OTP BANKA SRBIJA A.D. NOVI SAD

DISCLOSURE OF DATA AND INFORMATION

December 31, 2022

Novi Sad, May 2023

1. INTRODUCTION

Pursuant to Article 51a of the Law on Banks, Article 24 of the Decision on Disclosure of Data and Information by Banks (hereinafter: the Decision), **OTP banka Srbija a.d. Novi Sad, Trg slobode 5, 21000 Novi Sad** hereby discloses the following data and information, as at December 31, 2022, related to the following:

- Risk Management Strategy and Policies
- Risk Management Manner of Organization
- Risk Mitigation Techniques and Manners for Enabling and Monitoring of Risk Mitigation Efficiency
- Bank's Capital
- Bank's Capital requirements and Capital Adequacy
- Capital's Buffers
- Internal Capital Adequacy Assessment Process
- Bank Risk Exposure and Approaches for Risk Measurement and/or Risk Assessment
- Bank's Equity Exposure in the Banking Book
- Leverage ratio
- Banking Group and Relation Between the Parent Company and Subsidiaries

Pursuant to Article 22 of the Decision, OTP banka Srbija a.d. Novi Sad (hereinafter: the Bank), as an ultimate parent company discloses the information and data on Capital, Capital requirements and Capital Adequacy, Capital buffers and Leverage ratio on the stand-alone and consolidated level.

The Bank does not apply the internal model approach for the calculation of the market risk capital requirements hence it does not disclose data related to the approaches for measurement and/or assessment of market risk.

The Bank does not apply an advance approach for the calculation of the operational risk capital requirements hence it does not disclose data related to the exposures to such risks and approaches for measurement and/or assessment of such risk.

This document is published on the official web site of the Bank https://www.otpbanka.rs.

Data and information not disclosed according to the stipulated Decision on Disclosure of Data and Information of the Bank, have been disclosed within the Independent Auditor's Report which is published on the Bank's web site, in compliance with Item 61 of the Law on Banks:

https://www.otpbanka.rs/en/about-us/annual-reports /

2. RISK MANAGEMENT STRATEGY

The purpose of this Risk Management Strategy (hereinafter: the Strategy) is to regulate uniform and consistent management of Bank's risks on a long-term basis, which define the attitude of the Bank toward risks it is or may be exposed to in its operation.

The Strategy lays down, in a standard framework, the principles applicable to all affected business lines in respect of taking, measuring, managing, monitoring and mitigating risks, as well as calls for the attention to the risks arising from the changes in the conditions of the macro environment and the business cycle.

This Strategy regulates:

- The Bank's risk management strategic goals,
- The Bank's risk management governance structure,
- Definition of all risk types that the Bank is or may be exposed to in pursuing its business strategy,
- Bank's risk appetite framework and risk appetite statement,
- Main principles of risk assumption and risk management, both overall and per each risk type.

This Strategy constitutes the basis for all risk management related initiatives and activities across all organizational units in the Bank, which are required to comply with the directions set forward in that document. Additionally, it forms the basis for the development of risk management policies, rulebooks, procedures and other internal regulation regulating elements of Bank's comprehensive risk management system for all risk types.

The Bank's risk management system consists of:

- Risk Management Strategy, policies and procedures for risk management, i.e. for the identification, measurement, assessment, monitoring, control and mitigation of risks and reporting on them;
- Adequate internal organisation/organisational structure of the Bank;
- Effective and efficient process of managing of all risks the Bank is or may be exposed to in its operation;
- Adequate internal controls system;
- Appropriate information system;
- Adequate internal capital adequacy assessment process.

The Bank's risk management organization structure ensures the existence of clear lines of responsibility, the efficient segregation of duties and the prevention of conflicts of interest at all levels, up to the level of Executive Board.

The Bank's risk governance model includes three lines of defense consisting of:

- The risk taking units (lines of business) – first level – responsible for assessing and minimizing risks.
- The risk management and compliance functions – second level – identify, monitor, control, quantify risks, provide appropriate tools and methodologies, report to appropriate governing bodies and propose mitigation measures.
- The Bank's Internal Audit – provides the independent review function.

The Bank executes risk management function through separate organizational unit/units, that are independent of the business and operative units in terms of both organization and interests, and which:

- performs independent risk management activities aligned with the specificities of the legislative and operating environment, while
- comprising a uniform and consistent risk management framework under the control of the Parent Bank and
- ensuring compliance with regulations and supervisory requirements at all times both in the Republic of Serbia as well as at OTP Group level.

The strategy defines in more detail the general principles of risk management, as well as specific principles for individual types of risks, as well as risk appetite and tolerance for materially significant types of risks.

Risk appetite means the volume of risks that the Bank is ready to assume and able to tolerate in order to achieve the profitability goals defined in the Business Strategy, in line with the requirements of prudent operation, the supervisory authority, shareholders and investors. By definition, it presents the utilization need of the available resources (appetite) on the one hand; on the other hand, it imposes a limit to the associated risks (tolerance) for the long-term sustainability of stable business operation.

The Bank acknowledges the following major types of risks arising from its activities and provided precise definitions in the Strategy for each of them as follows:

1. **Liquidity risk** which includes the following subcategories:
    a. **Funding liquidity risk**
    b. **Market liquidity risk**
2. **Credit risk** in wider meaning encompasses also the following risk types:
    a. **Counterparty credit risk**
    b. **Settlement/delivery risk**
    c. **FX induced credit risk**
    d. **Interest rate induced credit risk**
    e. **Residual risk**
    f. **Credit concentration risk**
        i. **Country risk**
3. **Market risks** include the following risk types:
    a. **FX risk**
    b. **The position risk on debt securities**:
        i. **Specific position risk of debt securities**
        ii. **General position risk of debt securities**
    c. **Position risk on equity securities**:
        i. **Specific position risk of equity securities**
        ii. **General position risk of equity securities**.
4. **Operational risks** include the following subcategories:
    a. **Legal risk**
    b. **IT risk**
    c. **Conduct risk**
    d. **Model risk**
5. **Interest rate risk in the banking book**:

   a. **Repricing risk**
   b. **Yield curve risk**
   c. **Basis risk**
   d. **Optionality risk**
6. **Investment risk**
7. **Compliance risk** in particular encompasses:
   a. **The risk of sanctions by the regulatory authority**,
   b. **Risk of financial losses** and
   c. **Reputational risk**.
8. **Risk of money laundering and terrorist financing**
9. **Credit valuation adjustment risk (CVA risk)**
10. **Strategic risk**
11. **ESG risk**.

The manner of managing these risks is described in more detail in the Bank´s Policies related to each specific risk as well as the NPL management, while the method of internal assessment of capital requirements for those risks is regulated by the Rulebook on the implementation of the process of internal assessment of capital adequacy. Data and information related to the aforementioned policies and regulations are disclosed in the remainder of this document.

The bank regularly - at least once a year - revises the internal acts that regulate the processes of the comprehensive risk management system, as well as more often in case of changes in relevant legal or regulatory requirements, significant changes in market conditions, all documents are updated etc.

2.1 Credit Risk Management Policy

Credit risk management policy defines in detail the process of credit risk management, which includes organization of credit risk management process, identification and measurement, mitigation and monitoring of credit risk in the Bank.

Credit risk management is translated to the operational level through the definition of annual credit policies for each business segment (product), respecting the definitions of desirable, conditional, preferably avoided and prohibited lending defined by the Risk Management Strategy.When formulating annual credit policies, the Bank takes into account the impact of changes expected in macroeconomic projections on the portfolio's expected credit losses, in order to determine whether changes in lending limits and/or policies are necessary.

The Bank manages credit risk during the loan process as well as on the level of the entire loan portfolio (defining and following portfolio limits). To manage credit risk, the Bank has established a credit process that includes:

- Exposure initiation and accepting the loan application
- Risk assessment
- Decision on risk assumption
- Signing the contract
- Disbursement
- Monitoring
- Closing the contract

The Bank assesses credit risk based on quantitative and qualitative criteria that take into account the characteristics of a particular debtor and / or placement and allow clear ranking in appropriate risk categories according to the expected probability of entering the default status in terms of client capacity and willingness to make regular debts payments. In order to identify the level of credit risk, to mitigate it and to improve credit risk management, the Bank uses internal customer ranking models the main goal of which is to estimate the expected probability of the debtor entering into a default status, based on a predetermined statistical methodology or a methodology based on expert assessment. The bank uses different models that are all mapped to a single scale that contains 9+1 rating categories on for different types of clients and products. The credit rating is used both when making decisions during the credit process, as well as in the process of credit risk management at the level of the entire credit portfolio and the process of measuring expected credit losses.

The Bank applies risk mitigation techniques by obtaining credit protection instruments. Through its internal acts, the Bank defines credit protection instruments that are considered adequate and acceptable, as well as the rules for their valuation. All collaterals have an accepted value recognized by the Bank for risk mitigation and it may differ from the market value depending on the level of risk associated with the given collateral.

In order to establish an efficient risk management process, the Bank has defined key responsibilities in the credit risk management process for the Board of Directors, the Executive Board, the Audit Committee, the Credit Committee, Corporate Credit Risk Committee, Retail Credit Risk Committee and the Workout Committee, Committees for monitoring credit risks of leasing, as well as separate organizational units within the Bank.

In order to manage credit risk, the Bank has regulated a system of measuring and reporting to the competent committees on the balance and trends in the portfolio and its segments, including the monitoring of defined portfolio limits, which provides prerequisites for understanding the main factors of the development of that portfolio, the main risk factors and the definition and implementation of corrective activities, if necessary.

2.2 Liquidity Risk Management

Liquidity risk - the risk of negative effects on the Bank’s financial result and capital resulting from the Bank’s inability to meet its due obligations. Liquidity risk can be categorized into the following sub-categories: ***Funding liquidity risk*** and ***Market liquidity risk***.

Funding liquidity risk- which arises due to the withdrawal of existing sources of financing and/or the impossibility of obtaining new sources of financing

Market liquidity risk - which arises due to the difficulty of converting assets into liquid assets due to market disturbances.

Bank monitors and manages its liquidity position and financing strategy continuously, taking into account unexpected effects caused by internal and external factors (beyond the Bank's control), market conditions.

In line with goals defined in Risk Management Strategy, Bank has developed adequate system for liquidity risk management with set of internal documents and limit system.

The Assets and Liabilities Management Policy defines the framework, principles and metrics applied for the liquidity risk management, with the aim that the Bank at all times successfully meet its needs for an adequate level of liquidity. The basic goal of the liquidity management is ensuring an adequate level of liquidity in order to make payments and ensure planned growth, as well as and avoid possible adverse effects to the financial result and the capital of the Bank due to the Bank’s inability to meet its due obligations.

The Bank has established and maintains appropriate liquidity measurement, monitoring and control functions, as well as reporting related to following:

- Maturity profile of Cash flow under different scenarios including scenarios for assets and liabilities without maturity.
- The level of liquidity buffer available to the Bank.
- System of limit develop
- Procedure for stress test
- Contingency funding Plan with impact on liquidity
- The impact of market disruptions on cash flows and customers.
- Tracking the structure of new deposits, (their source, maturity and price)
- On the concentration of deposits in accordance with the established limits with constant efforts to reduce the concentration
- Reporting to the OTP Group and ALCO regarding liquidity and changes in liquidity levels

Liquidity management is performed in all major currencies in a way that ensures stability of funding sources, in accordance with the regulations of the National bank of Serbia (hereinafter: NBS), as well as OTP bank Plc Budapest (hereinafter: the parent bank).

The basic principles of liquidity risk management are defined by the Liquidity Risk Management Policy. The Bank regularly monitors the maturity mismatch of its receivables and liabilities at certain time intervals, i.e. the liquidity gap, with defined limits. The Bank has established internal limits for liquidity indicators defined by local regulations, primary and operational liquidity as well as a set of early warning indicators that are monitored at various time intervals (daily, weekly, monthly).

Liquidity management is a continuous process of analyzing liquidity needs in different scenarios, as well as adequate planning in critical and stressful conditions. The Bank document Recovery Plan and Contingency funding plan, where are defined the key events and the criteria for their activation.

In its efforts to ensure that liquidity risk is considered through potentially adverse events, the Bank performs stress testing of liquidity risk, according to the scenarios defined in the Contingency funding plan and Recovery Plan. Scenarios are used to model the impact of unexpected outflows on liquidity.

The management and organization of the liquidity risk management process includes the following:

- Board of Directors
- Executive Board
- Audit Committee
- ALCO Committee
- ALM Directorate/ALM Department/ ALM Reporting and Balance Sheet Management Unit
- Operational and Market Risk Directorate/ Market Risk Management Department
- Global Market Directorate and other relevant organizational units.

The Bank's liquidity risk objectives are:

- To have ability to meet its own obligations even in the event of a liquidity crisis and to be constantly in compliance with the regulations of NBS as well as the rules of the OTP Group;
- Refinance its activities under the most favorable usual conditions or convert excess liquidity into cash without unacceptable losses.

2.3 Operational Risk Management Policy

Operational risk (OR) is a risk of adverse effects to the financial result and capital of the Bank due to (unintentional and intentional) mistakes by employees, inadequate internal procedures and processes, inadequate management of IT and other systems in the Bank as well as due to occurrence of unforeseen external events.

