the most relevant activities and results achieved by the Bank within its sustainability conduct, with special emphasize on employee related and environmental topics.
Data presented in CSR Highlights relate to the most relevant CSR activities of Banca Intesa a.d. Beograd for the year 2023. Wherever possible, comparative data for previous years (2022, 2021) were provided as well, thus ensuring timeliness and comparability of the applicable data.

12.2 Sustainability context and materiality topics

The selection of indicators presented in this CSR Highlights are chosen by their relevance according to the Serbian reference legislation and their representativeness and with respect to the material issues identified by Intesa Sanpaolo[3], and are therefore presenting the selection of priorities for the Bank, but also for the Group and its stakeholders.

12.3 Integrity in corporate conduct

The values in which Banca Intesa believes and to which is committed, as well as the principles on which its relations with stakeholders are based, are defined in the Bank's Code of Ethics. In 2023, a new version of the Code of Ethics was adopted in accordance with the recommendations of the ISP.

The Code of Ethics represents the embodiment of corporate culture, and a fundamental document that contains principles, values and obligations, which all employees of Intesa Sanpaolo Group and Banca Intesa Beograd are obliged to adhere to in their work and activities. Emphasizing and promoting behavior that is in accordance with the highest international and national ethical standards, we affirm that people are our most valuable asset and our main competitive advantage in the market, as their behavior, activities and relationships shape our corporate culture, our strategy and future.

The new Code of Ethics is richer in its content, and additionally reminds us of our new corporate mission - full commitment to sustainability, principles of equality and inclusion, avoiding any form of discrimination, and our commitment to combat climate change and support the transition to a circular economy.

In addition to basic value principles, the Code of Ethics introduces us to the ethical principles on which we base our relationship with all stakeholders, clients, colleagues, suppliers, as well as the standards we adhere to in our approach to the environment and the local community where we operate.

[3] Read more: https://group.intesasanpaolo.com/en/sustainability/cnfs

12 Non-financial Statement (Continued)

12.3 Integrity in corporate conduct (Continued)

The Code of Ethics is a management instrument that prescribes standards of conduct that all employees and all organizational units must observe in order to maintain the stakeholders' trust. All Bank employees, as well as customers, suppliers and other external stakeholders who notice any behavior or activity that might represent a breach of the principles prescribed by the Code of Ethics may submit a non-compliance report.

This process is regulated by the Procedure for Managing Reports of Non-compliance with the Code of Ethics, adopted by the Bank in 2011. During 2023, the Bank received 2 complaints from external or internal Stakeholders related to the Bank's Code of Ethics and it was confirmed that there was no violation of standards concerning Human Rights related issues.

When combating potential frauds, the internal regulations that govern the control system and mitigate corruption risk comprise, beside the Code of Ethics: the Code of Conduct, the Prevention and management of fraud in Banca Intesa Beograd Policy, Prevention and Management of Service Fraud Rulebook, as well as procedures Fraud Incident Management Procedure and Fraud Risk Assessment Procedure, which defines operational steps in case of suspected fraudulent activities.

Internal governance framework is based on Group's documents - General security rules for the protection of the information assets, Security rules for preventing and managing service frauds as well as Cybersecurity and BC Services-Security Fraud Management Process Guide.

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

Process of fraud incident management is responsibility of the Fraud Prevention Office that analyzed a total of 133 suspected frauds in 2023, out of which 104 incidents were proven frauds - 7 internal and 97 external.

In 2023, the Bank has not been involved in any external investigations related to corruption and bribery.

In 2023, in total 2804 employees participated training on prevention of bribery and anti-money laundering and reached 27080 training hours. In the same reporting period, number of BIB staff who have received training on prevention of corruption and bribery was 2706 achieving in total 10477.5 hours of training.

During 2023, ISP Group has issued updated version of policy "Anti-Corruption Guidelines". Compared to the previous version, the local legislation was updated in order to comply with the technical changes of the ISP document, and it did not have a material impact on the corruption risk management process.

12.4 ESG Governance in Banca Intesa

The Bank's climate strategy is based on the strategy adopted by the ISP, which is based on a clear awareness of the risks of climate change (transitional and physical), as well as on the opportunities that arise in connection with them.

The Bank has committed to:
- adheres to the general principles and strategies set by the ISP and carries out all activities in accordance with the possibilities of the implementation to the extent possible and permitted by the existing

infrastructure and available resources, relying as much as possible on the instructions and expertise of the ISP;

12 Non-financial Statement (Continued)

12.4 ESG Governance in Banca Intesa (Continued)

- integrates ESG factors and corresponding risks into its risk management processes;
- implements and integrates the Equator principles;
- promotes the offer of sustainable products in order to encourage the wide use of renewable resources and energy, improve energy efficiency and contribute to the fight against climate change;
- always assesses and considers environmental impact when developing policies, products and services, and directs attention to climate change in important mitigation initiatives to support the transition to a low-carbon economy;

The Bank's decisions on long-term investments and credit placements are guided by the need to ensure:

- Social and environmental sustainability of financed projects, from the aspect of their long-term impact on the global community and the environment;

- Avoiding any danger to the internationally recognized and proclaimed rights of employees, their health and safety;

- Positive effects of projects on the preservation and development of local communities;

The Bank has defined corporate authorities and internal management structures for managing ESG risks in terms of the defined competencies of the Board of Directors, the Risk Management Committee, the Audit Committee, the Executive Board and other relevant functions of the Bank. The Bank defined in its internal acts which organizational parts are responsible for the development, implementation, management and improvement of internal tools and systems for measuring and controlling exposure to ESG risks.

In July 2023, the Bank established the Environmental Social and Governance Committee (ESGC). The ESG Committee is a permanent consultative committee of the Bank with the authority to make decisions within its competence, with the main objective to coordinate and manage issues related to environmental protection, social policy and corporate governance, as well as to ensure the correct implementation of the ISBD ESG strategy and the corresponding ISP guidelines at the level of the Bank.

Additionally, of the ESG Manager is responsible for the coordination of ESG activities performed at the local level. The ESG Manager should ensure the expected performance / achievements and results in the application of ESG principles.

During 2023, two sessions of the ESG Committee were held.

At the operational level, a decentralized organizational approach is implemented, with the opening of an ESG project and with project participants who regularly monitor all initiatives undertaken with the aim of implementing ESG principles in the Bank’s operations. The ESG project was opened in May 2023 and primarily gathers over 20 employees of the Bank from different organizational parts related to ESG implementation divided into 4 key areas:

- ESG Data & Reporting
- ESG Business initiatives and goals
- GAP analysis (ECB and EBA)
- Management, Human Resources & other initiatives

12 Non-financial Statement (Continued)

12.4 ESG Governance in Banca Intesa (Continued)

The ISP defines and directs the framework that needs to be implemented and established, regarding the management of ESG risks, and in accordance with the requirements of the European Central Bank under whose supervision it is.

