ADRIATIC BANK A.D. BEOGRAD

INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS FOR THE YEAR 2023

ADRIATIC BANK A.D. BEOGRAD

Independent Auditor’s Report on the
Audit of the Financial Statements for the Year 2023

CONTENTS

MOORE STEPHENS Revizija i Računovodstvo d.o.o.
Privredno društvo za reviziju računovodstvo i konsalting
Studentski Trg 4/V, 11000 Beograd, Srbija
Tel: +381 (0) 11 3033 250, 3033 260; Fax: 2181 072
Matični broj/ID: 06974848; PIB/VAT: 100300288
www.moore-serbia.rs

This version of our report/ the accompanying documents is a translation from the original, which was prepared in Serbian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

INDEPENDENT AUDITORS' REPORT

To the Shareholders of ADRIATIC BANK a.d. Beograd

Report on the Audit of Financial Statements

Opinion

We have audited the annual financial statements of Adriatic bank a.d. Beograd (the Bank), which comprise the balance sheet as at 31 December 2023 and the income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the to the standalone financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Emphasis of Matter

We draw attention to Note no. 31 accompanying the financial statements, and we emphasize that on April 13, 2023, a sale of shares of the Bank was executed based on a Share Purchase Agreement outside the regulated market between the previous shareholders and Alexander Shnaider, where Alexander Shnaider became the owner of 100% of the shares and the sole shareholder of the bank. On September 5, 2023. the change of the bank's name from Expo bank AD to Adriatic Bank AD *was registered with the Business Registers Agency.*

In addition, we draw attention to Note no. 25 to the financial statements, where it is disclosed that within the item Assets acquired by collection of receivables, the Bank shows amount of RSD 344,470 thousand (on date 31. December 2022, amount of RSD 517.998 thousand). From this amount, amount of RSD 143.033 thousand refers to real estate acquired during 2012 and 2013. The Bank evaluates every year the value of these properties and the service is provided by reference appraisal firm. Without questioning that the real estate in question has its own value, the lack of sales of the same for a long period of time raises the issue whether the sale itself can be realized. During 2023, the decrease of the Assets acquired by collection of receivables relates to the sale of real estate predominantly acquired during 2022.

Our opinion is not modified with respect to these matters.

Responsibilities of the Management for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the current accounting regulations in effect in the Republic of Serbia, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Persons authorized for management are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

INDEPENDENT AUDITORS' REPORT (continued)

To the Shareholders of ADRIATIC BANK a.d. Beograd (continued)

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Other information included in the Bank's Annual Business Report

Management is responsible for the other information. The other information comprises the Annual Report (but does not include the financial statements and our auditor's report thereon).

Our opinion on the annual financial statements does not cover other information, except to the extent expressly stated in paragraph "Report on other legal and regulatory requirements", and we do not express any form of assurance conclusion about them.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work conducted, we conclude that there is a material misstatement of other information, we are required to disclose that fact in the Report. In that sense, we have nothing to report in this regard.

Report on Other Legal and Regulatory Requirements

According to the requirements arising from Article 33 of the Law on Accounting and Article 39 of the Law on Audit of the Republic of Serbia, we performed procedures required in respect to the Annual Business Report (including Corporate Governance Report) to verify it compliance with annual financial statements, as well as checks whether the Annual Business Report (including the Corporate Governance Report) is prepared in accordance with the applicable legal provisions.

In our opinion, the Annual Business Report is:

- *consistent with the Bank's annual financial statements; and*
- *prepared in accordance with the requirements of Article 34 of the Law on Accounting.*

In addition, considering the knowledge and understanding of the Bank and its environment obtained during the audit, we are required to report if we have identified material misstatements in the Annual Report.