The operational risk also includes the legal risk. ***Legal risk*** is the risk of adverse effects on the bank's financial result and capital arising from court or out-of-court proceedings relating to the bank's operation (contracts and torts, labor relations, etc.). Operational risk does not include Strategic and Reputational risk, noting that reputational risk is closely related to operational risk and that it can appear due to the realization of operational risk. Specific areas of operational risk include: information system risk, unethical business risk (*Conduct risk*), model risk. ***IT risk*** is the risk of possible negative effects on the Bank's financial results and capital, due to inadequate management of the information system and other systemic weaknesses that negatively affect system functionality and security and / or jeopardize the continuity of the Bank's operations. ***Conduct risk*** is the risk of negative effects on the Bank's financial results and capital due to inadequate banking services offers or intentional unethical conduct in the providing of financial services. However, ***Model risk*** is a potential loss that the Bank may incur due to decisions that are primarily based on the results of internal models due to errors in the design, application or use of the model.

In area of operational risk, outsourcing risk and risk of introducing of new products are monitors product / significant changes to existing products, services or activities related to the Bank's processes and systems.

The goal of the operational risk is to enable that the operational risk exposure level is in compliance with the Risk Management Strategy and policies of the Bank and/or to minimize losses based on operational risks.

Operational risk management is entirely integrated in the risk management system and information system of the Bank. Operational risk management system encompasses all Bank inherent activities. Operational risk base supports operational risk management control and identification of an operational risk on the Bank level.

The operational risk management methodology is consisted of the following levels:

- Strategy for general approach to the Bank's operational risk management, objectives, necessary organizational structure and the Bank's risk profile;
- Process comprised of daily activities and decisions related to operational risk management in compliance with the selected strategy;
- Infrastructure for system identification, data and other necessary tools for the operational risk management process;
- Environment necessary for adequate management of operational risks that create a behavioral pattern referring to the operational risk exposure and external factors that significantly impact on the potential effects of operational risk realization.

Quarterly and annual reports on operational risk exposures are presented to Operational Risk Management Committee, Executive Board, Audit committee and Board of Directors.

Content of reports are as follows:

• The Bank's exposure to operational risks

- Performance of the Bank's operational risk management system,
- Analysis of reported events based on operational risks,
- Results of the process of self-assessment of operational risks (RCSA) of organizational units, together with assessments and proposed measures for their overcoming,
- Results of the scenario analysis process,
- Proposed measures and implementation of adopted measures for overcoming operational risks,
- Proposed key risk indicators and monitoring of adopted key risk indicators,
-,
- Reporting in the part of tolerance towards operational risks
- Other activities in accordance with the Bank's Corporate By-Laws and other Bank's regulations

• Risks arising from entrusting activities to third parties

- Overview of outsourcing activities,
- Assessment of the quality of services provided

• Risks of introducing of new products

- Overview of new products.

• BCP reports and tests

- Monitoring crisis situations and assessing them from the aspect of business continuity
- BIA results: validation of the final list of critical processes
- Coordination of BCP and DRP activities (time synchronization)
- Consideration of individual BCP parameters,
- BCP test report.

• Other topics related to operational risks.

2.4 Country Risk Management Policy

Country risk is the risk that relates to the country of origin of a person to which the Bank is exposed and poses a risk of occurrence of adverse effects to the financial result and capital of the Bank due to its inability to collect a receivable from that person for reasons being a consequence of political, economic or social circumstances in the country of origin of that person:

- Political and economic risk which implies the possibility of loss due to the Bank's inability to collect its receivables because of limitations stipulated by acts of government and other bodies, origin of the debtor as well as the overall and system circumstances in such country;
- Transfer risk which implies the possibility of loss due to the Bank's inability to collect its receivables in a foreign currency which is not the official currency of the debtor's country of origin, due to limitations in payment of obligations to other creditors from

other countries in a certain currency which are determined by acts of government and other bodies.

Management of the risk of a the debtor's country of origin (country risk) at the Bank is based on the principles for risk management, and in particular, based on the following:

- Definitions and criteria prescribed by the NBS;
- Principle of management assets and off-balance sheet items of the Bank from the aspect of the debtor's origin and maintenance of the country risk exposure not jeopardizing business stability and adjustment of the Bank's business indicators with the internal limits;
- Principle of implementation of approaches and methodologies of OTP Group limit determination and internal rating, as well as identifying, measuring and monitoring this limit in accordance with regulation of NBS.

The country risk management policy sets out the key principles underlying all the Bank's business activities that include exposure to other countries and focuses on the Bank's approach to country risk management arising from transactions with foreign counterparties.

In order to limit and monitor country risk exposure, the Bank applies methodologies and uses experiences of OTP Group, its own assessments, analyses and experiences gained in best banking in accordance with the provisions subordinate NBS regulations.

Bank objectives with regard to an acceptable country risk exposure are related to the limits set, which are defined by the Bank as a maximum exposure to certain countries, individually by the borrower's country of origin and on regional basis.

The Country Risk Reports contain information on the limit level, limit utilization level, and limit violations (if any), a proposal of measures to return the limits within provisioned and the like. Internal reporting about the Bank`s exposure toward country risk are performed on daily basis and contains fullifilment of limits. Additionaly, the Country Risk Reports are drafted monthly, quarterly and annually and are adopted by competent boards/committees defined by internal acts.

2.5 Market Risk Management Policy

Market risks are the possibility of adverse effects on the financial result and capital arising from changes in the value of balance sheet items and off-balance sheet items of the Bank arising from movements in market prices. Market risks include foreign exchange currency risk, price risk based on debt securities, price risk on equity securities and commodity risk. The Bank's tendency to these risks is generally low.

The basic documents based on which the Bank manages market risks are the Market Risk Management Policy and the Trading Book Policy, which define methodologies, processes and tools for measuring this type of risk, risk limits, guidelines and responsibilities related to reporting and corrective measures as well as trading book, from the capital adequacy point of view.

Market risk refers to all transactions that the Bank records in the trading book and those that belong to the banking book, depending on the market risk.

The capital requirement for market risks is equal to the sum of:

- Capital requirement for position risk for business activities from the trading book

- Capital requirement for foreign exchange risk for all business activities
- Capital requirement for commodity risk for all business activities

The trading book contains positions in financial instruments held by the Bank for the purpose of trading, or to hedge positions in other financial instruments held in that book and for which there are no restrictions on trading them, nor are there any restrictions to hedge these positions, as well as instruments obtained for the purpose of making a profit from the difference between the purchase and sale price, ie on the basis of other price changes in a short period of time. Positions in the trading book are recorded at fair value.

In accordance with its business policy, the Bank does not hold equity securities in its portfolio that are traded on the Stock Exchange.

Throughout 2022, the Bank was exposed to the market risk of the trading book, more precisely to the position risk based on the positions in the trading book.

As part of the process of determining internal capital requirements, the Bank first assesses the underestimation of regulatory capital requirements for this risk, and then performs a stress test taking into account unfavorable movements of parameters that affect the value of existing instruments in the trading book.

The capital requirement for foreign exchange risk is calculated using the standardized approach by multiplying by 8% of the total net open foreign exchange position, Bank have a calculated capital requirement for this risk as of 31.12.2022 as the open position was above 2% of regulatory capital. In accordance with the Decision of the NBS on capital adequacy, such an open position is considered insignificant and the captain's request is not calculated.

As part of the process of determining internal capital requirements, the Bank first assesses the underestimation of the regulatory capital requirement for this risk and performs a stress test based on an internally developed model that is based on VaR.

Foreign exchange risk

FX risk is the risk from negative effects on the financial result and capital of the Bank due to changes in the exchange rates, and the bank is exposed to it on the basis of positions from the banking book and the trading book. In other words, an open foreign exchange position (mismatch between the level of assets and liabilities in the same currency) can lead to a loss due to changes in exchange rates, changes in the value of the dinar against other foreign currencies and changes in the price of gold. The adjustment of assets and liabilities per currencies is conducted continuously by following the FX positions in each currency in order to keep them in line with the preset limits per currencies.

The Bank has established and maintains appropriate systems for measuring, monitoring and controlling foreign exchange risk. These measurement systems include an assessment of the maximum potential risk for foreign currencies in which the Bank has positions, and which are monitored continuously during the day. The assessment of the maximum potential risk is a statistical assessment of the upper limit, within a given level of reliability such as the value at risk (hereinafter: VaR) and the expected shortfall (hereinafter: ES) as a complement to VaR.

Management of FX open positions of the Bank is in the responsibility of Global Market Directorate which manages the FX risk of the Bank in internally set limits. The ALM Directorate is responsible for timely transfer of FX risk exposure related to banking book positions to Global Market Directorate. The Operational and Market risk Directorate are responsible for monitoring and controlling FX exposures on daily level ensuring fully independent control in accordance with regulatory requirements.

The foreign exchange risk limits are established on the level which is in line of Banks needs and planed income and by which the Bank will not sustain significant losses due to exchange rate volatility in comparison to dinar. The Bank uses the following limits:

- FX position limit in each currency
- Total FX position limit
- FX risk indicator limit
- VaR limit
- Stop-loss limit
- ES limit

The Bank reports about the foreign exchange risk daily, monthly and quarterly. The Bank performs monthly stress tests by simulating impacts of different scenarios of currency rates movements to the financial result and capital of the Bank and compares with the established limit which represents the maximum amount that the Bank wishes to bear in the event of stressful circumstances.

Position risk

Position risk is the risk from negative effects on the financial result and capital of the Bank based on changes in the prices of debt securities and equity securities. Debt securities are bonds and other debt securities and derivatives whose subject is interest rate or debt security, while equity securities include shares and other similar financial instruments.

The position risk consists of general and specific position risk.

The Bank established a limit system to monitor exposure toward this risk, which includes among others, the following:
- BPV limit,
- Stop loss limit
- Limit for products in the trading book
- As well as warning levels for potentially reaching the stop loss limit.

The Bank reports on position risk on a monthly basis to ALCO and the Parent Bank, and on a quarterly basis to the NBS, the Executive Board and the Board of Directors. In addition, the Bank conducts monthly stress testing by simulating the adverse effects of different scenarios of interest rate changes on the Bank's financial result and capital.

The Bank has no exposure to position risk arising from equity securities.

Commodities risk

Commodities risk appears due to changes in price of goods which are traded or can be traded on organized secondary market. Goods are physical products that can be traded on the secondary market: agricultural products, minerals (including oil) and precious metals (excluding gold) and derivative financial instruments relating to these products.

The Bank is not exposed to commodities risk in its operations because it does not perform such business activities which would lead to creation position in commodities.

CVA risk

Credit Valuation Adjustment risk (hereinafter: CVA risk) is the risk of losses arising from changes in the amount of CVA due to a change in the credit margin of the counterparty due to a change in its creditworthiness.

Credit Valuation Adjustment is the amount calculated only for derivative instruments, based on a group of transactions with the other counterparty to the amount of their mid-market valuation.

The capital requirement for CVA risk refers to potential losses in the OTC derivatives portfolio but does not relate to losses that would arise from actual default by the other party, but from the adjustment of the fair value of the derivative. The Bank described the CVA risk with the Market Risk Management Policy and reports on this risk monthly to the ALCO and the Parent Bank and quarterly to the NBS, the Executive and the Board of Directors. In addition, the Bank conducts quarterly stress testing by simulating the adverse effects of different scenarios of changes in valuation and exposure based on CVA risk and measures the impact on the Bank's capital

2.6 Outsourcing Risk Management Policy

The Outsourcing Risk Management Policy represents a document which stipulates the terms and conditions for outsourcing and defines principles for the outsourcing risks management in the Bank.

The Outsourcing Risk Management Policy is a responsibility of the Board of Directors. The Executive Board is obliged to set up an appropriate system of managing risks relating to outsourcing, which is in accordance with the Law on Banks, Decision on Minimum Standards of Financial Institution’s Information System Management and Decision on Risk Management by banks.

The outsourcing risk is a risk that arises from Bank activities in connection with its operations assigned to a third party, which are pursued as its core activity. Bank risk management system comprises all risks arising from activities relating to its operations assigned to a third person, conducting such activities as its core activity, i.e. has certain experience in performing such activities.

The primary objective of outsourcing risk management is an assessment and possibility of risk control prior to the conclusion of an agreement / annex to the agreement and during the period of the agreement with third persons, i.e. service providers, and taking necessary measures aimed at protection from adverse impacts on Bank’s operations (financial result and capital) and reputation.

The Bank has defined criteria and procedures related to the outsourcing process by its procedures and internal acts. Furthermore, the Bank has defined required elements of contracts between the Bank and service provider within the meaning that the contract clearly defines all relevant terms, conditions, rights and obligations as well as responsibilities of contracting parties.

The Bank will take into consideration all legal circumstances relating to outsourcing activities, which include storage, processing and/or transfer of data on entity.

2.7 Interest Rate Risk Management Policy

The interest rate risk is a risk from occurrence of adverse effects to the financial result and capital of the Bank based on positions from the Banking Book due to changes in interest rates.

The Policy of Interest rate Risk in banking book defines the framework, principles and metrics applied for the interest rate risk management in the banking book, in accordance with the accepted level of risk exposure and the target risk profile, as well as with the general and specific risk management principles described in the Risk Management Strategy. The Bank assumes exposure to the interest rate risk in line with all legal regulations and internal rules. Acceptable exposure to the interest rate risk is defined by the level of limits which the Bank determines based on the Bank's ability and willingness to assume such risk.. The Bank manages the interest rate risk on the level of individual but significant currencies.