During 2023, the Bank adopted up-to-date internal acts on which the integration of ESG principles in business and the framework for managing ESG risks is based, such as: Management of Environmental, Social and Governance (ESG) risks, ESG Risk Management procedure and Rules for classification of sustainable credit products and transactions rulebook. The Bank's new Code of Ethics was also adopted, which defines the key values and principles on which the Bank's operations are based. The Rulebook - Rules for approving new products, services and activities was adjusted and

adopted as well, with the aim to among other things, defines the integration and assessment of ESG components during the process of approving and changing the characteristics of the Bank's products.

At the ISP Group level, the design of the ESG/climate credit framework was completed in 2022, defining a new credit decision-making model – based on the evolution of the credit framework, which includes climate/ESG components applied to the entire credit offering. In this way, the integration of ESG/climate metrics, i.e. ESG sector strategy, ESG scoring and the framework for the classification of sustainable credit products, is ensured, in the context of the complete credit framework, i.e. risk appetite framework, credit risk appetite (CRA), credit strategies and decision-making processes.

Due to data and system availability limitations, the ESG/climate credit framework has been implemented in the Bank through a temporary solution that applies to exposures that are subject to the ISP advisory opinion above defined materiality thresholds. For clients and placements outside that perimeter, the Bank has also defined a way of approaching and assessing ESG risk based on ESG sensitivity of industries and ESG industry strategies.

On the one hand, by incorporating the ESG component of the industry into the framework of credit strategies, the Bank directs its credit activities in the direction of stimulating industries that do not have a negative environmental impact that is, disincentivizing and limiting the financing of those industries with greater estimated pollution effects.

On the other hand, within the RAF limits defined by the ISP Group and applied by the Bank, specific protective measures have been defined, translated into specific risk controls for the sectors that are most exposed to ESG risks. In this sense, the rules for the financing of those industries have been specifically defined, and those provide guidelines for limiting or excluding financing activities in correlation with high pollution potential.

In terms of credit risk, the Bank considers climate and environmental risk factors in assessing the creditworthiness of clients and in the loan approval process, ensuring their monitoring within its own portfolio. As part of the lending process, an ESG risk assessment process has been established to ensure that the Bank does not finance projects that have a significant negative impact on the environment. In the context of reputational risk, the Bank pre-evaluates potential ESG and reputational risks through the established two-stage ESG and reputational clearing process.

In accordance with the strategic commitment to promote the offer of sustainable products, the Bank is actively working on the development and improvement of the offer of its products that have integrated components of sustainability. In order to ensure greater transparency in terms of products and

12 Non-financial Statement (Continued)

12.4 ESG Governance in Banca Intesa (Continued)

transactions that are considered sustainable, the Group prepared Rules for the classification of sustainable credit products and transactions, which the Bank also adopted. These rules provide a framework and criteria that products and transactions should meet in order to be considered and internally labeled as sustainable.

ESG KPIs: In 2023 quantitative targets related to the achievement of ESG goals are included in the evaluations of the results of managers from both business and management segments of BIB Group.

Extending value through the supply chain: During 2023, the Bank had 1175 suppliers in its register, of which around 96% were local. All suppliers were required to fill out questionnaires on the new Supplier Portal, where some of the criteria were linked to the ESG performance of the suppliers. In accordance with the local Procurement Procedures, suppliers are obliged to answer all mandatory questions; otherwise, they cannot complete the registration or continue with the procurement process.

12.5 Employees

Respecting the rights of employees, investing in the development of their professional qualifications and creating a work environment in which employees feel comfortable and motivated to contribute to the achievement of common goals is a strategic commitment of Banca Intesa. Therefore, the Bank continuously develops programs and initiatives with the aim of empowering its employees and providing them with new opportunities for professional development but also personal welfare.
All employees in Banca Intesa are covered by the Collective Bargaining Agreement, regardless of whether they are trade union members. On 31.12.2023 Banca Intesa had 332 employees who were registered as members of trade union.

- **Table 1- Employee's breakdown by category, gender and age**

			2022			2023	
Role	**Age**	**Male**	**Female**	**Total**	**Male**	**Female**	**Total**
	0-30						
Management	***31-50***	17	18	35	18	16	34
	51-70	1	3	4	1	5	6
		18	**21**	**39**	**19**	**21**	**40**
	0-30	2	2	4	2	4	6
Middle Management	***31-50***	125	178	303	115	171	286
	51-70	19	44	63	18	45	63
		146	**224**	**370**	**135**	**220**	**355**
	0-30	95	412	507	109	422	531
Employees	***31-50***	411	1,337	1,748	383	1,356	1,739
	51-70	92	305	397	105	309	414
		598	**2,054**	**2,652**	**597**	**2,087**	**2,684**
Total		**762**	**2,299**	**3,061**	**751**	**2,328**	**3,079**

12 Non-financial Statement (Continued)

12.5 Employees (Continued)

- **Table 2- "New employee hires by gender and age"**

Age	Female	Male	Total
<=30	166	49	215
>50	7	4	11
31-50	136	52	188
Total	**309**	**105**	**414**

- **Table 3 – "Number of terminations by gender and age"**

Age	Female	Male	Total
<=30	84	27	111
31-50	150	74	224
>50	46	15	61
Total	**280**	**116**	**396**

- **Table 4 - Employee's breakdown by qualifications**

Qualification level	Up to 30 years	30-40 years	40-50 years	50-60 years	Over 60 years	TOTAL
I						0
II						0
III	2	0	8	10		20
IV	198	141	193	174	21	727
V	0	2	1	4	0	7
VI	283	408	363	109	10	1173
VII/1	54	290	637	136	16	1133
VII/2	0	1	11	2		14
VIII			4	1		5
Total	**537**	**842**	**1,217**	**436**	**47**	**3,079**

Diversity and Inclusion

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

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

12 Non-financial Statement (Continued)

12.5 Employees (Continued)

Diversity and Inclusion (Continued)

On this regard, on 31.12.2023 Banca Intesa had in total 4 employees (1 male and 3 females) belonging to protected categories (e.g. people affected by disability, etc.).

Aiming at further strengthening of Bank's business agenda focused on more Inclusive workplace, in July 2022, BIB has signed the first Protocol on cooperation with the Association of students with disabilities, which was also valid in 2023.
ASD members are enabled to accesses BIB's base of open job positions and to upload professional resumes. Also, ASD's membership will be enabled for professional internship in BIB.

In May 2023, the Bank adopted a new regulatory document „Remuneration Policy" which, as one of the most important strategic acts, defines, among other things, the conditions and principles of exercising the right to salary, elements of salary and other important preconditions for the payment of additional financial incentives for all employees.

In accordance with the principles of equal opportunities for all and acceptance of diversity (Diversity and Inclusion Principles), which represent one of the fundamental values of our Bank, the Board of Directors will pay special attention to the balanced gender neutrality of the salary policy at all levels of the company, with the aim of completely eliminating possible differences in earnings due to the gender of the employee (gender pay gap).

In December 2023, Banca Intesa Beograd received the "Family-friendly 2023" award in the category of large companies by the Ministry of Family Welfare and Demography, and the Serbian Chamber of Commerce (PKS).