Belgrade, 14 March 2024

„MOORE STEPHENS
Revizija i Računovodstvo" d.o.o. Beograd
4 Studentski Trg, 5th floor

Ružica Vukosavljević
Authorised Auditor

„MOORE STEPHENS
Revizija i Računovodstvo" d.o.o. Beograd
4 Studentski Trg, 5th floor

Bogoljub Aleksić
Managing Partner

MOORE Revizija i Računovodstvo d.o.o. Beograd

All amounts are expressed in thousands of RSD unless otherwise stated

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	2023	2022
Interest income	6	824,341	595,545
Interest expenses	6	(215,800)	(164,730)
Net interest income		**608,541**	**430,815**
Fee and commission income	7	801,248	523,104
Fee and commission expense	7	(35,749)	(26,272)
Net fee and commission income		**765,499**	**496,832**
Net gain on derecognition of financial instruments at fair value	8	-	5,565
Net foreign exchange gains/(loss) and currency clause effects	9	369,931	(38,411)
Net loss from impairment of financial assets that are not valued at fair value through profit and loss	10	(18,564)	(69,412)
Net gain on derecognition of financial instruments valued at amortized cost		-	101
Net gains from derecognition of investments in associated undertakings and joint ventures	11	429	-
Other operating income	12	17,013	29,462
TOTAL NET OPERATING INCOME		**1,742,849**	**854,952**
Salaries, compensations and other personal expenses	13	(509,190)	(359,316)
Depreciation expenses	14	(100,404)	(69,243)
Other income	15	77,460	56,311
Other expenses	16	(570,506)	(472,861)
PROFIT BEFORE TAX		**640,209**	**9,843**
Deferred tax gain	17	-	8,290
Deferred tax loss	17	(7,820)	-
PROFIT AFTER TAX		**632,389**	**18,133**

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

These financial statements are approved by the Executive Board of Adriatic Bank A.D. Beograd on 14 March 2024.

Signed on behalf of Adriatic Bank A.D. Beograd:

Marko Ćorić
Financial Control Manager

ADRIATIC BANK A.D. BEOGRAD
ADRIATIC BANK
1

Đorđe Lukić
Chairman of the Executive Board

All amounts are expressed in thousands of RSD unless otherwise stated

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2023

	2023	2022
PROFIT FOR THE YEAR	**632,389**	**18,133**
Components of other comprehensive income that cannot be reclassified to profit or loss:		
Decrease in revaluation reserves based on intangible assets and fixed assets	(6,142)	-
Actuarial gains	69	2,273
Components of other comprehensive income that can be reclassified to profit or loss:		
Positive/(negative) effects of changes in value of debt securities at fair value through other comprehensive income	239,359	(668,125)
Effect of deferred tax calculation	(35,885)	100,870
Total other result for period	**197,401**	**(564,982)**
TOTAL RESULT FOR THE YEAR	**829,790**	**(546,849)**

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

These financial statements are approved by the Executive Board of Adriatic Bank A.D. Beograd on 14 March 2024.

Signed on behalf of Adriatic Bank A.D. Beograd:

ADRIATIC BANK A.D. BEOGRAD
ADRIATIC BANK
1

Marko Ćorić
Financial Control Manager

Đorđe Lukić
Chairman of the Executive Board

All amounts are expressed in thousands of RSD unless otherwise stated

BALANCE SHEET AS AT 31 DECEMBER 2023

	Note	31 December 2023	31 December 2022
ASSETS			
Cash and balances with Central Bank	18	6,661,193	2,156,085
Securities	19	3,981,530	3,660,279
Loans and receivables from banks and others financial organizations	20	4,925,362	1,542,099
Loans and receivables from customers	21	6,273,298	6,960,059
Intangible assets	22	80,716	46,764
Property, plant and equipment	23	865,015	389,079
Investment property	24	268,009	268,786
Deferred tax assets	29	77,459	121,164
Other assets	25	337,058	608,851
TOTAL ASSETS		**23,469,640**	**15,753,166**
LIABILITIES AND EQUITY			
Deposits and other liabilities due to banks, other financial institutions and Central Bank	26	294,385	258,109
Deposits and other financial liabilities due to customers	27	18,688,383	12,316,984
Provisions	28	203,927	158,300
Other liabilities	30	621,710	188,328
TOTAL LIABILITIES		**19,808,405**	**12,921,721**
EQUITY			
Share capital	32	3,065,958	8,549,095
Profit for the period	32	632,389	18,133
Previous years losses	32	(56)	(5,604,554)
Reserves /(unrealised loss)	32	(37,056)	(131,229)
TOTAL CAPITAL		**3,661,235**	**2,831,445**
TOTAL LIABILITIES AND EQUITY		**23,469,640**	**15,753,166**

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

These financial statements are approved by the Executive Board of Adriatic Bank A.D. Beograd on 14 March 2024.