The basis for measuring the interest rate risk exposure is the analysis of mismatch in repeated determining of the interest rate between the interest-bearing assets and liabilities, that is GAP analyzes. Such mismatches comprise a part of the report for ALCO which distributes assets and liabilities according to tenors based on the following date of repeated determining of the price of instruments or due date for instruments with fixed interest rate.

The Bank uses following sensitivity measures of interest rate risk exposure for which system of limits is established:

- EVE - economic value of equity figure
- NII – net interest income.

The Bank, also developed a stress testing procedure for adequate measurement of interest rate risk exposure under various assumptions and measures their impact on Bank's financial result and capital.

2.8 Compliance Policy

Compliance Directorate is indepented organizational unit responsible to the Board of Directors. The Bank adopted the Compliance Policy which summarises the principles related to the Bank's compliance, determines the main direction of the independent compliance activity, which together define, foster and support the compliant, legal, safe and prudent operation of the Bank.

The compliance function is operated in order to create a lawful and ethical corporate culture that ensures the Bank's prudential and ethical operation in the long term.

In the course of operating the compliance function, the Bank applies the following principles:

a/ independence
b/ integrity
c/ operations without interference
d/ objectivity
e/ preventive and proactive approach
f/ risk-based approach
g/ proportionality
h/ high level of professional care and competence
i/ individual and banking group level coverage
j/ efficiency, rationalisation of compliance costs

In order to be considered compliant, the Bank and the Banking Group must:

a/ carry out their tasks by observing, following and enforcing the laws, the guidelines and recommendations of national and international supervisory authorities and OTP group standards,
b/ enforce the system of in-process controls, including the control of compliance risks associated with banking operations and of their management.

Compliance Directorate exercises continuous professional supervision, governance, and control over Bank and Banking Group Members (where deemed necessary taking into account level of activities which would indicate the need for supervision in the compliance areas), as part of which it carries out the following core tasks:

a/ identification and analysis of Group-level risks from compliance perspective (CoRis);
b/ development of standardised procedures and rules, supply of methodologies;
c/ operation of the Group-level reporting system;
d/ coordination of the activities of the Compliance Agents belonging to the Bank and Banking Group;
e/ education and training at Group level.

2.9 Money Laundering Prevention and Terrorist Financing Policy

Money laundering and terrorist financing risk is the risk of possible negative effects on the financial result, regulatory risk or Bank’s reputation due to the use of the bank for money laundering and terrorist financing. Money laundering and terrorist financing risk arises especially as a consequence of failing to harmonize the Bank's operations with the law, bylaws and internal acts of the bank which regulate the prevention of money laundering and terrorist financing, or as a consequence of mutual inconsistency of its internal acts. The Bank has regulated the identification, measurement and assessment of money laundering and terrorist financing risks and their management by appropriate policies, procedures and instructions. The Bank has established a special organizational unit, within the Bank Sector for risk management, the Department for the Prevention of Money Laundering and Terrorist Financing, which takes care of establishing and improving the control system for the prevention of money laundering and terrorist financing and continuous application of money laundering prevention and terrorist financing policies and procedures. The Bank provided appropriate personnel, material, information-technical and other working conditions to the employees in the Department for the Prevention of Money Laundering and Terrorist Financing, as well as continuous professional training and advanced training.

In accordance with the Law on Prevention of Money Laundering and Terrorist Financing (Law), the Bank has appointed an authorized person and deputies of an authorized person who meet all legally prescribed conditions for performing these tasks, as well as a person responsible for law enforcement, who is a member of the Bank's Executive Board.

2.10 Investment Risk Management Policy

The Bank's Investment Risk Management Policy has defined the method of identification, monitoring, control, internal limits as well as the periodicity of reporting to the competent committees in the Bank. This policy comprehensively describes the Bank's investment risk, which includes the risks of its investments in other legal entities and in fixed assets and investment property in accordance with the Decision of the NBS on risk management. The bank's investments in one person who is not a person in the financial sector may not exceed

10% of its capital, and this investment means an investment by which the Bank acquires a share or shares of a person who is not a person in the financial sector.

The bank's total investments in non-financial sector entities and in fixed assets and investment property of the bank may not exceed 60% of the bank's capital, provided that this restriction does not apply to the acquisition of shares for resale within six months from the date of acquisition.

The Investment Risk Management Policy applies to all activities of the Bank related to investments in equity securities, shares, fixed assets and investment property, and all organizational parts of the Bank that perform activities that affect investment risk are identified and respect the principles of this Policy.

2.11 Counterparty Risk Management Policy

Counterparty risk is the possibility of negative effects on the Bank’s financial result and capital due to non-settlement of the counterparty's obligation in the transaction before the final settlement of cash flows of the transaction, ie settlement of monetary obligations under that transaction.

The Bank's Risk Management Policy sets out the principles for counterparty risk management as well as the basis for setting limits for relevant counterparties, defining the basis for reporting, dealing with exceeding limits and the methodology for determining the internal rating as the basis for setting limits.

Through the mentioned policy, the Bank has identified all organizational parts that participate in the process of concluding and realizing transactions that bear the counterparty risk, and thus established the structure of the system of independent control of the counterparty's risk exposure. In such a set up system, the Risk Management Division is responsible for identifying, measuring, controlling and reporting on counterparty risk and it is independent of other organizational units within whose scope is the counterparty risk taking.

The counterparty limits are determined for each contracting party taking into account the analysis of the other contracting party, with the identification of a group of related parties and the analysis of other information that may be useful in determining the limits.

The Bank reports monthly to the counterparty risk exposure ALCO and the Parent Bank and quarterly to the Executive and Board of Directors.

2.12 Strategic Risk Management Policy

Strategic risk is the possibility of negative effects on the Bank’s financial result or capital due to lack of appropriate policies and strategies, and their inadequate implementation, as well as due to changes in the environment in which the Bank operates or lack of appropriate response to these changes. The starting point in the process of strategic risk management is defining the strategic direction of the Bank and determining strategic as well as operational goals, which is provided by the adoption of Business Policy and Strategy. Adequate implementation of the strategy, ie fulfillment of strategic goals, as well as activities defined in order to achieve them, is monitored at a periodic (at least quarterly) level by the Controlling Directorate.

2.13 ESG risk

ESG Risk - a collective term for environmental, social, or governance events or conditions that, if occurred, could cause actual or potential material negative impacts on the value of the assets or on the reputation of the Bank. May be called *sustainability risk*, as well. In accordance with the Sustainability Criteria (ESG), the Bank assesses and evaluates its activities in terms of the impact of activities on the environment, social justice and related issues of corporate governance (Governance), and ensures its compliance with relevant legal requirements. In addition, the Bank has developed a framework for the identification and management of so-called ESG risks in the process of lending to the economy (***E***-environmental, ***S***-social, ***G***-governance), as an instrument for the transition to a sustainable economy.

In September 2021, in line with the standards of OTP Group, the Bank adopted the framework for ESG risk management in process of loan origination and monitoring in the segment of legal entities, including adoption of the ESG Exclusion List, ESG Heat Map and ESG Due Diligence for clients with materially significant material exposures. In May 2022, the Bank included the qualitative statement on ESG risk to the overall Risk Appetite Statement, based on the ESG Exclusion list of all activities and behaviors, which are not compatible to standards and principles of the Bank and OTP Group and therefore the Bank is expected to abstain from their financing.

In June 2022, the ESG Strategy was adopted, by which the Bank fostering its role of a responsible provider of banking services and products, a responsible employer and a responsible actor in the local community, defined its mid-term objectives in domain of green financing, actions on reducing carbon footprint and in domain of responsible social and corporate activities.

2.14 Risk Management Manner of Organization

The Bank's committees, that is, the Bank's commission in charge of the risk management process are as follows:

Board of Directors has overall responsibility for setting up of appropriate risk management system and the following specific roles and responsibilities, as defined in Bank’s Corporate By-Laws relevant for the scope of this Strategy:

- Approves a draft of Bank’s Business Policy and Strategy and submits it to the Bank’s Assembly for adoption.
- Adopts the Risk Management Strategy, Capital Management Strategy and Recovery Plan.
- Adopts all policies regulating manner of managing specific risk types, as well as the policy for internal capital adequacy assessment (ICAAP).
- Determines the Bank’s internal organization, i.e. organizational structure that defines the division of competencies, duties and responsibilities among employees, members of management bodies and other persons in a managing positions at the Bank, in a manner that prevents the conflict of interest and provides a transparent and documented process of adopting and implementing decisions.
- Establishes the internal controls system and supervises its effectiveness.
- Analyses and adopts risk management quarterly reports, as well as the ICAAP Reports and annual reports on the adequacy of the Bank's risk management and internal control.

Within its roles and responsibilities as listed above the Board of Directors also:

- Adopts the Risk Appetite Framework, as an integral part of this Strategy.
- Defines the Bank's risk appetite by adopting the Risk Appetite Statement, as an integral part of the Risk management strategies.
- Ensures the overall consistency of the Risk Appetite Framework and the Risk Appetite Statement with the Bank's Business Policy and Strategy, the ICAAP and the Recovery Plan, and the internal control system with regards to the evolution of the internal and external conditions which the Bank and the Banking Group operate in.
- Analyses and adopts quarterly and annual reports on the utilisation of the Risk Limits/Risk Tolerance Indicators of the Risk Appetite Statement and on the eventual Risk Tolerance Indicators breaches (including the information on the management mitigation actions) in order to assesses the adequacy and effectiveness of the Risk Appetite Framework and the compatibility between the actual risk (risk profile) and the risk appetite.

Audit Committee (AC) supports Board of Directors in execution of its supervisory role, with the following specific roles and responsibilities, as defined in Bank's Corporate By-Laws relevant for the scope of this Strategy:

- Analyses all risk management related strategies and policies, including the ICAAP Policy and Recovery Plan, before adoption by Board of Directors.
- Analyses and monitors the implementation and adequate enforcement of adopted strategies and policies for risk management and implementation of internal controls, through the means of analysis of risk management quarterly reports, ICAAP Reports, as well as performance reports and internal audit findings.
- Reports to the Board of Directors on detected discrepancies or irregularities, if any, proposing to the Board of Directors a manner of rectifying these discrepancies and improving policies and procedure for risk management and implementation of the internal control system.

Within its roles and responsibilities as listed above the Audit Committee also:

- Supports the Board of Directors with the assessment of proposed risk appetite ensuring the overall consistency of the Risk Appetite Statement with the strategic and business plans, the ICAAP, the Recovery Plan, and the internal control system.
- On quarterly and annual basis receives information on the utilization of the Risk Limits/Risk Tolerance Indicators of the Risk Appetite Statement and, in case of limit breaches, on the mitigation actions taken to bring the assumed risks back to acceptable levels.

Executive Board organizes and supervises Bank's day-to-day operations, is responsible for implementation of the internal control system and for the efficient functioning of that system and has the following specific roles and responsibilities, as defined in Bank's Corporate By-Laws, relevant for the scope of this Strategy:

- Proposes to Board of Directors the Business Policy and Strategy, Risk Management Strategy, Capital Management Strategy, Recovery Plan as well as all policies regulating manner of managing specific risk types, including the ICAAP policy.
- Implements the Risk Management Strategy and policies for risk management and the Capital Management Strategy by adopting risk management procedures,

i.e. procedures for risk identification, measurement and assessment, and by ensuring their implementation, reporting to the Board of Directors in relation to these activities

- Presents a review of business activities, the Bank’s balance sheet and the profit and loss statement to the Board of Directors, at least once during each quarter.
- Informs the Board of Directors and the NBS, promptly, of any deterioration in the Bank's financial situation, or the existence of danger of such a deterioration, as well as other facts that may significantly influence the Bank's financial situation.

Within its roles and responsibilities as listed above the Executive Board also:

- Proposes to Board of Directors adoption of risk management quarterly reports, as well as ICAAP Reports and annual reports on the adequacy of the Bank's risk management and internal control.
- Receives and analyses on a monthly basis the reports on the utilisation of the Risk Limits/Risk Tolerance Indicators of the Risk Appetite Statement related to profitability as part of the monthly Controlling Report to ensure that the implementation of the Risk Appetite Framework is consistent with the defined and approved risk appetite.
- Receives and analyses information on limit breaches related to profitability and on the management mitigation actions to bring the assumed risks back to acceptable levels.
- Approves the mitigation action plans related to the Risk Tolerance Indicators breaches related to profitability to bring the assumed risks back to acceptable levels.
- Proposes to Board of Directors for adoption the Risk Appetite Framework and overall Risk Appetite Statement, as an integral part of this Strategy.
- Proposes to Board of Directors for adoption quarterly and annual reports on the utilisation of the Risk Limits/Risk Tolerance Indicators of the Risk Appetite Statement and on the eventual Risk Tolerance Indicators breaches (including the information on the management mitigation actions).