The recognition was given on the basis of a series of programs and projects implemented by the Bank with the aim of improving the well-being of employees and their families, including flexible working hours, health benefits package, support for parents of newborn babies, the possibility of intercultural programs for students, scholarship programs for employees' children, sports summer camps, as well as numerous initiatives dedicated to physical, psychological and emotional well-being of employees.

12.5.1 Work environment

The Bank applies the Rules of the Intesa Sanpaolo Group when it comes to occupational health and safety management systems, and manages activities related to this topic in close cooperation with the ISP. This area is defined at the local level by the Collective Agreement, the Rulebook on Safety and Health at Work, as well as the Act on Risk Assessment at Workplaces and the Working Environment of Banca Intesa Beograd. All activities within health and safety area are in the scope of specially appointed Officer for health and safety (within BIB's Security and Business continuity management Department) and in line with the parent company's strategy to implement management systems that are consistent with ISO 45001 international standard requirements and appropriately customized in accordance with the referent national regulation.

12 Non-financial Statement (Continued)

12.5 Employees (Continued)

12.5.1 Work environment (Continued)

In 2023, a total of 11 injuries were recorded in BIB (8 female and 3 male employees). It represents sum of employees' injuries per event, occurred during the reference period, including those occurred during working hours (6) and when commuting (5). In 2022, Mandatory training on Operational Health and Safety was locally provided for all Banca Intesa employees. In 2022, a total of 950 hours of mandatory training in the field of health and safety were realized, attended by 414 new employees.

New health benefit for employees

In 2023, the bank provided the benefit of private health insurance for all employees with contract concluded for indefinite period of time, including colleagues who are on probation work. The benefit is available in the Generali clinics network at over 900 locations in Serbia, covering the geographical spread of the Bank's branch network.

All colleagues who are employed for an indefinite period (including those who have successfully completed the probation period) also have access to the International Health Program, which is provided with the support of ISP group. This benefit program has been available to employees since 2017 and covers insurance and full medical and logistical assistance to colleagues in unfortunate cases of the most serious illnesses. It provides the most modern medical practice and adequate treatments in medical centers around the world, as well as assistance of an experienced and dedicated medical team, which takes care of the entire process, costs and accompanying logistics of the treatment.

In addition to the above, in 2023, the Bank provided special days for taking care of the health of our colleagues by organizing ultrasound prostate and breasts examinations in Belgrade, Novi Sad and Niš.

12.5.2 Employee growth and development

Training hours 2023		
Category	**Male**	**Female**
Manager	2.792,5	1.125
Officer	11.907,5	22.745
Employees	70.280	239.910
In total	**348.760**	

Gender		
Category	**Male**	**Female**
Manager	19	20
Officer	135	217
Employees	578	1929
In total	**2898**	

On the initiative of the Parent bank, a new distance learning platform named LEA was launched in the Bank in March 2022. LEA provides access to the knowledge base in 11 local languages. Access to 35 different educational and developmental e-learning streams divided into mandatory and training for specific business roles is provided or the total BIB population.

In 2023 and for the fifth time in the row, the bank organized the BIB Future Gen program, providing 19 graduates and final year students with no work experience the opportunity to acquire knowledge, through mentorship and structured development path, through a six-month internship in Banca Intesa.

12 Non-financial Statement (Continued)

12.5 Employees (Continued)

12.5.2 Employee growth and development (Continued)

Number of unique emloyees per program in 2023	
Data academy	146
Agro Academy Professional	18
Mokra Gora – team workshops	179
Future Leaders	20
Risk academy	22
Lead 4 Future	27
COO Academy	39
BIB Future Gen	19
BIB DNA	46
BM Leadership program	150
Magnifica Excellence	67
Small Business Academy Professional	16
Small Business Academy Basic	32
Individual Developmental Assessment (Hogan)	277
Individual Developmental Assessment (360 Assessment)	176

The ESG training and educational plan continued in 2023, both for relevant ESG-related functions and for the general population in the Bank. A total of 20 different ESG training sessions were created, including 1,139 participants in total. The total number of hours of ESG training in 2023 is 8,609 hours.
In the course of 2023 we have implemented several leadership development programs based on the ISP leadership competency model. Namely the Lead4Future, COO Academy, CRO Academy, BM Leadership program and Division Intelligence programs (Individual Developmental Assessment).

Within the Data Academy, 13 programs were realized with a total of 146 unique participants.

The development of the small business segment is supported through the Small Business Academy (basic and professional) and the Agro Academy (basic). Basic academies contain 3 modules each, while professional contains 2 modules, all covering 66 employees.

As part of the development program for Magnifica advisers, the "Magnifica excellence" program was implemented in 2023. containing five modules for 67 advisers. The program was based on developing skills in negotiation, communication, knowledge of financial markets and investment funds.

In 2023, the BIB DNA program - a talent program for key positions and employees was created and implemented. Through BIB WAY and BIB WORLD it aimed at developing the soft skills of the participants, but also providing a broader picture of the Bank's operations. 46 employees completed the program.

12 Non-financial Statement (Continued)

12.5. Employees (Continued)

12.5.3 Quality and Innovation

During 2023, Banca Intesa Beograd launched an initiative for the application of agile ways of working in the realization of requests for ICT changes, as well as in the realization of projects in general. We started with the agile methodology at the beginning of the year in the implementation of requests for certain ICT changes, while in the middle of 2023 two newly launched projects - Paperless Branch" and "Delivery of cards to home addresses" - were chosen as pilots for the application of agile methodology. As part of the "Paperless Branch" project, we had first production of the functionality for the gateway, for which the client's data, instead of using numerous papers, are entered directly into the application while the client is in the bank and signs them with the help of ConsentID. The process of applying the agile way of working was accompanied by appropriate agile trainings for colleagues who work in accordance with agile principles.

12.5.4 Employee Wellbeing

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

As part of the cooperation established in 2022, the UNICEF and the Bank conducted the very first regional survey on assessing employee’s needs for family-friendly practices, their awareness and satisfaction with the existing activities implemented by the Bank. Based on the results received from this survey, as of June 2023, we realized ThinkUp workshops - a series of discussions with external experts from various fields. Through the ThinkUp concept, we covered numerous topics such as emotional and social intelligence, parenting, how to encourage innovative, entrepreneurial spirit, employee well-being and many others.

With the aim of supporting a corporate culture based on a substantial balance between private and work life, as well as the right of each our team member to devote the same amount of time to the family role and personal goals, at the end of 2023 we adopted new amendments to the Collective Agreement, aligned with our Business Plan 2022- 2025, and additionally expanded three groups of benefits for employees:

1. Increased number of days of annual leave
2. Extended use of paid leave
3. Improved of family-based benefits

ThinkUp: In cooperation with UNICEF, as part of the program "Parenthood is a gift for the whole life", we organized five internal workshops on the topic of parenthood. The fourth was attended by UNICEF ambassador, Ana Ivanovic, mother of three boys and former tennis player, who shared her perspective on parenting with the attendees, as well as the importance of parent education.