Signed on behalf of Adriatic Bank A.D. Beograd:

ADRIATIC BANK A.D. BEOGRAD
ADRIATIC BANK
1

Marko Ćorić
Financial Control Manager

Đorđe Lukić
Chairman of the Executive Board

All amounts are expressed in thousands of RSD unless otherwise stated

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2023

	Share capital	Share issue premium	Reserves from profit and other reserves	Revaluation reserves and unrealized losses	Profit	Previous years loss	Total
Balance as at 1 January 2022	**5,671,608**	**2,877,487**	**151,673**	**287,645**	**29,576**	**(5,634,130)**	**3,383,858**
Effect of change in fair value from financial assets	-	-	-	(668,125)	-	-	(668,125)
Effect of calculation of deferred taxes on other result	-	-	-	100,870	-	-	100,870
Actuarial gain	-	-	-	2,273	-	-	2,273
Total other result of period	-	-	-	**(564,982)**	-	-	**(564,982)**
Profit for the year	-	-	-	-	18,133	-	18,133
Distribution of profit for loss coverage - decrease	-	-	-	-	(29,576)	29,576	-
Effect of sale of securities and derecognition from other capital	-	-	-	(5,565)	-	-	(5,565)
Balance as of 31 December 2022	**5,671,608**	**2,877,487**	**151,673**	**(282,902)**	**18,133**	**(5,604,554)**	**2,831,445**
Balance as at 1 January 2023	**5,671,608**	**2,877,487**	**151,673**	**(282,902)**	**18,133**	**(5,604,554)**	**2,831,445**
Decrease of revaluation reserves from intangible assets and property, plant and equipment	-	-	-	(6,142)	-	-	(6,142)
Actuarial gain	-	-	-	69	-	-	69
Effect of change in fair value from financial assets	-	-	-	239,359	-	-	239,359
Effect of calculation of deferred taxes on other result	-	-	-	(35,885)	-	-	(35,885)
Total other result of period	-	-	-	**197,401**		-	**197,401**
Profit for the year	-	-	-	-	632,389	-	632,389
Distribution of profit for loss coverage - decrease	-	-	-	-	(18,133)	18,133	-
Other - decrease	2,605,650	2,877,487	103,228	-	-	5,586,365	-
Balance as of 31 December 2023	**3,065,958**	-	**48,445**	**(85,501)**	**632,389**	**(56)**	**3,661,235**

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

These financial statements are approved by the Executive Board of Adriatic Bank A.D. Beograd on 14 March 2024.

Signed on behalf of Adriatic Bank A.D. Beograd:

Marko Ćorić	Đorđe Lukić
Financial Control Manager	Chairman of the Executive Board

All amounts are expressed in thousands of RSD unless otherwise stated

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2023

CASH FLOWS FROM OPERATING ACTIVITIES	2023	2022
Cash inflow from operating activities	**1,642,306**	**1,208,502**
Interest	815,875	594,818
Fee and commission	804,309	522,437
Other operating income	22,122	91,247
Cash outflow from operating activities	**(1,073,693)**	**(922,203)**
Interest	(181,211)	(168,158)
Fees and commissions	(36,746)	(26,180)
Gross salaries, salary compensations and other personal expenses	(472,346)	(356,261)
Taxes, contributions and other duties charged to expenses	(25,865)	(75,101)
Other operating expenses	(357,525)	(296,503)
Net cash inflow from operating activities before increases or decreases in financial assets and financial liabilities	**568,613**	**286,299**
Decrease in financial assets and increase in financial liabilities	**6,787,782**	**536,086**
Decrease in loans and other receivables from banks and other financial organizations, Central Bank and customers	-	406,093
Decrease in receivables from securities and other financial assets not held for investing	41,055	-
Increase in deposits and other financial liabilities towards banks and other financial organizations, Central Bank and customers	6,390,979	129,993
Increase in other financial liabilities	355,748	-
Increase in financial assets and decrease in financial liabilities	**(5,231,832)**	**(218,742)**
Increase in loans and other receivables from banks and other financial organizations, Central Bank and customers	(5,231,832)	-
Increase in receivables arising from securities and other financial assets not held for investing	-	(218,742)
Net cash inflow from operating activity before income tax	**2,124,563**	**603,643**
Paid income tax	-	-
Net cash inflow of cash from operating activities	**2,124,563**	**603,643**

All amounts are expressed in thousands of RSD unless otherwise stated

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2023 (continued)