Asset and Liability Management Committee (ALCO) monitors the exposure of the Bank to the risks arising from the structure of its balance sheet liabilities and receivables and off-balance sheet items and has the following specific roles and responsibilities, as defined in Bank’s Corporate By-Laws, relevant for the scope of this Strategy:

- Analyzing and monitoring on a monthly basis, the Bank’s balance from the aspect of securing maturity and repricing harmonization of assets and liabilities, liquidity and solvency, stability of operations and adequate profitability and control of exposure to the interest risk in the banking book and market risk (pricing and foreign exchange risk).
- Monitoring of movements in the balance sheet, funding structure and achieved weighted average cost of funding, on a monthly basis, and proposing measures for harmonization.
- Analyzing reports on the balance sheet development and changes in assets and liabilities as well as reports on market risk, liquidity risk and interest rate risk and adopting measures for harmonizing the maturity structure, liquidity maintenance, efficient liquidity risk and interest rate risk management and increasing profitability, in accordance with the Bank’s general acts.
- Monitoring early warning and Recovery plan indicators.

Within its roles and responsibilities as listed above the ALCO also:

- Reviews and confirms the proposed Risk Limits/Risk Tolerance Indicators related to the capital, liquidity, interest rate risk in the banking book and market risks within the Risk Appetite Statement in the process of adoption of Risk Appetite Statement.
- Receives and analyses on a monthly basis the report on the utilisation of the Risk Limits/Risk Tolerance Indicators of the Risk Appetite Statement related to capital, liquidity, interest rate risk in the banking book and market risks to ensure that the implementation of the Risk Appetite Framework is in line with the predetermined risk appetite. Normally, the report on the utilization of the Risk Limits/Risk Tolerance Indicators is integrated in standard reports analysed by ALCO.
- Receives and analyses information on Risk Tolerance Indicators breaches related to capital, liquidity, interest rate risk in the banking book and market risks and on the management mitigation actions to bring the assumed risks back to acceptable levels.
- Approves the mitigation action plans related to the Risk Tolerance Indicators breaches of capital, liquidity, interest rate risk in the banking book and market Risk Tolerance Indicators to bring the assumed risk back to acceptable levels.

Credit Committee decides on loan applications within the framework of the Bank's regulations and has the following specific roles and responsibilities, as defined in Bank’s Corporate By-Laws, relevant for the scope of this Strategy:

- Decides on existing and new placements – loan applications in the scope and up to the limits determined by Board of Directors and in accordance with the Law on Banks and by-laws brought by NBS.
- Decides on limits of clients in the corporate segment and makes decisions for management of those limits in accordance with the Bank’s internal regulation.
- Establishes the terms for placements approval in line with the Bank’s internal regulation.
- Defines general lending principles for the current year and proposes them for adoption to Board of Directors.

Corporate Credit Risk Committee supports the Executive Board in activities related to the management of corporate loan portfolio, i.e. in implementation of risk management strategy and policies, identification, measurement, monitoring and control of exposure to credit risk in corporate loan portfolio.

Retail Credit Risk Committee supports the Executive Board in activities related to the management of retail and small business loan portfolio, i.e. in implementation of risk management strategy and policies, identification, measurement, monitoring and control of exposure to credit risk in retail and small business loan portfolio.

Operational Risk Management Committee supports the Executive Board in activities related to the management of operational risks, i.e. implementation of risk management strategy and policies relating to operational risks, as well as identification, measurement, monitoring and control of exposures to operational risks in the Bank’s operations.

Workout Committee supports the Executive Board in activities related to the debt management of the Bank, including analysis of non-performing loan portfolio and monitoring results of their collection.

Leasing Credit Risk Commission supports the Executive Board in activities related to management of credit portfolio at consolidated level, i.e at the level of the Banking Group, providing information on leasing portfolio quality.

3. BANK'S CAPITAL

Bank discloses following data related to structure of the total capital as of December 31, 2022 on Bank (on individual base) and on Banking group (on consolidated base) level:

Form PI-KAP *(in RSD thousands)*

No	Item	Amount on individual base	Amount on consolidated base	
	Common Equity Tier 1: elements			
1	CET1 capital instruments and the related share premium accounts	59,395,644	59,395,644	
1.1.	*of which: shares and other capital instruments which fulfil the requirements as laid out in Section 8 of the DCA*	56,830,752	56,830,752	Section 7, paragraph 1, item 1) and Section 8
1.2.	*of which: relevant share premium with the instruments referred to in item 1.1, i.e. the amount paid above par value of those instruments*	2,564,892	2,564,892	Section 7, paragraph 1, item 2)
4	Revaluation reserves and other unrealized gains	78,661	78,661	Section 7, paragraph 1, item 4)
5	Profit reserves and other reserves of the bank, except reserves for general banking risks	30,701,394	30,701,394	Section 7, paragraph 1, item 5)
8	**Common Equity Tier 1 capital before regulatory adjustments and deductibles** (sum of rows from 1 to 7)	**90,175,669**	**90,175,669**	
	Common Equity Tier 1 capital: regulatory adjustments and deductibles			
9	Additional value adjustments (-)	42,319	42,319	Section 12, paragraph 5
10	Intangible assets, including goodwill (net of deferred tax liabilities) (-)	1,254,606	1,394,879	Section 13, paragraph 1, item 2)
24	Losses for the current and previous years, and unrealised losses (-)	300,339	300,855	Section 13, paragraph 1, item 1)
25	Gross amount of receivables from debtors-individuals (except farmers and entrepreneurs) on the basis of approved consumer loans, cash loans or other loans shown on accounts 102, 107, and 108 in accordance with the decision prescribing the chart of accounts and the contents of the accounts framework for banks where the degree of credit indebtedness of that debtor before the loan was approved was higher than the percentage determined in accordance with the decision regulating the classification of balance sheet assets and off-balance sheet items of the bank or this percentage will be higher due to loan approval (-)	46,756	46,756	Section 13, paragraph 1, item 13)
26	Gross amount of receivables from debtors-individuals (except farmers and entrepreneurs) on the basis of approved consumer loans, cash loans or other loans, which are shown on accounts 102,107 and 108 in accordance with the decision prescribing the Chart of Accounts and the contents of accounts in the Chart of Accounts for banks, which on the basis of the agreed maturity criteria meet the condition for the application of the deductible item from the share capital prescribed by the decision determining the capital adequacy of the bank (-)	278,961	278,961	Section 13, paragraph 1, item 14)
28	**Total regulatory adjustments and deductibles from CET1 capital** (sum of rows from 9 to 27)	1,922,981	2,063,770	
29	**Common Equity Tier 1 capital** (difference between 8 and 28)	**88,252,718**	**88,111,929**	
	Additional Tier 1 capital: elements			
32	**Additional Tier 1 capital before deductibles** (30+31)	-	-	
	Additional Tier 1 capital: deductibles			
38	**Total deductibles from Additional Tier 1 capital** (sum of rows from 33 to 37)	-	-	
39	**Additional Tier 1 capital** (difference between 32 and 38)	**-**	**-**	
40	**Tier 1 capital** (sum of rows 29 and 39)	**88,252,718**	**88,111,929**	
	Tier 2: elements			
41	Shares and other instruments of Tier 2 and subordinated liabilities, which met the conditions from section 28 OAK and related share premium with the instruments	14,652,450	14,652,450	Section 27, paragraph 1, item 1 and 2
44	**Tier 2 capital before deductibles** (sum of rows from 41 to 43)	**14,652,450**	**14,652,450**	
	Tier 2 capital: deductibles			

49	**Total deductibles from Tier 2 capital** (sum of rows from 45 to 48)	-	-	
50	**Tier 2 capital** (difference between 44 and 49)	**14,652,450**	**14,652,450**	
51	**Total capital** (sum of rows 40 and 50)	**102,905,168**	**102,764,379**	
52	**Total risk-weighted assets**	487,276,502	509,061,061	Section 3, paragraph 2
	Capital adequacy ratios and capital buffers			
53	Common Equity Tier 1 capital ratio (%)	18.11%	17.31%	Section 3, paragraph 1, item 1)
54	Tier 1 capital ratio (%)	18.11%	17.31%	Section 3, paragraph 1, item 2)
55	Total capital ratio (%)	21.12%	20.19%	Section 3, paragraph 1, item 3)
56	Total requirements for capital buffers (%)	6.67%	6.74%	Section 433
57	Common Equity Tier 1 capital available for capital buffers coverage (%)	7.85%	7.05%	

In following table, additional value adjustments and deductibles from capital by type and amount included in capital calculation are presented:

	Amount on individual base	Amount on consolidated base
Common Equity Tier 1 capital		
Additional value adjustments of Common Equity Tier 1Capital	**42,319**	**42,319**
(-) Aditional value adjustments	42,319	42,319
Deductibles from Common Equity Tier 1 Capital	**1,880,662**	**2,021,451**
(-) Unrealized losses	300,339	300,855
(-) Intangible assets, including goodwill (net of deferred tax liabilities) (-)	1,254,606	1,301,114
(-)Goodwill included in the measurement of significant investment	-	93,765
(-) Gross amount of receivables from debtors-individuals (except farmers and entrepreneurs) on the basis of approved consumer loans, cash loans or other loans shown on accounts 102, 107, and 108 in accordance with the decision prescribing the chart of accounts and the contents of the accounts framework for banks where the degree of credit indebtedness of that debtor before the loan was approved was higher than the percentage determined in accordance with the decision regulating the classification of balance sheet assets and off-balance sheet items of the bank or this percentage will be higher due to loan approval (-)	46,756	46,756
(-) Gross amount of receivables from debtors-individuals (except farmers and entrepreneurs) on the basis of approved consumer loans, cash loans or other loans, which are shown on accounts 102,107 and 108 in accordance with the decision prescribing the Chart of Accounts and the contents of accounts in the Chart of Accounts for banks, which on the basis of the agreed maturity criteria meet the condition for the application of the deductible item from the share capital prescribed by the decision determining the capital adequacy of the bank (-)	278,961	278,961
Additional Tier 1 capital		
Deductibles from Additional Tier 1 capital	-	-
Tier 2 capital		
Deductibles from Tier 2 capital	-	-

In accordance to Decision on Bank's capital adequacy, as of December 31, 2022 Common Equity Tier 1 Capital was reduced for additional value adjustments that relates to additional adjustment of assets measured at fair value in accordance to articles from 315 to 318. of Decision on Bank's capital adequacy in amount of 42.319 thousand dinars on both standalone and consolidated basis.

Total amount of investments in the CET1 instruments in financial sector entities in which the Bank and the Banking group, in accordance to Decision on Bank's capital adequacy, does not has a significant investment in those entities amounted to 238.214 thousand dinars are not deductibles from capital considering that amount of these investments are below prescribed limit of 10% of adjusted Common Equity Tier 1capital amounted to 8.825.272 thousand dinars on standalone base, and 8.811.193 thousand dinars on consolidated base, as of December 31, 2022.

Total amount of investments in CET1 instruments in financial sector entities in which the Bank has a significant investment is 937.879 thousand dinars on individual base and 149.650 thousand dinars on consolidated base are not a deductible item from Common Equity Tier 1 Capital because they don't exceed the prescribed limit of 10% of the adjusted Common Equity Tier 1 Capital of the Bank, amounted to 8.825.272 thousand dinars on individual base and 8.811.193 thousand dinars on consolidated base, as of December 31, 2022.

The sum of the total investments in the CET1 instruments in financial sector entities in which the Bank, in accordance to Decision on Bank's capital adequacy, has a significant investment in those entities and total deferred tax assets depending od future profitability and arising from temporary difference as of December 31, 2022 amounted to 937.879 thousand dinars on individual base and 149.650 thousand dinars on consolidated base are not deductibles items from capital considering that this amount are below prescribed limit of 17.65% of adjusted Common Equity Tier 1 capital amounted to 15.411.069 thousand dinars on individual base, and 15.525.342 thousand dinars on consolidated base as of December 31, 2022.