12.6 Environment

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

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

12 Non-financial Statement (Continued)

12.6 Environment (Continued)

In line with its commitment to achieve extraordinary business results with full compliance in line with the sustainability principles, Banca Intesa continued to improve its standard practice in the field of environmental protection in 2023, as well. Accordingly, during previous year, environmental protection became one of the strategic areas of Banca Intesa's activity in the field of sustainability, in two priority aspects: Responsible resource management and Responsible financing.

12.6.1 Responsible resource management

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

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

Table CSR 2 - Main indicators tracked In BIB

	2020	2021	2022	2023
Total water consumption (m3)	43,377	35,130	41,233	33,950
Paper purchased (ton)	213	207	223	231*
Total energy consumption, kWh*	10.084.951	10.159.451	9,557,198	8,209,829
Energy from renewable Sources (% renewable electricity consumption vs total)	27.0%	29.0%	86.0%	86%

Total waste generated (ton)	**2020**	**2021**	**2022**	**2023**
Hazardous	23	19	14	13
Nonhazardous	17	20	16	16
Total	**40**	**39**	**30**	**29**

In line with the approach of its Parent company, Banca Intesa Beograd manages direct and indirect impacts of the Bank according to Rules for Environmental and Energy Policy, released by the Parent Company in 2014 and adopted by Banca Intesa Beograd in March 2015. As part of the initiatives aimed at responsible procurement and use of goods and services, and based on Parent Bank's approach, the

12 Non-financial Statement (Continued)

12.6 Environment (Continued)

12.6.1 Responsible resource management (Continued)

Bank aligns with the Green Banking Procurement Rulebook, which defines the minimum criteria that should be respected in the process of procurement of certain categories of products aimed at improving compliance with environmental and social standards but also responding to the need to rationalize consumption.

Aiming to contribute to the responsible consumption of resources, we marked the World Environment Day in June 2023, with an internal initiative - a competition based on a collection of plastic caps called "Small Gestures, Big Deeds" Q. The celebration of this important world day was just an additional incentive to achieve even better results in the action that we have been a part of for years. Thanks to the dedication of our colleagues from HQ building, we successfully cooperate with the organization "Čep za hendikep" by collecting 77 kg of plastic caps.

In October 2023, Banca Intesa Beograd, together with other members of the Bank's ISBD division, celebrated the International Food Loss and Waste Awareness Day, aiming to better understand the problem of food loss and its global implications. Our employees were enabled to participate in the webinar, initiated by the Group and held by Dr. Segrè, professor of international agricultural policy at the University of Bologna.

The Bank applies Group Rules that regulate sustainability in the organization of communication events, courses and trainings. Accordingly, during the organization of the event, the Bank sends invitations only electronically, both for internal and external parties. Invitations for 100% of communication events in 2023 were sent in electronic form.

The Bank continued with an active promotion of both-sided printing, as well as black and white printing in all business processes. Only small amount of specific materials for external and internal usage was one-side printed due to promotional/business reasons.

When it comes to mobility initiatives in 2023, the Bank's fleet was optimized during 2023 by replacing 51 vehicles with gasoline vehicles with Euro 6 standards of European quality, which brought the total number of gasoline vehicles to 55 (36% of the fleet). It is planned to continue in this direction in 2024.

12.6.2 Responsible financing

When it comes to responsible financing, the Bank is committed to integrating environmental and social criteria in its business decisions in order to contribute to reducing adverse impacts its customers' operation may have on the environment and society. This obligation is confirmed by the local implementation and adoption of the Parent Company's policies that regulate the application of advanced ESG risk assessment practices in lending processes.

During 2023, Banca Intesa Beograd adopted the updated "Group Guidelines for the Management of Environmental, Social and Governance Risks (ESG)" which, together with the accompanying rules on credit operations in the coal sector and rules for credit operations in the unconventional oil and gas sector, form part of the general framework for managing ESG risks. During 2023, the Rules for the Classification of Sustainable Credit Products and Transactions were adopted and a marking and reporting system for internally classified sustainable products and transactions was established.

12 Non-financial Statement (Continued)

12.6 Environment (Continued)
12.6.2 Responsible financing (Continued)

On the one hand, the Bank has defined general exclusion principles for financing (so-called business activities that the Bank does not support) for certain activities with a particularly high negative environmental or social impact. On the other hand, the Bank, in cooperation with the Parent Company, as well as international financial institutions, promotes projects that achieve a positive impact on environmental protection by providing financial incentives, both through more favorable interest rates and through the possibility of returning part of the funds.

During 2023, the Bank received from the Parent Company defined goals regarding the participation of sustainable products in total new production:
• ESG new production KPI - total new production in the Retail and Small Business Division– 6.2%
• Social financing KPI in the Retail and Small Business Division - new production RSD 6,474 million (approx. EUR 55 million)
• ESG new production KPI / total MLT new production in the Corporate and SME Division – 6%
• KPI Circular Economy and Green Credits plafond – RSD 2,354 million (approx. EUR 20 million).
All KPIs) were achieved by the end of 2023.

The EBRD Program to support the competitiveness of small and medium-sized enterprises aims to strengthen their competitiveness by providing incentives for investments that are necessary to increase their productivity and competitiveness, improve production capacities and strengthen processes and product quality through the introduction of EU standards in the field of environmental protection, product safety and safety and health at work. Projects within this credit line in 2023 were investments in industrial plants, equipment, as well as investments in software, improvement of the company's management system and general modernization for the purpose of enhanced compliance with one or more European Union directives in the field of environmental protection, health and safety of workforce and production quality. During 2023, around EUR 11 million was released through the SME Competitiveness Support Program.

The KFW Green Program is intended for the promotion of environmental protection projects, pollution reduction and energy efficiency. The implementation of the Program was launched at the beginning of 2023, and by the end of it, approximately EUR 8 million was distributed to clients primarily from the public sector and to a lesser extent from the private sector. The most frequently funded projects were related to waste management/pollution reduction in the public sector, and then to small renewable energy sources with the aim of saving energy.

During 2023, Banca Intesa AD Beograd continued with placement of new sustainable lending product S-Loans - financing solution dedicated to the ESG transition that allows the company to obtain a discount upon achieving specific objectives in the ESG areas. S-Loans are specially designed with integrated KPIs for the 360° improvement of client's sustainability performances, regarding Environment, Social -activities as well as Governance management.

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

12 Non-financial Statement (Continued)

12.6. Environment (Continued)
12.6.2. Responsible financing (Continued)

Innovations in finance: Circular economy

As a market leader in the Serbian banking sector, Banca Intesa has a high environmental awareness and is an innovator in the circular economy financing. Supported by the Parent Company, Banca Intesa Beograd successfully approved almost 50 circular economy transactions in 2023. The circular economy portfolio of clients from Corporate and SME Division that was approved in 2023 amounts to around EUR 25 million. The financed projects covered, among other things, smart/green buildings, solar power plants, biogas plants, solutions that provide optimization of water consumption, etc.

12.7 Community

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

12.7.1 Corporate philanthropy

BIB helps local community growth through Donations in accordance with the Group's Rules for Donations in the International Subsidiary Banks, which set out specific principles and procedures to be applied by the ISBD Subsidiaries while evaluating, and granting donations.