CASH FLOW FROM INVESTING ACTIVITIES	2023	2022
Investment in investment securities	531	5,565
Outflow for purchase of intangible assets, property, plant and equipment	(616,433)	(51,689)
Other outflow from investing activities	-	(215,682)
Net cash outflow from investing activities	**(615,902)**	**(261,806)**
CASH FLOW FROM FINANCING ACTIVITIES		
Outflow for loan payment	-	(676,449)
Net cash outflow for financing activities	**-**	**(676,449)**
NET CASH INCREASE/(DECREASE)	**1,508,661**	**(334,612)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	1,291,399	1,654,541
NET EXCHANGE RATE GAINS/(LOSSES)	369,931	(28,530)
CASH AND CASH EQUIVALENTS AT YEAR END	**3,169,991**	**1,291,399**

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

These financial statements are approved by the Executive Board of Adriatic Bank A.D. Beograd on 14 March 2024.

Signed on behalf of Adriatic Bank A.D. Beograd:

ADRIATIC BANK A.D. BEOGRAD
ADRIATIC BANK
1

Marko Ćorić
Financial Control Manager

Đorđe Lukić
Chairman of the Executive Board

1. GENERAL BANK INFORMATION

Adriatic Bank A.D. Beograd was established on 28 December 1990 as “Centrobanka” a.d Beograd. The bank had several changes of ownership and name in following years.

On 13 April 2023, the sale of shares was carried out based on the Agreement on the sale of shares outside the regulated market between former shareholders and Alexander Shnaider, which made Aleksander Shnaider the owner of 100% of the value of the shares and the sole shareholder of the Bank. The Bank changed its name to Adriatic Bank a.d. Belgrade.

In accordance with the Law on Banks, the Bank is registered to perform payment transactions in the country and abroad and credit and deposit transactions and other business in accordance with Law on Banks and Banks Statute.

The registered office of Adriatic Bank a.d. Belgrade is in Belgrade, Dalmatinska Street 22, where the Bank’s main office is located as well. The business network of branches, business units and other cash desks as at 31 December 2023 consists of 6 organizational units (31 December 2022: 6 organizational units).

As at 31 December 2023, the Bank had 145 employees (31 December 2022: 138), while the average number of employees during 2023 was 140 (2021: 135).

The Bank’s registration number is 07534183, and the tax identification number is 100003148.

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis for Preparation and Presentation of Financial Statements

The Bank financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and the National Bank of Serbia regulation. The attached financial statements are presented in the format prescribed by the Decision on forms and content of positions in the forms of financial statements for banks ("Official Gazette of RS", no. 71/2014, 135/2014, 103/2018, 93/2020).

The financial statements have been prepared under the historical cost principle, unless otherwise stated in the accounting policies set out below.

2.2. New and Amended Standards and Interpretations

The following amended standards entered into force on 1 January 2023, but did not have a material impact on the Bank:

- **IFRS 17 „Insurance Contracts“** supersedes IFRS 4. IFRS 17 contains the principles for the recognition, measurement, presentation, and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the financial position, and performance of the organisation.

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.2. New and Amended Standards and Interpretations (continued)

- **IFRS 17 „Insurance Contracts"** Initial Application of IFRS 17 and IFRS 9 – Comparative Information. This amendment updates IFRS 17 and is relevant when an organisation adopts IFRS 17 and IFRS 9 for the first time on the same date. It adds a transition option referred to as 'a classification overlay' relating to comparative information about financial assets. This is relevant where an organisation has elected not to restate comparative information for IFRS 9 transition. Applying this transition option permits organisations to present comparative information about such financial assets as if the classification and measurement requirements of IFRS 9 had been applied. This enables insurers to reduce potentially significant accounting mismatches between financial assets and insurance contract liabilities in the comparative period.

- Amendments to **IAS 1 "Presentation of financial statements" -** Disclosure of Accounting Policies. This amendment makes minor changes to the references to accounting policies, such that disclosures should be of material accounting policies rather than significant accounting policies and further clarifies what an accounting estimate is. Specifically, it amends:
    - IFRS 7, to clarify that information about measurement bases for financial instruments is to be disclosed where they are expected to be material to an entity's financial statements;
    - IAS 1, to require entities to disclose their material accounting policy information rather than their significant accounting policies;
    - IAS 34, to identify material accounting policy information as a component of a complete set of financial statements rather than significant accounting policies; and
    - Practice Statement 2, to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

- Amendments to **IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" -** Definition of Accounting Estimates. This amends IAS 8, to clarify that accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty and also clarifies how entities should distinguish changes in accounting policies and changes in accounting estimates. This amendment is to be applied prospectively.