Description of the basic characteristics of all the elements to be included in the calculation of capital:

No	Instrument features	Description	Description
1.	**Issuer**	**OTP banka Srbija AD Novi Sad**	**OTP Financing Malta Company ltd**
1.1.	**Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)**	**RSKULBE40207**	
	Regulatory treatment		
2.	**Treatment in accordance with the Decision on Capital Adequacy of Banks**	CET1 capital instrument	Tier 2 capital instrument
3.	**Eligible at solo/(sub-)consolidated/ solo&(sub-) consolidated**	Individual and group level	Individual and group level
4.	**Instrument type**	Common shares	Subordinated debt issued in the form of a financial instrument
5.	**Amount recognised in regulatory capital (in RSD thousand, as of most recent reporting date)**	56,830,752	14,652,450
6.	**Nominal amount of instrument**	49,540	
6.1.	**Issue price**	At the 25th issue, by decision of the Bank's Assembly from 12.12.2011. the emission price was set at RSD 168,960	/
6.2.	**Redemption price**	At the 25th issue – RSD 168,960	/
7.	**Accounting classification**	Share capital	Liabilities – amortised value
8.	**Original date of issuance**	27.04.2007. 10.12.2010. 29.09.2011. 12.12.2011. 13.03.2012. 15.01.2014. 21.12.2016. 14.12.2017. 26.03.2019. 29.04.2021. 14.09.2021.	23.12.2009. 31.10.2018. 28.12.2018. 18.12.2020. 12.03.2021. 20.12.2021.
9.	**Perpetual or dated**	without maturity date	with maturity date
9.1.	**Original maturity date**	without maturity date	23.12.2027. 31.10.2028. 30.04.2032. 18.12.2030. 12.03.2031. 20.12.2031.
10.	**Issuer call subject to prior supervisory approval**	*No*	*No*
10.1.	**Optional call date, contingent call dates and redemption amount**	/	/
10.2.	**Subsequent call dates, if applicable**	/	/
	Coupons / dividends		/
11.	**Fixed or floating dividend/coupon**	Variable	/
12.	**Coupon rate and any related index**	/	/
13.	**Existence of a dividend stopper**	/	/
14.1.	**Fully discretionary, partially discretionary or mandatory (in terms of timing)**	Fully discretion right by Bank's assembly	/

14.2.	**Fully discretionary, partially discretionary or mandatory (in terms of amount)**	Fully discretion right by Bank's assembly	/
15.	**Existence of step up or other incentive to redeem**	No	/
16.	**Noncumulative or cumulative divident/coupon**	Non-cumulative	/
17.	**Convertible or non-convertible**	Inconvertible	/
18.	**If convertible, conversion trigger(s)**	/	/
19.	**If convertible, fully or partially**	/	/
20.	**If convertible, conversion rate**	/	/
21.	**If convertible, mandatory or optional conversion**	/	/
22.	**If convertible, specify instrument type convertible into**	/	/
23.	**If convertible, specify issuer of instrument it converts into**	/	/
24.	**Write-down features**	No, according to Issue decision	/
25.	**If write-down, write-down trigger(s)**	/	/
26.	**If write-down, full or partial**	/	/
27.	**If write-down, permanent or temporary**	/	/
28.	**If temporary write-down, description of write-up mechanism**	/	/
29.	**Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)**	Subordinated liabilities	/
30.	**Non-compliant transitioned features**	No	No
31.	**If yes, specify non-compliant features**	/	/

Information on connecting capital position from the balance sheet positions with the positions from the form PI-KAP:

Form PI-UPK **The breakdown of the elements in the balance sheet** *(in RSD thousands)*

Position mark	Position name	Amount on individual base	Amount on consolidated base	Reference
A	**ASSETS**			
A.I	Cash and assets at central bank	140,512,381	140,512,381	
A.II	Pledged financial assets	445,087	445,087	
A.III	Receivables under derivatives	448,484	448,484	
A.IV	Securities	41,472,668	41,472,668	
A.V	Loans and receivables from banks and other financial organisations	11,214,878	9,642,776	
A.VI	Loans and receivables from clients	532,490,294	559,642,135	
A.IX	Investments in associated companies and joint ventures	149,650	400,789	
A.X	Investments into subsidiaries	755,514	-	
A.XI	Intangible investments	1,254,606	1,394,879	k
A.XII	Property, plant and equipment	11,507,553	11,612,734	
A.XIII	Investment property	370,153	300,907	
A.XV	Deferred tax assets	57,199	57,020	
A.XVI	Permanent assets intended to sale and assets of operation which is to be terminated	6,248	25,896	
A.XVII	Other assets	3,327,230	3,560,267	
A.XX	**TOTAL ASSETS**	**744,011,945**	**769,516,023**	
P	**LIABILITIES**			
PO	**LIABILITIES**			
PO.I	Liabilities under derivatives	398,327	398,327	
PO.II	Deposits and other liabilities to banks, other financial organisations and central bank	170,000,624	193,370,610	
PO.III	Deposits and other financial liabilities to clients	448,758,309	448,758,309	
PO.VII	Subordinates liabilities	14,748,628	14,748,628	
	Of which subordinated liabilities that are incuded in Tier 2 capital	14,652,450	14,652,450	j
PO.VIII	Provisions	3,772,895	3,757,745	
PO.X	Current tax liabilities	1,042,563	1,058,827	
PO.XII	Other liabilities	4,932,613	5,351,218	
PO.XIII	**TOTAL LIABILITIES**	643,653,959	667,443,664	
	CAPITAL			
PO.XIV	Equity capital	59,395,644	59,395,644	
	Out of that: paid-in shares, excluding cumulative preference shares	56,830,752	56,830,752	a
	Out of that: share premium	2,564,892	2,564,892	b
PO.XVI	Profit	10,861,689	12,006,985	
	Out of that: profit from previous years	-	968,179	
	Out of that: profit from current year	10,861,689	11,038,806	
PO.XVII	Loss	-	-	
PO.XVIII	Reserves	30,100,653	30,380,469	
	Out of that: profit reserves that are an element of CET1	30,701,394	30,701,394	f
	Out of that: revaluations reserve and other unrealized gains that are an element of share CET1 capital	78,661	78,661	h
	Out of that: unrealized losses that are an deductible item of CET1 capital	(300,339)	(300,339)	e
PO.XX	Participation without the right of control	-	289,261	
PO.XXI	**TOTAL CAPITAL**	100,357,986	102,072,359	
PO.XXII	**TOTAL CAPITAL SHORTFALL**	-	-	
P.	**TOTAL LIABILITIES**	**744 011 945**	**769,516,023**	
V.P.	**OFF BALANCE POSITIONS**			
V.P.A.	Off-balance assets	516,345,990	516,343,412	
V.P.P.	Off-balance liabilities	516,345,990	516,343,412	

Form PI-KAP

Connecting positions articulated in the balance sheet and position in the PI-KAP form

(in RSD thousands)

Serial No.	Name	Amount on individual base	Amount on consolidated base	Data source in accordance to references
	Common Equity Tier 1: elements			
1	CET1 capital instruments and the related share premium accounts	59,395,644	59,395,644	
1.1.	*of which: shares and other capital instruments which fulfil the requirements as laid out in Section 8 of the DCA*	56,830,752	56,830,752	a
1.2.	*of which: relevant share premium with the instruments referred to in item 1.1, i.e. the amount paid above par value of those instruments*	2,564,892	2,564,892	b
4.	Revaluation reserves and other unrealised gains	78,661	78,661	h
5.	Profit reserves and other reserves of the bank, except reserves for general banking risks	30,701,394	30,701,394	f
8	**Common Equity Tier 1 capital before regulatory adjustments and deductibles (sum of rows from 1 to 7)**	**90,175,699**	**90,175,699**	
	Common Equity Tier 1 capital: regulatory adjustments and deductibles			
9	Additional value adjustments (-)	42,319	42,319	
10	Intangible assets, including goodwill (net of deferred tax liabilities) (-)	1,254,606	1,394,879	k
24	Losses for the current and previous years, and unrealised losses (-)	300,339	300,855	e
25	Gross amount of receivables from the borrower – natural person (other than a farmer or an entrepreneur) arising from extended consumer, cash or other loans disclosed in accounts 102, 107 and 108 in accordance with the decision prescribing the Chart of Accounts and contents of accounts in the Chart of Accounts for Banks 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. This deductible shall be applied regardless of whether following the loan approval the level of the borrower's debt-to-income ratio has dropped below the said percentage (-)	46,756	46,756	
26	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 item 1.1.1.27 of this Form, disclosed in accounts 102, 107 and 108 in accordance with the decision prescribing the Chart of Accounts and contents of accounts in the Chart of Accounts for Banks, which under the criterion agreed maturity qualify for the deduction from Common Equity Tier 1 prescribed by the decision governing bank capital adequacy (-)	278,961	278,961	
28	**Total regulatory adjustments and deductibles from CET1 capital** (sum of rows from 9 to 27)	1,922,981	2,063,770	
29	**Common Equity Tier 1 capital** (difference between 8 and 28)	**88,252,718**	**88,111,929**	
	Additional Tier 1 capital: elements			
32	**Additional Tier 1 capital before deductibles** (30+31)	-	-	
	Additional Tier 1 capital: deductibles			
38	**Total deductibles from Additional Tier 1 capital** (sum of rows from 33 to 37)	-	-	

39	**Additional Tier 1 capital** (difference between 32 and 38)	**-**	**-**	
40	**Tier 1 capital** (sum of rows 29 and 39)	**88,252,718**	**88,111,929**	
	Tier 2: elements			
41	Shares and other instruments of Tier 2 and subordinated liabilities, which met the conditions from section 28 OAK and related share premium with the instruments	14,652,450	14,652,450	j
44	**Tier 2 capital before deductibles** (sum of rows from 41 to 43)	**14,652,450**	**14,652,450**	
	Tier 2 capital: deductibles			
49	**Total deductibles from Tier 2 capital** (sum of rows from 45 to 48)	-	-	
50	**Tier 2 capital** (difference between 44 and 49)	**14,652,450**	**14,652,450**	
51	**Total capital** (sum of rows 40 and 50)	**102,905,168**	**102,764,379**	
52	**Total risk-weighted assets**	487,276,502	509,061,061	
	Capital adequacy ratios and capital buffers			
53	Common Equity Tier 1 capital ratio (%)	18.11%	17.31%	
54	Tier 1 capital ratio (%)	18.11%	17.31%	
55	Total capital ratio (%)	21.12%	20.19%	
56	Total requirements for capital buffers (%)	6.67%	6.74%	
57	Common Equity Tier 1 capital available for capital buffers coverage (%)	7.85%	7.05%	

The Bank, as the ultimate parent company, applies the same method and scope of consolidation in the consolidated balance sheet made both for the control of the banking group on a consolidated basis and in accordance with International Accounting Standards and International Financial Reporting Standards. Accordingly, there are no differences between the consolidated balance sheet prepared for the purposes of control of the Banking Group on a consolidated basis and the position of the balance sheet prepared in accordance with International Accounting Standards and International Financial Reporting Standards.

4. CAPITAL BUFFERS

Capital buffers are additional Common Equity Tier 1 capital that Bank and Banking group are obliged to maintain above the prescribed regulatory minimum i.e. capital buffers may not be used for maintaining the defined capital adequacy ratio on Bank and Banking group level.

The following capital buffers are used and calculated in accordance to the NBS:

- Capital conservation buffer
- Countercyclical capital buffer
- Capital buffer for a systemically important bank
- Systemic risk buffer

Following tables present capital buffers as of December 31, 2022:

(in RSD thousand)

Capital buffers	On standalone level		On consolidated level	
	Amount	% of RWA	Amount	% of RWA
Combined capital buffers	**32,501,136**	**6.67%**	**34,292,346**	**6.74%**
Capital conservation buffer	12,181,913	2.50%	12,726,527	2.50%
Countercyclical capital buffer	0	0.00%	0	0.00%
Capital buffer for a systemically important bank	9,745,530	2.00%	10,181,221	2.00%
Systemic risk buffer	10,573,693	2.17%	11,384,599	2.24%

Geographical Distribution of Exposures Relevant for the Calculation of the Countercyclical Capital Buffer

Form PI-GR

- *On standalone level*

No		General credit exposures	Trading book exposure	Securitisation exposure	Capital requirements				Capital requirement weights	Countercyclical capital buffer rate
		Exposure value for SA	Sum of long and short position of trading book	Exposure value for SA	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total		
1.	Breakdown by country	-	-	-	-	-	-	-	-	-
1.1	Republic of Serbia	427,332,167	-	-	34,186,573	-	-	34,186,573	1.00	0.00%
2.	**Total**	**427,332,167**	**-**	**-**	34,186,573	**-**	**-**	34,186,573	1.00	0.00%

- *On consolidated level*

R. Br.		General credit exposures	Trading book exposure	Securitisation exposure	Capital requirements				Capital requirement weights	Countercyclical capital buffer rate
		Exposure value for SA	Sum of long and short position of trading book	Exposure value for SA	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total		
1.	Breakdown by country	-	-	-	-	-	-	-	-	-
1.1	Republic of Serbia	446,504,193	-	-	35,720,335	-	-	35,720,335	1.00	0.00%
2.	**Total**	**446,504,193**	**-**	**-**	35,720,335	**-**	**-**	35,720,335	1.00	0.00%

Disclosed exposure toward Republic of Serbia represent foreign exposure less than 2% of the aggregate amount of its general credit exposures, trading book exposures and securitization exposures on the Bank and Banking group level.

Amount of Bank-Specific Countercyclical Capital Buffer

Form PI-KZS

- *On standalone level*

1.	**Total risk exposure amount**	**487,276,502**
2.	**Specific countercyclical capital buffer rate**	**2.50%**
3.	**Specific countercyclical capital buffer requirement**	**0**

- *On consolidated level*

1.	**Total risk exposure amount**	**509,061,061**
2.	**Specific countercyclical capital buffer rate**	**2.50%**
3.	**Specific countercyclical capital buffer requirement**	**0**

5. LEVERAGE RATIO

Leverage ratio represents the ratio of the Tier 1 capital, which is the sum of CET 1 capital and Additional common capital in accordance with the decision regulating the capital adequacy of the bank, and the amount of the exposure in accordance with the Methodology of the NBS for the preparation of the report on the leverage ratio and it is presented in percent. This indicator represents a ratio to the capital adequacy ratio and, comparing to the capital adequacy ratio, it represent the level of financial leverage that is not based on the risk asset level, given that it is calculated as the ratio of the Tier 1 capital and assets not weighted by the level of risk. In accordance with the regulations of the NBS, the minimum required level has not been prescribed for the leverage ratio, but only the obligation to calculate and monitor it.

On December 31, 2022 the indicator of leverage is 11.39% at standalone level, or 11.02 % at the consolidated level.