In 2023, Banca Intesa Beograd dedicated cc RSD 11.57 million (EUR 98,720) for financial contribution to the community.

To the greatest extent, social protection projects were supported, especially those aimed at children - such as the UNICEF project to strengthen the capacity of the health system to support the mental health and well-being of pregnant women, parents and caregivers of young children, or other projects or initiatives that focus on improving the quality of life of vulnerable groups and the treatment of those suffering from the most serious diseases, such as supporting the activities of: Food Banks in the fight against hunger, the Association of Multiple Myeloma Patients, supporting NURDOR for an environmentally advanced and sustainable heating system for parents' houses in Belgrade. In addition to the mentioned activities, there is also support in the implementation of financial literacy and entrepreneurial education programs, including topics related to sustainability and inclusion, for youth aged 14 to 18 and their teachers, as well as the first steps of financial education for younger generations.

During 2023, the Bank continued its long-term support for the affirmation of Paralympic sports in Serbia. By waiving part of the amount from membership fees and transactions made with the help of the Visa Classic Paralympic card, the Bank made a key contribution to the operational and financial sustainability of the Paralympic Committee of Serbia, with around RSD 3.057 million collected during 2023.

BIB has strong volunteering culture. Since 2013 with the aim to promote the corporate volunteering values and social solidarity, the Bank launched the “Intesa from the Heart“ Program in 2013. This

12 Non-financial Statement (Continued)

12.7 Community (Continued)

12.7.1 Corporate philanthropy (Continued)

coordinated approach includes individual and group volunteering projects and activities that the Bank carries out independently or in partnership with civil society organizations.

During 2023, the Bank organized and supported three volunteer activities in which 52 volunteers participated. The sum of volunteer hours of all volunteers was 504.

The Bank donated 500 kilograms of paprika to the organization "Evo ruka", founded by parents of children with developmental disabilities in order to improve the quality of life of their children and provide them with a secure future. In cooperation with this organization, a volunteer action of making ajvar out of donated vegetables, which the representatives of this organization would then sell in order to collect funds. Seven colleagues participated in the volunteer action.

With the aim of raising awareness about the importance of the organization "Dečje srce", as well as the importance of inclusion and providing support to people with mental disabilities, we organized a volunteer day at the "Heart Sounds" cafe. 29 colleagues, as well as their youngest, participated in the volunteer day.

The last volunteer action in 2023 was organized in the HQ of Banca Intesa Belgrade. We hosted 20 residents from the Center for Youth Integration and introduced the Bank through an educational and interactive workshop, while socializing with children. 30 colleagues participated in this volunteer action.

Charity BIBazar 2023: In December 2023, the third traditional Charity BIBazar was held in the Bank's Head Offices in Belgrade and Novi Sad, several hundred of our colleagues directly financially supported organizations of families with children with developmental, physical or mental challenges, NGO's and local social enterprises, donating over 492,000 RSD (cc 4000 EUR).

Dedicated to the development of the innovative spirit and financial awareness of young people in our country, through three cycles of financial education, 40 colleagues were involved in mentoring work with more than 200 high school students throughout Serbia.

Through the SAVE Ambassadors program of our Parent Intesa Sanpaolo Group, in cooperation with the organization Junior Achievement Serbia, we organized a competition where over 120 high school students had the opportunity to recognize the ESG challenges in their local communities and offer innovative solutions with the aim of improving environmental sustainability and quality of life in local areas.

In addition, in 2023, we joined the Student Company program, which allows high school students to experience managing their own company with real products and services. In addition, through this program, high school students had the opportunity to learn how to save. This program was part of regular curriculum of high schools in Serbia providing students to work with mentors on founding and developing their own company during one school year. 30 of BIB colleagues were engaged as mentors.

Covering all "Financial Literacy" programs, our mentors worked with more than 100 students from 13 high schools in 12 cities of Serbia. This program aims to bring the world of banking and finance closer to young people by providing them with the opportunity to learn how to manage a household budget, invest wisely and secure their business.

12 Non-financial Statement (Continued)

12.7 Community (Continued)

12.7.2 Financial inclusion

Financial inclusion is an important pillar of Banca Intesa's approach toward community. Accordingly, the Bank strives to make its products as accessible as possible, and to meet specific needs of as many social groups of customers as possible by constant innovation and improvement of products and services offer.
Economic empowerment of women has long been not only an issue of gender equality, but also a key precondition for sustainable economic growth and social progress, and therefore the creation of conditions for the development of women's entrepreneurship is an important task of the state and the private sector.

Banca Intesa Beograd concluded already the 6th loan agreement in a row with the European Bank for Reconstruction and Development within the program aimed at supporting women's entrepreneurship. Through the aforementioned program, we have so far supported 3,323 (173 in 2023) different business ventures in the total amount of EUR 37 million (EUR 3.2 million in 2023).

Determined to continue with initiatives that have a broader social impact (emphasized ESG component), we expanded cooperation with the European Bank for Reconstruction and Development in order to additionally support sensitive market niches such as young entrepreneurs and women entrepreneurs.
Through the EBRD Youth in Business program, Banca Intesa has developed a platform intended for young entrepreneurs. Through this platform, based on a proven EBRD Woman in Business concept (available as of 2015), in addition to financial support through loans for working capital and investments, the Bank provides support to our clients through educational programs and networking. Banca Intesa, as the leading bank on the Serbian banking market, joined this EBRD program and already has placed 264 loans worth EUR 5 million as a support for young entrepreneurs.
In cooperation with the EBRD and renowned experts, Banca Intesa continues with strong non-financial support. Over 100 participants went through educational programs for women in business in 2023 alone. In addition, 40 young people took the opportunity to be a part of educational program with a focus on strengthening financial competences.

In order to strengthen ESG component of the Bank's business, as well as the competitiveness in the RPG client market, at the end of 2023 the Bank has launched new credit products for RPG clients, targeting women and clients under 40 years RPG clients.

In the local labor market, women are paid less on average for the same or similar jobs and positions compared to men, hence there is a special need to support working mothers. Therefore, besides raising awareness about gender equality, inclusion, protection of vulnerable social groups and the importance of early child development In the local labor market, women are paid less on average for the same or similar jobs and positions compared to men, hence there is a special need to support working mothers. Therefore, besides raising awareness about gender equality, inclusion, protection of vulnerable social groups and the importance of early child development the Bank has continued to support the economic empowerment of women, especially the ones from socially vulnerable groups. Special product in our offer for working mothers - mum@work - provides overdraft on the payment account as well as a subsidized housing loan for mothers who have acquired the right to participate in the purchase of real estate in accordance with the Law on Financial Support for Families with Children. The existing credit rules and conditions for the approval of the allowed overdraft on the payment account have been applied with an additional benefit such as a significantly lower interest rate and an approval fee of RSD 0, as well as a fixed interest rate on an annual basis. The product aims at further empowerment of women in overcoming financial challenges. Due to the clear social component and impact on financial

12 Non-financial Statement (Continued)

12.7 Community (Continued)

12.7.2 Financial inclusion (Continued)

independence, it is one of the first from the Bank's ESG product group. During 2023, 66 women used this product.