- Amendments to **IAS 12 "Income taxes"** - Deferred Tax related to Assets and Liabilities arising from a Single Transaction. This amendment updates IAS 12 Income Taxes to clarify the accounting for deferred tax on transactions that, at the time of the transaction, give rise to equal taxable and deductible temporary differences.

- Amendments to **IAS 12 "Income taxes"** - International Tax Reform – Pillar Two Model Rules. The amendments provide a temporary exemption from the requirements to recognise deferred tax assets and liabilities that arise from Pillar Two income taxes, and instead require targeted disclosures for impacted entities.

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.3. Standards issued but not yet entered into force and have not been early adopted

On the date of issue of these financial statements, the following standards, additions and interpretations were published, but have not yet entered into force:

- **Amendment to IAS 1 „Presentation of Financial Statements"** - Classification of Liabilities as Current or Non-current. This amendment changes IAS 1 to clarify requirements for the presentation of liabilities in the statement of financial position as current or non-current (applicable for reporting periods beginning on 1 January 2024).

- **Amendment to IAS 1 „Presentation of Financial Statements"** – Non-current Liabilities with Covenants - This amendment changes IAS 1 to clarify the presentation of liabilities in the statement of financial position as current or non-current. Under these amendments, covenants that are to be complied with after the reporting date do not affect the classification of the debt as current or non-current. Instead, the amendments require the organisation to disclose information about these covenants in the notes. This amendment can be early adopted and if early adopted the amendment relating to Classification of Liabilities as Current or Non-current, must be early adopted on or before this amendment (applicable for reporting periods beginning on 1 January 2024).

- **Amendments to IFRS 16 „Leasing"** - Lease Liability in a Sale and Leaseback. This amendment updates IFRS 16 to clarify that the requirements for Right of Use assets and lease liabilities in IFRS 16 apply to a sale-and-lease back after initial recognition. It also clarifies that the 'lease payments' shall be determined in such a way that the seller-lessee would not recognise any gain or loss that relates to the Right-of-Use asset retained by the seller-lessee. This amendment is applied retrospectively (applicable for reporting periods beginning on 1 January 2024);

- **Amendments to IAS 7 „Statement of Cash Flows" and IFRS 7 „Financial Instruments: Disclosures"** Supplier Financing Arrangements - These amendments to IAS 7 and IFRS 7 require entities to provide additional disclosures about their use of supplier financing arrangements and ensure that users have the information to enable them to assess: a) how the supplier financing arrangement affects the entity's cash flows and liabilities; b) the effect the supplier financing arrangements have on liquidity risk. The IAS 7 disclosures are not required to be provided for the comparative period (applicable for reporting periods beginning on 1 January 2024);

- **Amendments to IAS 21 „The Effects of Changes in Foreign Exchange Rates"** - Lack of Exchangeability. This amendment updates IAS 21 to require entities to apply a consistent approach in assessing whether a currency is exchangeable and how to estimate the exchange rate if it is not. Additional disclosures are also required around how you estimate the exchange rate. There are also consequential amendments to IFRS 1. The comparative period is not restated for this amendment (applicable for reporting periods beginning on 1 January 2025);

- **Amendments to IFRS 10 „Consolidated financial statements"** and **IAS 28 „ Investments in Associates and Joint Ventures"** - These amendments explains accounting treatment of sale or contribution of assets between an investor and its associate or joint venture. (Deferred until IASB finalises its research project on the equity method).

2. BASIS FOR PREPARATION OF FINANCIAL STATEMENTS

2.4. Comparative Information

Comparative information in these financial statements represent data from the Bank's financial statements for 2022.

2.5. Use of Estimates

The preparation of financial statements in conformity with IFRS requires management to use the best possible estimates and reasonable assumptions, which have an effect on the application of accounting policies and on the reported amounts of assets and liabilities, as well as income and expenses. The actual value of assets and liabilities may deviate from the value estimated in this way. Areas that involve a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

2.6. Statement of Compliance

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

In preparing the accompanying financial statements, the Bank has applied the accounting policies disclosed in Note 3.