Name	**Bank**	**Banking group**
Exposures based on repo and reverse repo transactions, securities trade lending transactions, securities or goods borrowing and lending agreements and transactions with a long settlement period	542,632	542,632
Current derivative exposures in case the bank uses the current exposure method in accordance with the decision regulating the capital adequacy of the bank	448,485	448,485
Potential derivative exposures in case the bank uses the current exposure method in accordance with the decision regulating the capital adequacy of the bank	550,849	550,849
Off-balance exposures classified as low risk (with a conversion factor of 10%)	9,627,128	9,497,968
Off-balance exposures classified as moderate risk (with a conversion factor of 20%)	6,866,282	6,866,282
Off-balance exposures classified as medium risk (with a conversion factor of 50%)	18,877,648	18,291,036
Off-balance exposures classified in the high risk category (with a conversion factor of 100%)	630,015	630,015
Other exposures	743,843,485	769,347,570
Exposures that represent a deductible item from the basic share capital or additional share capital in accordance with the decision regulating the capital adequacy of the bank	(6,280,216)	(6,420,489)
Total amount of exposure for the calculation of the leverage indicator	**775,106,308**	**799,754,348**
Share capital in accordance with the decision regulating the capital adequacy of the bank	**88,252,718**	**88,111,929**
Leverage ratio	**11.39**	**11.02**

6. CAPITAL ADEQUACY

Quantitative information on the amounts of capital requirements are presented in the table below:

(in RSD thousands)

No	Name	Amount on individual base	Amount on consolidated base
I	CAPITAL	102,905,168	102,764,379
1.	TOTAL COMMON EQUITY TIER 1 CAPITAL	88,252,718	88,111,929
3.	TIER 2 CAPITAL	14,652,450	14,652,450
II	CAPITAL REQUIREMENTS	38,982,120	40,724,885
1.	CAPITAL REQUIREMENT FOR CREDIT RISK, COUNTERPARTY RISK, DILUTION RISK AND SETTLEMENT/DELIVERY RISK TO FREE DELIVERIES	34,513,133	36,050,400
1.1.	Standardised Approach (SA)	34,513,133	36,050,400
1.1.2.	*Exposures to territorial autonomies or local government units*	164,009	167,513
1.1.3.	*Exposure to public administrative bodies*	5,715	5,715
1.1.6.	*Exposures to banks*	156,837	156,837
1.1.7.	*Exposures to companies*	14,424,899	14,831,291
1.1.8.	*Retail exposures*	12,830,572	13,987,147
1.1.9.	*Exposures secured by mortgages on immovable property*	5,327,384	5,327,384
1.1.10.	*Exposures in default*	453,592	501,923
1.1.16.	*Equity exposures*	183,836	82,939
1.1.17.	*Other items*	966,290	989,650
3	CAPITAL REQUIREMENT FOR MARKET RISKS	208,804	260,383
3.1.	Capital requirements for position, foreign exchange risk and commodities risk calculated under the Standardised Approach	208,804	260,383
3.1.1.	*Capital requirement for position risk of debt securities*	36,270	36,270
3.1.4.	*Capital requirement for foreign exchange risk*	172,534	224,113
4	CAPITAL REQUIREMENTS FOR OPERATIONAL RISK	4,233,816	4,387,736
4.1.	Capital requirement for operational risk calculated under the Basic Indicator Approach	4,233,816	4,387,736
5.	CAPITAL REQUIREMENTS FOR CVA RISK	26,366	26,366
5.1	Capital requirements for CVA risk	26,366	26,366
III	COMMON EQUITY TIER 1 CAPITAL RATIO (%)	18.11%	17.31%
IV	TIER 1 CAPITAL RATIO (%)	18.11%	17.31%
V	TOTAL CAPITAL RATIO (%)	21.12%	20.19%

Market risk exposures contain exposure for foreign exchange and price risk, because Bank has no exposure for commodity risk.

The Bank applies the standardized approach in calculation capital requirement for foreign-exchange risk.

Capital requirement for position risk is sum of:

- Capital requirement for position risk on debt securities

- Capital requirement for position risk on equity securities

The Bank did not have an exposure to position risk based on equity securities, so the capital requirement for price risk based on these securities is equal to zero.

As of December 31, 2022. Bank in the trading book had positions in currency and interest rate swaps contracts, forward positions and government securities. Accordingly, the Bank was required to calculate the general and specific position risk for debts securities in accordance with the Decision on the capital adequacy of the Bank.

For the calculation of the capital requirements for debt securities, the Bank applies the maturity method.

The Bank uses the Basic Indicator Approach for the calculation of the operational risk capital requirement. The capital requirement for operational risk for 2022. amounted to 4.233.816 thousand dinars on standalone basis and 4.387.736 thousand dinars on consolidated basis.

7. INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

Internal Capital Adequacy Assessment Process

With the Risk Management Strategy and the Policy of Internal Capital Adequacy Assessment Process the Bank defines its strategic (long-term) relation toward risks, defining, in particular, risks and tendencies for assumption thereof, principles under which the Bank assumes and manages risks and performs the internal capital adequacy assessment process (hereinafter: the ICAAP).

The basic goal of the ICAAP is to identify all materially significant risks the Bank is exposed to, to quantify the materially significant risks, to undertake measures for the reduction of their volume and adverse effect to the Bank's capital. The Bank considers the following risks as materially important: group of credit risks (credit risk, credit FX risk, concentration risk, residual risk, delivery risk, counterparty risk, credit risk induced by interest rate), group of market risks (FX risk, price risk), group of operational risks (operational risk, legal risk), liquidity risk, CVA risk and group of other risks (strategic risk, reputation risk).

The ICAAP is closely related with the Capital Management Strategy and establishment of the Capital Plan. The Capital Management Strategy defines a general approach to capital management in order to ensure an adequate level and optimal capital structure that supports the Bank's risk profile. Bank estimates an adequate level and optimal capital structure, as well as a level and structure of the internal capital that may support an expected growth in placements, future sources of funds and their utilization, dividend policy and any other changes in the minimum amount of capital stipulated under the NBS decision governing the capital adequacy. With the Capital Plan, the Bank has predicted a manner to reach and maintain an adequate capital and/or available internal capital and the action plan to be undertaken in case of unforeseen events that may affect the said values (e.g. capitalization, withdrawal of new or prolongation of existing subordinate loans , etc…).

Methodologies for calculating internal capital requirements and stress tests for risks assessed in the ICAAP are described in the Rulebook on the implementation of internal capital adequacy assessment process.

The Bank calculates the internal capital adequacy for credit risk in order to assess the overestimation/underestimation of the applied standard method and sets out the additional capital requirement (in relation to the standard approach) in the event of underestimation. At the same time, the bank calculates capital requirements and under stress-tested conditions. For other risks from the group of credit risks, internal capital requirements and stress testing of internal capital requirements is performed using the methodologies described in the Rulebook on the implementation of internal capital adequacy assessment process.

Market risk (FX risk, price risk) – Bank applies the standardized the standardized approach prescribed by the Decision on Capital Adequacy, with stress testing.

For operational risk, the Bank tested the underestimation of capital requirements due to the application of the basic indicator approach, as well as stress testing of operational risks, including legal risk.

Liquidity risk - The Bank analyzes the materiality of both subcategories of liquidity risk: liquidity risk funding and market liquidity risk. In order to prevent the possibility of crisis situations, the Bank has established a framework for effective liquidity risk management and a system of internal controls that are constantly being improved. The Bank manages liquidity risk by setting a set of limits in combination with the application of stress scenarios and adequate supervision.
Interest rate risk - the methodology with the application of stress testing is based on the analysis of the impact of interest rate changes on the economic value of capital (EVE) and the results of changes in net interest income (NII / EaR) in order to identify, assess, monitor and report on interest rate risk and trading books. Bank has defined limits for the sensitivity of the economic value of capital to changes in interest rates, which it monitors on a monthly basis.

For the purposes of calculating the internal capital requirement on an individual and consolidated basis, the Bank defines the following scenarios of changes in interest rates:

- The Bank used the shift of the yield curve by - / + 200 basis points (for stress test 300 basis points) to determine the amount of capital requirement for foreign currencies in parallel shift of the yield curve. For positions in the interest rate gap in foreign currencies, the Bank used 250 basis points for short-term interest rate shifts and 150 basis points for long-term interest rate shifts;

- The Bank used the change - / + 250 basis points (for stress test 400 basis points) to determine the amount of capital requirement for dinars in parallel shift of the yield curve up or down. For the exposure in dinars, the Bank takes into account the change in the interest rate by 300 basis points for short-term interest rate shifts and 200 basis points for long-term interest rate shifts;

Credit Valuation Adjustment risk - The regulatory capital requirement for this risk is calculated in accordance with the methodology established by the Decision on the bank's capital adequacy according to the standardized approach. The internal capital requirement for CVA risk in accordance with the methodology is equal to the higher amount of capital requirement, comparing the minimum capital requirement for CVA risk determined in accordance with the Decision on capital adequacy of banks and internally calculated capital requirement based on the baseline scenario on individual and consolidated basis.
Strategic risk - The Bank calculates the internal capital requirement and conducts a stress test of the internal capital requirement for strategic risk. The basis for the quantification of the internal capital requirement for strategic risk is the historical deviation of the achieved net result before the prudence in relation to the budgeted values.

For remaining risks that are considered material, but which have not been individually quantified, the Bank calculates the internal capital requirement for other risks. The Bank conducts quarterly calculation of internal capital requirements and stress testing for material credit risks in ICAAP.

8. BANK RISK EXPOSURE AND APPROACHES FOR RISK MEASUREMENT AND/OR RISK ASSESSMENT

8.1 Credit Risk

A description of the approach for measuring credit risk during the credit process, at the level of the credit portfolio and when calculating capital requirements is described in the previous parts of this report, while a detailed description of the methodologies used by the Bank for the calculation of value adjustments and provisions, i.e. expected credit losses, in accordance with the International financial reporting standards shown in the Notes to the Bank's financial statements.

Below is a quantitative presentation of the Bank's exposure to credit risk.

The total amount of exposures of the Bank per exposure classes on stand-alone basis

(thousands of RSD)

Gross exposures per exposure classes	Balance sheet positions	Off-balance sheet positions	Exposures based on repo and reverse repo transactions, Securities crediting transactions and long-term transactions	Financial derivatives
Exposure to states and central banks	159,215,359	23,041,811	-	-
Exposure to territorial autonomies and local-self-government units	4,132,673	535,231	-	-
Exposure to public administrative bodies	357,171	23	-	-
Exposure to international development banks	-	3,519,680	-	-
Exposure to international organizations	-	-	-	-
Exposure to banks	5,358,984	30,031,623	542,632	840,221
Exposure to enterprises	189,125,265	161,995,220	-	159,113
Exposure to private individuals	221,624,227	24,340,824	-	-
Exposure secured by mortgages over immovable	120,113,340	16,522,373	-	-
Exposures in default status	19,133,405	6,352,836	-	-
High risk exposures	-	-	-	-
Exposures to covered bonds	-	-	-	-
Exposure to banks and companies with short-term credit rating	-	-	-	-
Exposure based on investment in open-end investment funds	-	-	-	-
Equity investments exposures	972,916	-	-	-
Other exposures	50,878,549	192,961,939	-	-
Total	**770,911,889**	**459,301,560**	542,632	**999,334**

Gross exposure to credit risk before applying credit risk mitigation techniques, impairment and provisioning, required reserves, net exposure and risk weighted assets

Exposure classes	Gross exposures	Impairments and provisions	Required reserve	Net exposure prior to implementation of credit protection	Risk weighted assets
Exposure to states and central banks	182,257,170	151,033	-	182,106,136	-
Exposure to territorial autonomies and local-self-government units	4,667,904	33,375	-	4,634,528	2,050,107
Exposure to public administrative bodies	357,194	-	-	357,194	71,434
Exposure to international development banks	3,519,680	-	-	3,519,680	-
Exposure to international organizations	-	-	-	-	-
Exposure to banks	36,773,460	53,320	-	36,720,140	1,960,459
Exposure to enterprises	351,279,598	5,586,031	-	345,693,567	180,311,240
Exposure to private individuals	245,965,051	2,886,012	-	243,079,039	160,382,150
Exposure secured by mortgages over immovable	136,635,713	1,295,659	-	135,340,054	66,592,304
Exposures in default status	25,486,241	13,738,062	-	11,748,179	5,669,904
High risk exposures	-	-	-	-	-
Exposures to covered bonds	-	-	-	-	-
Exposure to banks and companies with short-term credit rating	-	-	-	-	-
Exposure based on investment in open-end investment funds	-	-	-	-	-
Equity investments exposures	972,916	32,715	-	940,201	2,297,947
Other exposures	243,840,488	11,614,329	-	232,226,159	12,078,621
Total	**1,231,755,415**	**35,390,536**	**-**	**1,196,364,877**	**431,414,166**

Geographical areas are defined according to the regional concept and business organization of the Bank