In 2023, the Bank has also released EUR 1,013,894 in the exchange rate for subsidized housing loans for mothers who acquired the right to participate in the purchase of real estate in accordance with the Law on Financial Support for Families with Children.
Recognizing the needs of other vulnerable social groups, the Bank was focused on improving financial conditions and expanding its offer of inclusive products.

Senior Cash loans that were designed to meet the needs of pensioners aged 55 to 74, were available during 2023 as well. During the entire repayment period, clients are provided with life insurance, which is included in the loan price. The number of loans released during 2023 is 29,325. The total amount released to the exchange rate in 2023 is EUR 81,832,079.
An Intermezzo Cash loan with the possibility of deferring installment payments up to five times during the repayment period was also part of the Bank's offer in 2023. The total number of loans released to the exchange rate in the reporting period is 39,128. The total amount paid in 2023 is EUR 157,826,738.

From June 2023, the Bank has included in its offer a Housing loan for young people up to the age of 35, which, in addition to a lower nominal interest rate, also includes a number of additional benefits for clients. In 2023, a total of 213 housing loans for young people were placed (volume: EUR 13,578,512).

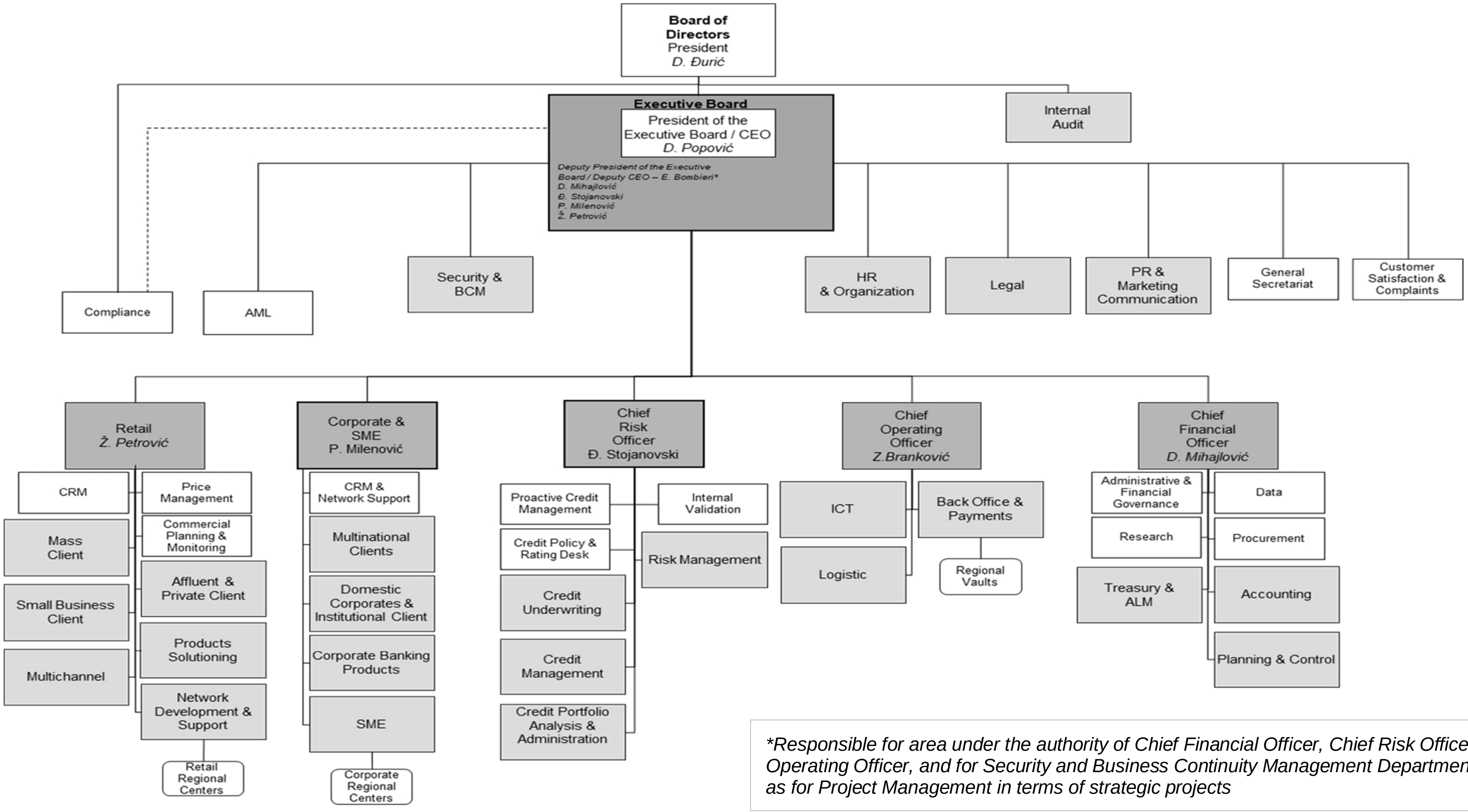
In Belgrade, 28 February 2024

Nevena Novaković Head of Accounting Department	Dragica Mihajlović Member of the Executive Board / CFO	Darko Popović President of the Executive Board / CEO

ANNEX

1. **Organisational Chart**
2. **Branch Network**

1 Organisational Chart



*Responsible for area under the authority of Chief Financial Officer, Chief Risk Officer, Chief Operating Officer, and for Security and Business Continuity Management Department, as well as for Project Management in terms of strategic projects