2.7. Going Concern

The Bank's financial statements have been prepared on a going concern basis, which means that the Bank will continue in business for the foreseeable future. In 2023, the bank operated with a profit, with good capitalization and a sufficient level of liquidity provided through deposits and loans. Note 32 provides details on compliance with regulatory indicators, while Note 26 provides details on borrowings.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Foreign Currency Translations

Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into dinars at the average exchange rate of the National Bank of Serbia valid on the balance sheet date. Gains and losses arising from the translation of receivables and liabilities are recognized in profit or loss.

Foreign currency transactions are translated into dinars at the official exchange rate at the date of the transaction. Net foreign exchange gains and losses resulting from foreign currency transactions and from the translation of foreign currency balance sheet items are credited or charged to the income statement as foreign exchange gains or losses.

3.2. Interest Income and Expense

Interest income and expense on all interest-bearing financial instruments are recognized in the income statement within 'Interest income' and 'Interest expense' using the effective interest method.

The effective interest method is a method that calculates the cost of repaying financial assets or financial liabilities as well as the cost of allocating interest income or interest expense over a specified period. Effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or, where appropriate, over a shorter period of time to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows taking into account all contractual terms of the financial instrument (for example, prepayment) but does not take into account future credit losses. The calculation includes all fees and amounts paid or received between the two parties that are an integral part of the effective interest rate.

Interest income is calculated by applying the effective interest rate on the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (level 3), for which interest income is calculated at the effective interest rate on their amortized cost less impairment based on expected credit losses and (ii) financial assets purchased or realized with impairment for credit losses, for which the original credit-adjusted effective interest rate is applied to amortized cost.

3.3. Fee and Commission Income and Expenses

Fee and commission income is recognized over time on a straight-line basis, as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Bank's performance. This income includes fees that are often repeated - for account management, account servicing, current account packages, etc.

Other fee and commission income are recognized when the Bank meets its obligation, usually after the relevant transaction has taken place. The amount of fees and commissions paid or receivable represents the transaction price for the service, which is identified as the performance of a specific obligation. This revenue includes payment fees, cash settlement fees, collection or cash disbursements.

3.4. Dividend Income

Dividends are recognized in the income statement when the right to receive payment is established.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5. Financial instruments - Classification and Measurement of Financial Assets and Liabilities

Financial instruments

A financial instrument is any contract that gives rise to a financial asset or financial liability, with the simultaneous occurrence of a financial liability, i.e. a financial asset of third parties.

Financial assets
A financial asset is any asset that is:
- cash,
- equity instrument of another legal entity,
- contractual right to receive cash or some other financial asset from another legal entity,
- contractual right to exchange financial assets or financial liabilities with another legal entity, under conditions that are potentially favourable,
- a contract that will or may be settled with equity instruments and that is non-derivative, and for which the Bank is or may be obliged to receive a variable number of equity instruments,
- a contract that will or may be settled by equity instruments and which is a derivative, and which will be or may be settled other than by exchanging a fixed amount of cash or other financial asset for a fixed number of equity instruments.

Financial liabilities
A financial liability is any contractual liability:
- to deliver cash or other financial means to another legal entity,
- to exchange financial instruments with another legal entity under conditions that are potentially unfavourable.

Principles of valuation of financial instruments
From the aspect of classification and measurement, IFRS 9 defines criteria for the classification of financial assets, except equity instruments and derivatives, which are based on the assessment of the business model of managing specific financial assets and contractual characteristics of cash flows of financial instruments.

Financial assets

Upon initial recognition, the Bank measures a financial asset at fair value, increased or decreased for transaction costs that are directly attributable to the acquisition or issue of the financial asset.

The assessment of how the financial asset will be classified is made on the basis of the Bank's business model and the fulfilment of the test of characteristics of contracted cash flow.

Upon initial recognition, the Bank may irrevocably determine that financial assets that otherwise meet the criteria for valuation at amortized cost (AC) or at fair value through other comprehensive income (FVOCI), are recognized at fair value through profit or loss (FVTPL), if it eliminates or significantly reduces an accounting inconsistencies that would otherwise occur.