	Vojvodina	Beograd	Region Šumadija and West Serbia	Region South and East Srbije	Region Kosova and Metohije	Foreign countries Europa	Total
Cash and funds at the central bank	10,848,987	113,283,766					124,132,753
Pledged financial resources						445,087	445,087
Financial assets that are valued at fair value through other results		41,437,631					41,437,631
Loans and receivables from banks and other financial organisations	3,225	1,671,833	2,107	377	-	10,009,646	11,687,188
Loans and receivables from retail	83,677,792	93,430,581	49,997,405	35,707,247	317,063	83,516	263,213,604
Loans and receivables from corporate	118,134,020	124,320,941	34,367,522	11,867,739	-	810,543	289,500,765
Agriculture, forestry and fishing	18,948,199	452,196	1,604,736	325,673	-	-	21,330,804
Mining, processing industry, water supply, waste water management, control of waste removal processes and similar activities	37,999,725	17,082,340	19,396,153	3,305,735	-	145,165	77,929,118
Supply of electricity, gas, steam and air conditioning	33,816,812	7,988,860	161,532	-	-	-	41,967,204
Construction	5,886,960	11,286,501	1,224,500	2,571,888	-	-	20,969,849
Wholesale and retail trade, repair of motor vehicles and motorcycles	12,895,309	32,921,650	8,609,110	4,400,816	-	-	58,826,885
Transportation and storage, accommodation and food services, information and communications	2,843,036	27,888,498	1,311,105	656,901	-	-	32,699,540
Real estate business, professional, scientific, innovative and technical activities, administrative and auxiliary service activities, education, health and social protection, art, entertainment and recreation and other activities	5,743,979	26,700,896	2,060,386	606,726	-	665,378	35,777,365
Total On Balance Exposure	212,664,024	374,144,752	84,367,034	47,575,363	317,063	11,348,792	730,417,028
Total Off Balance Exposure	42,134,527	94,948,887	19,271,749	10,975,087	3,150	1,972,655	169,306,055
Total	**254,798,551**	**469,093,639**	**103,638,783**	**58,550,450**	**320,213**	**13,321,447**	**899,723,083**

Geographical distribution of credit risk exposure by exposure classes

(in thousands of RSD)

Exposure classes	Credit risk exposure	Serbia	European Union	The rest of Europe	The rest of the world
Exposure to states and central banks	182,257,170	182,257,170	-	-	-
Exposure to territorial autonomies and local-self-government units	4,667,904	4,667,904	-	-	-
Exposure to public administrative bodies	357,194	357,194	-	-	-
Exposure to international development banks	3,519,680	-	-	3,519,680	-
Exposure to international organizations	-	-	-	-	-
Exposure to banks	36,773,460	4,222,445	27,478,843	3,417,236	1,654,936
Exposure to enterprises	351,279,598	327,751,895	12,349,556	3,192,674	7,985,473
Exposure to private individuals	245,965,051	245,922,075	23,158	16,346	3,472
Exposure secured by mortgages over immovable	136,635,713	136,572,689	24,726	-	38,298
Exposures in default status	25,486,241	25,068,545	33,136	383,887	673
High risk exposures	-	-	-	-	-
Exposures to covered bonds	-	-	-	-	-
Exposure to banks and companies with short-term credit rating	-	-	-	-	-
Exposure based on investment in open-end investment funds	-	-	-	-	-
Equity investments exposures	972,916	954,139	18,777	-	-
Other exposures	243,840,488	243,783,494	17,646	39,347	-
Total	1,231,755,415	1,171,557,550	39,945,842	10,569,170	9,682,852

Distribution of exposures to sectors per exposure classes with a special attention to due outstanding receivables, exposures with value adjustments and value adjustments of the balance sheet assets and provisions for losses from the off-balance sheet items.

(thousands of RSD)

Type of receivables	Gross carrying amount				Total Gross carrying amount	Accumulated impairment				Total impairment	Carrying amount
	Stage 1	Stage 2	Stage 3	POCI		Stage 1	Stage 2	Stage 3	POCI		
Cash and funds at the central bank	124,132,753	-	-	-	124,132,753	99,770	-	-	-	99,770	124,032,983
Pledged financial resources	445,087	-	-	-	445,087	-	-	-	-	-	445,087
Financial assets that are valued at fair value through other results	40,942,631	495,000	-	-	41,437,631	-	-	-	-	-	41,437,631
Placements with other banks	11,302,072	1,221	383,895	-	11,687,188	88,352	63	383,895	-	472,310	11,214,878
Mortgage loans	115,269,106	12,366,991	1,299,561	507,206	129,442,864	245,323	443,796	520,247	125,591	1,334,957	128,107,907
Loans to medium and large corporates	225,168,981	37,010,153	4,475,330	421,412	267,075,876	1,989,840	3,190,721	3,367,047	329,159	8,876,767	258,199,109
Consumer loans	113,372,847	9,651,518	10,651,552	94,823	133,770,740	1,001,431	667,428	7,320,282	76,665	9,065,806	124,704,934
Loans to micro and small enterprises	8,702,482	646,065	561,523	7,508	9,917,578	217,999	69,990	453,944	1,652	743,585	9,173,993
Municipal loans	12,384,335	1,606	121,370	-	12,507,311	81,432	158	121,370	-	202,960	12,304,351
Total On balance exposures	651,720,294	60,172,554	17,493,231	1,030,949	730,417,028	3,724,147	4,372,156	12,166,785	533,067	20,796,155	709,620,873
Total Off balance exposures	155,288,465	13,761,920	255,670	-	169,306,055	1,052,513	886,356	103,048	-	2,041,917	167,264,138
Total exposures	**807,008,759**	**73,934,474**	**17,748,901**	**1,030,949**	**899,723,083**	**4,776,660**	**5,258,512**	**12,269,833**	**533,067**	**22,838,072**	**876,885,011**

Overview of gross exposure to credit risk based by remaining maturity per exposure classes

(in thousands of RSD)

Exposure classes	Total	up to 90 days	from 90 to 180 days	from 180 to 360 days	over 360 days
Exposure to states and central banks	182,257,170	120,931,588	505,089	7,917,913	52,902,580
Exposure to territorial autonomies and local-self-government units	4,667,904	3,443	13,223	-	4,651,238
Exposure to public administrative bodies	357,194	357,194	-	-	-
Exposure to international development banks	3,519,680	8	-	3,519,672	-
Exposure to international organizations	-	-	-	-	-
Exposure to banks	36,773,460	31,055,054	1,238,493	461,847	4,018,067
Exposure to enterprises	351,279,598	44,965,972	27,183,541	79,269,638	199,860,447
Exposure to private individuals	245,965,051	11,080,150	6,295,395	15,787,219	212,802,287
Exposure secured by mortgages over immovable	136,635,713	5,570,303	5,244,220	16,605,056	109,216,134
Exposures in default status	25,486,241	10,714,745	354,665	881,665	13,535,166
High risk exposures	-	-	-	-	-
Exposures to covered bonds	-	-	-	-	-
Exposure to banks and companies with short-term credit rating	-	-	-	-	-
Exposure based on investment in open-end investment funds	-	-	-	-	-
Equity investments exposures	972,916	972,916	-	-	-
Other exposures	243,840,488	240,702,480	198,669	410,820	2,528,519
Total	**1,231,755,415**	**466,353,853**	**41,033,295**	**124,853,830**	**599,514,438**

Overview of changes in value adjustments of the balance sheet assets and provisioning for losses from the off-balance sheets items during 2022

	Accumulated impairment allowance, balance at January 1, 2022	Impairment allowance charge for the year	Reversal of impairment allowance	Write-offs, derecognition, sales of receivables	Foreign exchange differences	Transfers	Accumulated impairment allowance, balance at December 31, 2022
Stage I							
Cash and funds at the central bank	107,276	46,497	53,760	-	(243)		99,770
Securities	225,467	134,904	86,498	-			273,873
Loans and receivables due from banks and other financial institution	74,200	562,607	547,813	-	(310)	(332)	88,352
Loans and receivables due from customers	2,988,281	4,207,782	4,862,358	821	11,909	1,191,232	3,536,025
Off balance exposures	1,030,272	1,765,683	1,730,210	-	(1,007)	(12,225)	1,052,513
Stage II	-	-	-	-			-
Cash and funds at the central bank	-	-	-	-			-
Securities	46,121	-	-	-	-		46,121
Loans and receivables due from banks and other financial institution	-	9,961	13,972	-	3,742	332	63
Loans and receivables due from customers	2,212,557	5,922,816	2,071,329	194	2,113	(1,693,870)	4,372,093
Off balance exposures	141,127	1,016,329	273,071	-	(109)	2,080	886,356
Stage III	-	-	-	-			-
Cash and funds at the central bank	-	-	-	-			-
Securities	-	-	-	-	-		-
Loans and receivables due from banks and other financial institution	362,695	61,247	28,749	32,892	21,594		383,895
Loans and receivables due from customers	12,634,256	6,060,479	4,901,119	2,513,769	405	502,638	11,782,890
Off balance exposures	70,458	71,135	48,797	-	107	10,145	103,048
POCI	-	-	-	-			-
Cash and funds at the central bank	-	-	-	-			-
Securities	-	-	-	-	-		-
Loans and receivables due from banks and other financial institution	-	-	-	-	-		-
Loans and receivables due from customers	700,174	134,546	232,567	65,723	(3,363)	-	533,067
Off balance exposures	-	-	-	-			-
Total:							-
Cash and funds at the central bank	107,276	46,497	53,760	-	(243)	-	99,770
Securities	271,588	134,904	86,498	-	-	-	319,994
Loans and receivables due from banks and other financial institution	436,895	633,815	590,534	32,892	25,026	-	472,310
Loans and receivables due from customers	18,535,268	16,325,623	12,067,373	2,580,507	11,064	-	20,224,075
Off balance exposures	1,241,857	2,853,147	2,052,078	-	(1,009)	-	2,041,917
Total	**20,592,884**	**19,993,986**	**14,850,243**	**2,613,399**	**34,838**	**-**	**23,158,066**

As of December 31, 2022, the Bank recorded the share of NPL loans granted to debtors from the non-financial and non-government sector in total loans is 3.36%.

Credit risk mitigation techniques

When adjusting credit risk weighted assets for the effects of the risk mitigation technique by applying eligible safeguard instruments as of 31 December 2022, the Bank used the following:

- deposit as an instrument of financial credit protection
- guarantee as an instrument of non-financial credit protection

(thousands of RSD)

Exposure classes	Amount of exposures covered by material credit protection instruments	Amount of exposures covered by non-material credit protection instruments
Exposure to states and central banks	-	-
Exposure to territorial autonomies and local-self-government units	-	-
Exposure to public administrative bodies	-	-
Exposure to international development banks	-	-
Exposure to international organizations	-	-
Exposure to banks	-	492,361
Exposure to enterprises	2,602,101	22,883,468
Exposure to private individuals	1,151,174	2,315,500
Exposure secured by mortgages over immovable	398,830	520,009
Exposures in default status	-	43,033
High risk exposures	-	-
Exposures to covered bonds	-	-
Exposure to banks and companies with short-term credit rating	-	-
Exposure based on investment in open-end investment funds	-	-
Equity investments exposures	-	-
Other exposures	-	-
Total	**4,152,105**	**26,254,371**

Credit risk mitigation techniques by exposure classes

Exposure classes	Gross exposure	Impairments and required reserves	Net exposure	Non-material credit protection instruments	Material credit protection instruments	Net exposure after applying credit protection	Capital requirement
Exposure to states and central banks	182,257,170	151,033	182,106,136	-	-	207,489,465	-
Exposure to territorial autonomies and local-self-government units	4,667,904	33,375	4,634,528	-	-	4,634,528	164,009
Exposures to public administrative bodies	357,194	-	357,194	-	-	357,194	5,715
Exposures to the International Development Bank	3,519,680	-	3,519,680	-	-	3,519,680	-
Exposure to banks	36,773,460	53,320	36,720,140	492,361		37,098,821	156,837
Exposure to enterprises	351,279,598	5,586,031	345,693,567	22,883,468	2,602,101	320,207,999	14,424,899
Exposure to private individuals	245,965,051	2,886,012	243,079,039	2,315,500	1,151,174	239,612,366	12,830,572
Exposure secured by mortgages over immovable	136,635,713	1,295,659	135,340,054	520,009	398,830	134,421,215	5,327,384
Due outstanding receivables	25,486,241	13,738,062	11,748,179	43,033	-	11,705,145	453,592
High risk exposures	-	-	-	-	-	-	-
Exposure to equity investments	972,916	32,715	940,201	-	-	940,201	183,836
Other exposures	243,840,488	11,614,329	232,226,159	-	-	236,378,263	966,289
Total	**1,231,755,415**	**35,390,536**	**1,196,364,877**	**26,254,371**	**4,152,105**	**1,196,364,877**	**34,513,134**

Gross exposure to credit risk before applying credit risk mitigation techniques to credit risk weights and exposure classes

(In RSD thousand)

Exposure classes	Gross exposures	CREDIT RISK WEIGHTS							
		0%	20%	35%	50%	75%	100%	150%	250%
Exposure to states and central banks	182,257,170	182,257,170	-	-	-	-	-	-	-
Exposure to territorial autonomies and local-self-government units	4,667,904	-	5,436	-	4,662,467	-	-	-	-
Exposure to public administrative bodies	357,194	-	357,194	-	-	-	-	-	-
Exposure to international development banks	3,519,680	3,519,680	-	-	-	-	-	-	-
Exposure to international organizations	-	-	-	-	-	-	-	-	-
Exposure to banks	36,773,460	-	33,523,786	-	2,419,597	-	830,077		-
Exposure to enterprises	351,279,598	-	-	-	-	-	350,804,039	475,559	-
Exposure to private individuals	245,965,051	-	-	-	-	245,965,051	-	-	-
Exposure secured by mortgages over immovable	136,635,713	-	-	62,762,986	33,071,113	2,089,025	38,712,589		-
Exposures in default status	25,486,241	-	-	-	-	-	24,748,467	737,774	-
High risk exposures	-	-	-	-	-	-	-	-	-
Exposures to covered bonds	-	-	-	-	-	-	-	-	-
Exposure to banks and companies with short-term credit rating	-	-	-	-	-	-	-	-	-
Exposure based on investment in open-end investment funds	-	-	-	-	-	-	-	-	-
Equity investments exposures	972,916	-	-	-	-	-	35,037	-	937,879
Other exposures	243,840,488	27,331,293	-	-	-	-	216,451,997	-	57,198
Total	**1,231,755,415**	**213,108,143**	**33,886,416**	**62,762,986**	**40,153,177**	**248,054,076**	**631,582,206**	**1,213,333**	**995,077**