2 Branch Network

Location	Name of the branch	Regional centre	Address
Ada	Ada, Vuka Karadžića 18	Novi Sad	Vuka Karadžića 18
Aleksinac	Aleksinac, Knjaza Miloša 115	Niš	Knjaza Miloša 115
Apatin	Apatin, Petefi Šandora 2	Novi Sad	Petefi Šandora 2
Arandjelovac	Aranđelovac, Knjaza Miloša 192	Kragujevac	Knjaza Miloša 192
Arilje	Arilje, Stevana Čolovića 2	Kragujevac	Stevana Čolovića 2
Bačka Palanka	Bačka Palanka, Žarka Zrenjanina 80	Novi Sad	Žarka Zrenjanina 80
Bačka Topola	Bačka Topola, Glavna 29	Novi Sad	Glavna 29
Bački Petrovac	Bački Petrovac, Maršala Tita 4	Novi Sad	Maršala Tita 4
Bajina Bašta	Bajina Bašta, Svetosavska 19a	Kragujevac	Svetosavska 19a
Batajnica	Zemun, Batajnica, Majke Jugovića 1	Beograd	Majke Jugovića 1
Bečej	Bečej, Novosadska 3	Novi Sad	Novosadska 3
Beočin	Beočin, Trg Cara Lazara 8	Novi Sad	Trg Cara Lazara 8
Beograd	Čukarica, Požeška 128	Beograd	Požeška 128
Beograd	Čukarica, Požeška 45	Beograd	Požeška 45
Beograd	Čukarica, Trgovačka 15	Beograd	Trgovačka 15
Beograd	Novi Beograd, Bulevar Arsenija Čarnojevića 54	Beograd	Bulevar Arsenija Čarnojevića 54
Beograd	Novi Beograd, Bulevar maršala Tolbuhina 34	Beograd	Bulevar maršala Tolbuhina 34
Beograd	Novi Beograd, Jurija Gagarina 14	Beograd	Jurija Gagarina 14
Beograd	Novi Beograd, Jurija Gagarina 36b	Beograd	Jurija Gagarina 36b
Beograd	Novi Beograd, Milentija Popovića 7b	Beograd	Milentija Popovića 7b
Beograd	Novi Beograd, Milentija Popovića 7v	Beograd	Milentija Popovića 7v
Beograd	Novi Beograd, Milutina Milankovića 134g	Beograd	Milutina Milankovića 134g
Beograd	Novi Beograd, Nedeljka Gvozdenovića 24a	Beograd	Nedeljka Gvozdenovića 24a
Beograd	Novi Beograd, Omladinskih brigada 90	Beograd	Omladinskih brigada 90
Beograd	Novi Beograd, Otona Župančića 1	Beograd	Otona Župančića 1
Beograd	Novi Beograd, Partizanske avijacije 14	Beograd	Partizanske avijacije 14
Beograd	Palilula, Ilije Garašanina 4	Beograd	Ilije Garašanina 4
Beograd	Palilula, Borča, Ivana Milutinovića 73	Beograd	Ivana Milutinovića 73
Beograd	Palilula, Marjane Gregoran 60	Beograd	Marjane Gregoran 60
Beograd	Rakovica, Miška Kranjca 18b	Beograd	Miška Kranjca 18b
Beograd	Rakovica, Vidikovački venac 80b	Beograd	Vidikovački venac 80b
Beograd	Rakovica, Vukasovićeva 50a	Beograd	Vukasovićeva 50a
Beograd	Savski Venac, Nemanjina 4	Beograd	Nemanjina 4
Beograd	Savski Venac, Vase Pelagića 48b	Beograd	Vase Pelagića 48b
Beograd	Savski Venac, Hercegovačka 21	Beograd	Hercegovačka 21
Beograd	Stari Grad, Cara Dušana 50	Beograd	Cara Dušana 50
Beograd	Stari Grad, Džordža Vašingtona 8	Beograd	Džordža Vašingtona 8
Beograd	Stari Grad, Knez Mihailova 30	Beograd	Knez Mihailova 30
Beograd	Stari Grad, Kolarčeva 5	Beograd	Kolarčeva 5
Beograd	Stari Grad, Studentski trg 7	Beograd	Studentski trg 7
Beograd	Surčin, Vojvođanska 85	Beograd	Vojvođanska 85
Beograd	Voždovac, Banjica, Crnotravska 7-9	Beograd	Crnotravska 7-9
Beograd	Voždovac, Braće Jerković 137b	Beograd	Braće Jerković 137b
Beograd	Voždovac, Kumodraška 174	Beograd	Kumodraška 174
Beograd	Voždovac, Ustanička 69	Beograd	Ustanička 69
Beograd	Voždovac, Vojvode Stepe 77	Beograd	Vojvode Stepe 77
Beograd	Vračar, Bore Stankovića 9	Beograd	Sarajevska 31
Beograd	Vračar, Bulevar oslobođenja 3	Beograd	Bulevar oslobođenja 3
Beograd	Vračar, Južni Bulevar 84	Beograd	Južni Bulevar 84
Beograd	Vračar, Kneza Miloša 23	Beograd	Kneza Miloša 23

2 Branch Network (Continued)

Location	Name of the branch	Regional centre	Address
Beograd	Zvezdara, Bulevar Kralja Aleksandra 330	Beograd	Bulevar Kralja Aleksandra 330
Beograd	Zvezdara, Bulevar Kralja Aleksandra 79	Beograd	Bulevar Kralja Aleksandra 79
Beograd	Zvezdara, Mirijevski venac 23	Beograd	Mirijevski venac 23
Bogatić	Bogatić, Vojvode Stepe 35	Kragujevac	Vojvode Stepe 35
Bor	Bor, Đorđa Vajferta 3	Niš	Đorđa Vajferta 3
Čačak	Čačak, Kuželjeva 1	Kragujevac	Kuželjeva 1
Gornji Milanovac	Gornji Milanovac, Vojvode Milana 1	Kragujevac	Vojvode Milana 1
Inđija	Inđija, Novosadska 21	Novi Sad	Novosadska 21
Ivanjica	Ivanjica, Majora Ilića 1	Kragujevac	Majora Ilića 1
Jagodina	Jagodina, Kneza Lazara 5-6	Niš	Kneza Lazara 5-6
Kanjiža	Kanjiža, Glavna 3	Novi Sad	Glavna 3
Kikinda	Kikinda, Braće Tatića 16	Novi Sad	Braće Tatića 16
Kladovo	Kladovo, 22. septembra 9	Niš	22.septembra 9
Kostolac	Kostolac, Nikole Tesle 5-7	Niš	Nikole Tesle 5-7
Kovin	Kovin, Cara Lazara 73	Novi Sad	Cara Lazara 73
Kragujevac	Kragujevac, Dr. Zorana Đinđića 11a	Kragujevac	Dr. Zorana Đinđića 11a
Kragujevac	Kragujevac, Save Kovačevića 12b	Kragujevac	Save Kovačevića 12 b
Kraljevo	Kraljevo, Trg Jovana Sarića 8	Kragujevac	Trg Jovana Sarića 8
Kruševac	Kruševac, Vidovdanska 46	Kragujevac	Vidovdanska 46
Kruševac	Kruševac, Vidovdanska 4	Kragujevac	Vidovdanska 4
Kučevo	Kučevo, Trg Veljka Dugoševića 2	Niš	Trg Veljka Dugoševića 2
Kula	Kula, Maršala Tita 242	Novi Sad	Maršala Tita 242
Lajkovac	Lajkovac, Vojvode Mišića 84	Kragujevac	Vojvode Mišića 84
Lazarevac	Lazarevac, Karađorđeva 41	Kragujevac	Karađorđeva 41
Leskovac	Leskovac, Trg Revolucije 7	Niš	Trg Revolucije 7
Loznica	Loznica, Trg Vuka Karadžića bb	Kragujevac	Trg Vuka Karadžića bb
Ljig	Ljig, Vojvode Mišića 12	Kragujevac	Vojvode Mišića 12
Ljubovija	Ljubovija, Vojvode Mišića 44	Kragujevac	Vojvode Mišića 44
Mionica	Mionica, Dr. Jove Aleksića bb	Kragujevac	Dr. Jove Aleksića bb
Mladenovac	Mladenovac, Kralja Petra I 217	Kragujevac	Kralja Petra I 217
Negotin	Negotin, Trg Đorđa Stanojevića 70/II	Niš	Trg Đorđa Stanojevića 70/II
Niš	Niš, Bulevar Nemanjića 28-32	Niš	Bulevar Nemanjića 28-32
Niš	Niš, Milojka Lešjanina 1	Niš	Milojka Lešjanina 1
Niš	Niš, Nade Tomić 8a	Niš	Nade Tomić 8a
Niš	Niš, Obrenovićeva 82/2 (Fontana)	Niš	Obrenovićeva 82/2 (Fontana)
Niš	Niš, Sinđelićev trg 18	Niš	Sinđelićev trg 18
Niš	Niš, Vizantijski bulevar 21	Niš	Vizantijski bulevar 21
Novi Bečej	Novi Bečej, Trg Oslobođenja 5	Novi Sad	Trg Oslobođenja 5
Novi Pazar	Novi Pazar, AVNOJ-a 6	Kragujevac	AVNOJ-a 6
Novi Sad	Novi Sad, Bulevar Cara Lazara 79a	Novi Sad	Bulevar cara Lazara 79a
Novi Sad	Novi Sad, Bate Brkića 10a	Novi Sad	Bate Brkića 10a
Novi Sad	Novi Sad, Bulevar Mihajla Pupina 4	Novi Sad	Bulevar Mihaila Pupina 4
Novi Sad	Novi Sad, Bulevar Oslobođenja 8	Novi Sad	Bulevar Oslobođenja 8
Novi Sad	Novi Sad, Bulevar Oslobođenja 76a	Novi Sad	Bulevar Oslobođenja 76a
Novi Sad	Novi Sad, Fruškogorska 10	Novi Sad	Fruškogorska 10
Novi Sad	Novi Sad, Rumenačka 33	Novi Sad	Rumenačka 33
Novi Sad	Novi Sad, Zmaj Jovina 15	Novi Sad	Zmaj Jovina 15
Obrenovac	Obrenovac, Miloša Obrenovića 133-135	Kragujevac	Miloša Obrenovića 133-135
Pančevo	Pančevo, Karađorđeva 2-4	Novi Sad	Karađorđeva 2-4
Pančevo	Pančevo, Miloša Crnjanskog 1	Novi Sad	Miloša Crnjanskog 1