The business model determines whether cash flows arise from the collection of contracted cash flows, the sale of financial assets or both. The business model for the classification of financial assets is determined at the appropriate level of aggregation. Fulfilment of the test of characteristics of contracted cash flows means that cash flows consist exclusively of payment of principal and interest on the remaining principal (SPPI criterion).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5. Financial Instruments - Classification and Measurement of Financial Assets and Liabilities (continued)

Financial assets (continued)

Classification and measurement

Financial assets can be classified into the following categories:
- ✓ financial assets valued at amortized cost (AC)
- ✓ financial assets measured at fair value through profit or loss (FVTPL)
- ✓ financial assets measured at fair value through other comprehensive income with losses and gains reclassified to profit or loss - "recycling" (FVOCI) upon derecognition
- ✓ financial assets measured at fair value through other comprehensive income without reclassifying losses and gains in profit or loss (FVOCI)

(a) *Amortized cost* (AC)

Financial assets are held for the purpose of collecting contracted cash flows, and generated cash flows must consist exclusively of payment of principal (the nominal value of the date of financial assets to be charged after maturity) and interest (fee in cash for borrowed funds), which represents the amount by which the financial asset is measured at initial recognition with an increase or decrease in accumulated depreciation using the effective interest method for all differences between the initial amount and the amount at maturity, less all payments and adjustments based on calculated expected credit losses.

Rare sales, even large values or frequent sales of small value, sales made immediately before the maturity of financial assets (less than 3 months before maturity) and when the revenue from such sales are approximately equal to the amount that would be collected from the remaining contractual cash flows, sales due to increased credit risk of financial assets, sales that can be attributed to an isolated event that is beyond the Bank's control and that is one-off, are not contrary to this model.

The results of the analysis of business models and the estimation of contracted cash flows showed that the Bank continues to evaluate loans, placements given to customers and banks, at amortized cost.

(b) Fair value through other comprehensive income (FVOCI)

Financial assets are held for the purpose of collecting contracted cash flows and for the sale of such financial assets, as well as on the basis of contractual terms for cash flows to arise on certain dates which are only payment of principal and interest on outstanding amount of principal. This model implies a higher frequency or value of sales, mainly due to changes in market conditions, and/or for the purpose of maintaining liquidity.

The results of the analysis of business models and the estimates of contracted cash flows showed that the Bank evaluates debt securities at fair value through other comprehensive income.

If debt securities do not meet the test characteristics of contracted cash flows, they are measured at fair value through profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5. Financial Instruments - Classification and Measurement of Financial Assets and Liabilities (continued)

Financial assets (continued)

Classification and measurement (continued)

(c) Fair value through profit or loss account (FVTPL)

A business model that results in fair value measurements through profit or loss implies that the Bank manages financial assets in order to generate cash flows from the sale of assets. The Bank makes a decision based on the fair value of assets and manages them in order to achieve those fair values. In this case, the Bank's goal usually leads to active buying and selling. If debt securities or equity securities, including equity holdings, are acquired with the intention of being sold immediately or in the short term, they are classified as at fair value through profit or loss.

Bank classifies financial liabilities as liabilities at amortised cost. The Bank has no financial liabilities that are assessed as FVTPL and does not intend to do so.

Impairment of financial assets

In accordance with IFRS 9 Bank applies the principle of forward-looking expected credit loss (ECL) approach by including the impact of expected macroeconomic variables on the future movement of the probability of loss based on statistically proven interdependencies. Impairment losses for expected losses are calculated for all receivables and other debt instruments that are not measured at fair value through profit or loss, including irrevocable liabilities and issued guarantees. Impairment losses are based on the expected credit loss in accordance with the probability of default in the next 12 months, except when there is a significant deterioration in credit risk compared to the moment of initial recognition, when the assessment of credit losses is based on the probability of default over the life of the asset.

The Bank has defined the criteria for classifying financial instruments in levels 1, 2 and 3 depending on the degree of increase in credit risk from the moment of initial recognition. The subject of classification is financial instruments that are measured at amortized cost as well as financial instruments that are measured at fair value through other comprehensive income.

LEVEL 1

In the level 1, the Bank classifies financial instruments in which the credit risk has not significantly increased from the initial recognition. The expected credit loss recognized for Level 1 financial instruments represents at most one-year portion of accrued credit losses.

Calculated in this manner, expected 12-month credit losses are part of expected credit losses over the financial instrument duration and represent cash deficits during the term that will result if default occurs within 12 months after the reporting date (or a shorter period, if the expected duration of the financial instrument is shorter that 12 months), pondered by the probability of such non-execution.