The net exposures to credit risk before applying the credit risk mitigation techniques per credit risk weights

(in RSD thousands)

Exposure classes	Net exposures	CREDIT RISK WEIGHTS							
		0%	20%	35%	50%	75%	100%	150%	250%
Exposure to states and central banks	182,106,136	182,106,136	-	-	-	-	-	-	-
Exposure to territorial autonomies and local-self-government units	4,634,528	-	5,425		4,629,103	-	-	-	-
Exposure to public administrative bodies	357,194	-	357,194 -	- -	- -	- -	- -	- -	- -
Exposure to international development banks	3,519,680	3,519,680	-	-	-	-	-	-	-
Exposure to international organizations	-	-	-	-		-			-
Exposure to banks	36,720,140	-	33,484,722	-	2,406,821	-	828,597		-
Exposure to enterprises	345,693,567	-	-	-	-		345,218,323	475,244	-
Exposure to private individuals	243,079,039	-	-			243,079,039	-	-	-
Exposure secured by mortgages over immovable	135,340,054	-	-	62,423,486	32,660,556	2,054,240	38,201,773	-	-
Exposures in default status	11,748,179	-	-	-	-	-	11,069,439	678,740	-
High risk exposures	-	-	-	-	-	-	-	-	-
Exposures to covered bonds	-	-	-	-	-	-	-	-	-
Exposure to banks and companies with short-term credit rating	-	-	-	-	-	-	-	-	-
Exposure based on investment in open-end investment funds	-	-	-	-	-	-		-	
Equity investments exposures	940,201		-	-	-	-	35,037	-	905,164
Other exposures	232,226,159	27,331,293	-				204,837,668		57,198
Total	**1,196,364,877**	**212,957,109**	**33,847,341**	**62,423,486**	**39,696,480**	**245,133,279**	**600,190,837**	**1,153,984**	**962,362**

The net exposures to credit risk after applying the credit risk mitigation techniques per credit risk weights

(in RSD thousands)

Exposure classes	Net exposures	CREDIT RISK WEIGHTS							
		0%	20%	35%	50%	75%	100%	150%	250%
Exposure to states and central banks	207,489,465	207,489,465	-	-	-	-	-	-	-
Exposure to territorial autonomies and local-self-government units	4,634,528	-	5,425		4,629,103	-	-	-	-
Exposure to public administrative bodies	357,194	-	357,194	-	-	-	-	-	-
Exposure to international development banks	3,519,680	3,519,680	-	-	-	-	-	-	-
Exposure to international organizations	-	-	-	-	-	-	-	-	-
Exposure to banks	37,098,821	-	33,471,865	-	2,798,358	-	828,597		-
Exposure to enterprises	320,207,999	-	-	-	-	-	319,732,754	475,244	-
Exposure to private individuals	239,612,366	-	-	-	-	239,612,366	-	-	-
Exposure secured by mortgages over immovable	134,421,215	-	-	62,403,693	32,587,509	1,951,554	37,478,459	-	-
Exposures in default status	11,705,145	-	-	-	-	-	11,046,794	658,352	-
High risk exposures	-	-	-	-	-	-	-	-	-
Exposures to covered bonds	-	-	-	-	-	-	-	-	-
Exposure to banks and companies with short-term credit rating	-	-	-	-	-	-	-	-	-
Exposure based on investment in open-end investment funds	-	-	-	-	-	-	-	-	-
Equity investments exposures	940,201	-	-	-	-	-	35,037	-	905,164
Other exposures	236,378,263	30,930,283	553,115	-	-	-	204,837,668	-	57,198
Total	**1,196,364,877**	**241,939,428**	**34,387,599**	**62,403,693**	**40,014,970**	**241,563,920**	**573,959,309**	**1,133,596**	**962,362**

Forborne loans during 2022

Forborne loans during 2022			
31.12.2022 in 000 RSD	Gross amount	Impairment	Number of accounts
Corporate	1,683,768	354,583	50
Retail	849,297	270,945	1.044
Total	**2,533,065**	**625,528**	**1.094**

8.2 Counterparty Risk

The counterparty risk is a possibility of occurrence of adverse effects to the financial result of the Bank due to the counterparty default in a transaction prior to the final settlement of transaction cash flows, i.e. discharge of monetary liabilities under that transaction.

The system of counterparty limits is consisted of internal and regulatory limits.

In the course of 2022, the Bank received collateral from other contracting parties in order to reduce exposure based on this risk, but did not use it to reduce capital requirements, considering that all prerequisites for reducing exposure were not met.In accordance with the Decision of NBS on Capital Adequacy by banks, the Bank calculates the exposure and capital requirement for counterparty risk for all derivatives, as well as for repo and reverse repo transactions, using the current exposure approach.

According with the current exposure approach the exposure, value of exposure is calculated as the sum of following:

- current exposure of all contracts which current exposure is positive, and represents the fair value of that contract - derivatives (for contracts whose value is negative, the current exposure is equal to zero)
- potential exposures in the period remaining until the maturity date of the contractual obligation, which is obtained when the hypothetical value of the principal of each contract is multiplied by the appropriate weighed factors determined by the decision of the NBS.

As at December 31, 2022, the Bank was exposed to the counterparty risk based on financial derivatives and reverse repo transactions as presented in table below:

(in thousand RSD)

	current exposure (1)	potential exposures (2)	Sum of fair value and potential credit exposures (3)= (1) + (2)
Exposure to counterparty risk	540,554	1,001,422	1,541,966

During 2022 the Bank did not have credit derivatives in its portfolio.

The internal capital requirement for counterparty risk is calculated within the internal credit risk capital requirement. The counterparty risk exposure that will be included in the calculation of internal capital requirement under stress is calculated by increasing the current exposure with the potential exposure using stress factors conducts additional stress testing for this type of risk based on the assumption which includes deteriorating credit ratings within standardized approaches.

8.3 Credit Valuation Adjustment risk (CVA risk)

The Bank is required to calculate the capital requirement for CVA risk for OTC derivatives, in banking book and trading book, except for credit derivatives used to reduce credit risk weighted exposures.

As of 31 December 2022, the Bank calculated the capital requirement for CVA credit exposures in the amount of RSD 26,366 thousand.

As part of the process of determining internal capital requirements, the Bank first assesses the underestimation of regulatory capital requirements for CVA risk, and then performs a stress test taking into account adverse movements in parameters affecting exposures and capital requirements for CVA risk.

8.4 Interest Rate Risk

ALM Directorate is responsible for monitoring, measuring and reporting on exposure to interest rate risk and the Operational and Market Risk Directorate to effectively manage this risk. The Bank approves loans and collects deposits with different maturities and different interest rates, and those activities are exposing profitability and capital of the Bank to the effects of interest rate risk.
The Bank uses statistically determined assumptions of deposit outflows for all interest rate sensitive deposits without maturity or without defined time of the next interest rate change.

There are four basic sources of the interest rate risk:

- Repricing risk, risk of temporal discrepancy between maturity and new price determination (repricing risk)
- Yield curve risk. The risk is a consequence either of the parallel movement of the yield curve or the change in slope of the yield curve.
- Basis risk which Bank is exposed due to different reference interest rates in interest-sensitive positions with similar characteristics regarding maturity or repricing .
- Optionality risk, to which it is exposed due to contract provisions regarding interest-sensitive positions (loans with an early repayment option, deposits with an early withdrawal option, etc.).

The interest rate risk is statistically-based and the Bank is using the GAP analysis of the pricing risk and the economic value of equity figure (EVE) measuring, as well as measuring of the assumed changes on earning at risk, monthly upon concluded bookings of the Bank. Interest rate gap report allocates interest-sensitive assets, liabilities and off-balance sheet positions into advance defined time intervals from the point of re-determination of interest rate. In that sense, financial instruments with fixed interest rate are arranged by maturity, while financial instruments with variable interest rates are arranged in regard to next repricing date.

The GAP analysis of the pricing risk represents the basis for the economic value of equity figure measuring. Economic value of the equity represents the difference between the current value of interest-sensitive receivables (balance and off-balance) and the current value of liabilities (balance and off-balance).

The scenario-analysis process is a two-step process:

- Defining interest rate change scenarios
- Valuing interest-bearing positions under selected scenarios

The change in the economic value of equity figure is calculated for each key currency separately and for other currencies in total..

A currency is considered significant if the total amount of liabilities from the bank's balance sheet and off-balance sheet liabilities that can be paid, and which are expressed and settled in that currency, is 5% or more of the bank's total liabilities.

The Bank applies a wide range of interest rate scenarios in order to properly assess the IRRBB.

The following assumptions were considered in interest rate change scenarios and stress tests:

• Parallel shock upwards

• Parallel shock down

• Steep yield curve

• Yield curve with amplitudes

• Short-term change of curve up and down

To determine exposure the Bank defines the following scenarios of interest rate changes:

• To determine the amount of dinar shock when moving the yield curve up or down in parallel, the Bank considers certain changes in interest rates measured by statistical methods and compares them with 250 basis points, taking the value that is higher than the absolute value. For the exposure in dinars, the Bank takes into account the interest rate change in the amount of 250 basis points for parallel interest rate shifts, 300 basis points for short-term interest rate shifts and 200 basis points for long-term interest rate shifts.

• To determine the amount of shock for other currencies in parallel movement of the yield curve up or down, the Bank considers certain changes in interest rates measured by statistical methods, and compares with - / + 200 basis points, and for further analysis uses the value that is absolutely higher. For other currency exposure, the Bank takes into account interest rate changes of 200 basis points for parallel interest rate movements, 250 basis points for short-term interest rate movements and 150 basis points for long-term interest rate movements.

The Bank measures interest rate risk arising from integrated options in contracts related to loan repayments before final maturity or potential withdrawal of time deposits before maturity and measures their impact (on an annual basis) on the Bank's net interest income, in accordance with the assumed (previously determined) percentage of early loan repayment, i.e. withdrawal of deposits. After redefining the position of the interest rate gap, the change in the economic value of capital and the impact of assumed changes in interest rates on net interest income are measured again.

In addition, the Bank considers its positions exposed to basis risk by measuring the sensitivity of changes in various interest rates to net interest income.

8.5 Bank Equity Exposure in the non-trading Book

Gross equity Exposures in the non-trading book as at December 31, 2022 amount to 972,917 thousand dinars. Equity Exposures in the non-trading book are divided, according to their purpose, into: Securities available for sale and strategic investments.

The Independent Auditor's Report, published on the Bank's web site, pursuant to Item 61 of the Law on Banks, discloses the overview of the accounting policies used as well as the valuation methods referring to the exposures based on the ownership investments in the banking book.

Securities	Gross value	Impairments	Net value
Total investments in non-financial legal entities	15,354	0	15,354
Of which: strategic investments	0	0	0
available for sale	15,354	0	15,354
Total investments in financial legal entities	**957,563**	**32,715**	**924,848**
Of which: strategic investments	937,880	32,715	905,165
available for sale	19,683	0	19,683

During 2022, the Bank realized a profit from the sale of equity investments in the amount of RSD 591 thousand.

As of 31 December 2022, the total amount of unrealized loss on equity investments was RSD 1,788 thousand.

The Bank hold equity securities quoted on the stock exchange.

9. INFORMATION ON BANKING GROUP AND RELATION BETWEEN THE PARENT COMPANY AND SUBSIDIARIES

Banking group structure as of December 31, 2022 is as follows:

Company name	Registered office and address	Activity	Company identification No.	Ownership share	Consolidation method
OTP banka Srbija a.d. Novi Sad	Novi Sad, Trg slobode 5	6419	08603537	-	-
OTP Investments d.o.o., Novi Sad	Novi Sad, Bulevar Oslobođenja 80	6499	20124156	100%	Full consolidation method
OTP Lizing d.o.o., Beograd	Beograd, Bulevar Mihajla Pupina 111	6491	17519492	60%	Full consolidation method
OTP Factoring Serbia d.o.o., Novi Sad	Novi Sad, Trg Slobode 7	6499	20661429	100%	Full consolidation method
OTP Leasing Srbija d.o.o. Beograd	Beograd, Bulevar Zorana Đinđića 50A/B	6491	20116161	100%	Full consolidation method
OTP Osiguranje ADO Beograd	Beograd, Bulevar Zorana Đinđića 50A/B	6511	20561211	49%	Equity method

The Bank, as the ultimate parent company, applies the same method and scope of consolidation in the consolidated balance sheet made both for the control of the banking group on a consolidated basis and in accordance with International Accounting Standards and International Financial Reporting Standards. Accordingly, there are no differences between the consolidated balance sheet prepared for the purposes of control of the Banking Group on a consolidated basis and the position of the balance sheet prepared in accordance with International Accounting Standards and International Financial Reporting Standards.