2 Branch Network (Continued)

Location	Name of the branch	Regional centre	Address
Paraćin	Paraćin, Kralja Petra I 4	Niš	Kralja Petra I 4
Petrovac na Mlavi	Petrovac na Mlavi, Bate Bulića 37	Niš	Bate Bulića 37
Pirot	Pirot, Branka Radičevića 18	Niš	Branka Radičevića 18
Požarevac	Požarevac, Trg Radomira Vujovića 8	Niš	Trg Radomira Vujovića 8
Požega	Požega, Knjaza Miloša 6	Kragujevac	Knjaza Miloša 6
Priboj	Priboj, Nemanjina 48-50	Kragujevac	Nemanjina 48-50
Prijepolje	Prijepolje, Sandžačkih brigada 39	Kragujevac	Sandžačkih brigada 39
Prokuplje	Prokuplje, 9. oktobra 6	Niš	9. oktobra 6
Raška	Raška, Miluna Ivanovića 8	Kragujevac	Miluna Ivanovića 8
Ruma	Ruma, Glavna 170	Novi Sad	Glavna 170
Ruma	Ruma, 15. maja 143	Novi Sad	15. maja 143
Senta	Senta, Zlatne grede 6	Novi Sad	Zladne grede 6
Smederevo	Smederevo, Cvijićeva 3	Niš	Cvijićeva 3
Smederevska Palanka	Smederevska Palanka, Vuka Karadžića 4	Kragujevac	Vuka Karadžića 4
Sombor	Sombor, Venac Stepe Stepanovića 32	Novi Sad	Venac Stepe Stepanovića 32
Srbobran	Srbobran, Zmaj Jovina 18	Novi Sad	Zmaj Jovina 18
Sremska Mitrovica	Sremska Mitrovica, Kralja Petra I 6	Novi Sad	Kralja Petra I 6
Sremska Mitrovica	Sremska Mitrovica, Svetog Dimitrija 2	Novi Sad	Svetog Dimitrija 2
Stara Pazova	Stara Pazova, Ćirila i Metodija 2	Novi Sad	Ćirila i Metodija 2
Subotica	Subotica, Dimitrija Tucovića 2	Novi Sad	Dimitrija Tucovića 2
Subotica	Subotica, Štrosmajerova 6	Novi Sad	Štrosmajerova 6
Surdulica	Surdulica, Ulica Kralja Petra I bb	Niš	Kralja Petra I bb
Šabac	Šabac, Gospodar Jevremova 44	Kragujevac	Gospodar Jevremova 44
Šid	Šid, Karađorđeva 11-13	Novi Sad	Karađorđeva 11-13
Temerin	Temerin, Novosadska 403	Novi Sad	Novosadska 403
Titel	Titel, Mihajla Krestića 8a	Novi Sad	Mihaila Krestića 8a
Topola	Topola, Tomislava Karađorđevića 3	Kragujevac	Tomislava Karađorđevića 3
Trstenik	Trstenik, Cara Dušana bb	Kragujevac	Cara Dušana bb
Ub	Ub, Kralja Petra I 44	Kragujevac	Kralja Petra I 44
Užice	Užice, Dimitrija Tucovića 129	Kragujevac	Dimitrija Tucovića 129
Valjevo	Valjevo, Karađorđeva 71	Kragujevac	Karađorđeva 71
Valjevo	Valjevo, Železnička 7	Kragujevac	Železnička 7
Velika Plana	Velika Plana, Momira Gajića br 2	Kragujevac	Momira Gajića br 2
Veliko Gradište	Veliko Gradište, Kneza Lazara 35	Niš	Kneza Lazara 35
Veternik	Veternik, Kralja Petra I 7a	Novi Sad	Kralja Petra I 7a
Vladičin Han	Vladičin Han, Svetosavska 16a	Niš	Svetosavska 16a
Vlasotince	Vlasotince, Nemanjina 2	Niš	Nemanjina 2
Vranje	Vranje, Dr. Dimitrija Jovčića 2	Niš	Dr. Dimitrija Jovčića 2
Vrbas	Vrbas, Maršala Tita 66	Novi Sad	Maršala Tita 66
Vrnjačka Banja	Vrnjačka Banja, Kruševačka 1	Kragujevac	Kruševačka 1
Vršac	Vršac, Sterijina 19a	Novi Sad	Sterijina 19a
Zaječar	Zaječar, Nikole Pašića 70	Niš	Nikole Pašića 70
Zemun	Zemun, Glavna 30	Beograd	Glavna 30
Zemun	Zemun, Gornjogradska 38	Beograd	Gornjogradska 38
Zlatibor	Zlatibor, Kraljev trg bb	Kragujevac	Kraljev trg bb
Zrenjanin	Zrenjanin, Kralja Aleksandra I Karađorđevića bb	Novi Sad	Kralja Aleksandra I Karađorđevića bb
Žabalj	Žabalj, Nikole Tesle 47	Novi Sad	Nikole Tesle 47