LEVEL 2 - Significant increase in credit risk

The Bank classifies financial instruments in level 2 credit risk when it identifies that there is one or more of the following indicators that may indicate that there has been a significant increase in credit risk:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5. Financial Instruments - Classification and Measurement of Financial Assets and Liabilities (continued)

Financial assets (continued)

Impairment of financial assets (continued)

LEVEL 2 - Significant increase in credit risk (continued)

- 31-90 days past due
- restructuring of non-problematic receivables
- account block by the NBS for 30 days or more
- due to the status of problematic legal entities who have ratings of 7 and 8 and retail and entrepreneurs who are in DPD group 4
- rating downgrade by 2 DPD groups/rating classes from initial recognition of financial instrument
- if a legal entity has an exposure that has been transferred to Level 2 on any basis, all the accounts of that legal entity that are in Level 1 will move to Level 2
- for legal entities where there has been a decrease in business income and equity by more than 50%, if the Credit Appraisal Unit does not consider that the client should be transferred to default status

A significant increase in credit risk for the segment of exposure to states and financial institutions was determined as a decline of two rating categories, compared in relation to the rating scale of renowned external rating agencies (Moody's, Fitch, S&P).

At the reporting date, the Bank measures the impairment allowance for a financial instrument at an amount equal to the expected credit loss over its life, if the credit risk for that financial instrument has increased significantly since initial recognition.

LEVEL 3 - status of default

Level 3 of credit risk includes financial instruments that are considered problematic, ie for which there is objective evidence of impairment. The Bank has identified a list of indicators that it monitors in order to identify the status of problem clients:

- continuous delay in settling obligations for more than 90 days
- blocked accounts for more than 60 days in continuity
- reduction of the payment capacity that can be reflected in:
  - 50% decrease in operating income
  - capital decrease of more than 50%
- for retail receivables that has been sued according to Bank's records
- for legal entities and entrepreneurs, the client in the status of defendant and/or bankruptcy
- the client has not submitted the last financial statement to the register of business entities
- for corporate, entrepreneurs and individuals which are placed in sector of collection of receivables (WOD);
- other information that indicates business problems or may affect the inability to service debt, such as:
  - frequent reminders of the client about settling obligations, difficult negotiations, indicating that the client has or will have problems in business and
  - other information identified by credit officer during the monitoring in connection with negative changes in client's business, in relation to the circumstances that existed when approving loans

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5. Financial Instruments - Classification and Measurement of Financial Assets and Liabilities (continued)

Financial assets (continued)

Impairment of financial assets (continued)

LEVEL 3 - status of default (continued)

For these financial instruments, the impairment allowance is calculated as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

Future cash flow is determined based on insight into the borrower's creditworthiness and credit risk exposure.

The reversal of an impairment loss is recognized as income in the period in which the reversal is reversed.

The final write-off of uncollectible receivables is made on the basis of a court decision, settlement of interested parties, or on the basis of decisions of the competent body in the Bank.

The Bank makes an accounting write-off (transfer of balance sheet assets to off-balance sheet records) of problematic receivables, for which the calculated amount of impairment is 100% of their gross value.

The manner and steps of implementing the accounting write-off are defined by the acts of the Debt Collection Department.

3.6 Provisions

Provisions for liabilities and expenses are non-financial liabilities of uncertain timing or amount. A provision is recognized when the Bank has a present legal or constructive obligation as a result of a past event, and such an obligation can be measured reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where applicable, the risks associated with the liability. The Bank does not discount future cash flows that are expected to arise in the near future.

3.7. Sales and Repurchase Agreements

Securities sale-repurchase agreements ("repo") are securities sold subject to repurchase agreements ("reverse repo") and are accordingly recorded as loans and borrowings to other banks. The difference between the selling price and the repurchase price is treated as interest and is accrued over the life of the contract using the effective interest method.

3.8. Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents include balances with maturities of less than three months from the date of acquisition, including cash and non-restricted balances with central banks, treasury bills and other eligible securities, loans and advances to banks, due amounts of other banks and short-term government securities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Intangible Assets

Acquired licenses are stated at historical cost. Licenses have a limited useful life and are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method to allocate the cost of licenses over their estimated useful lives (applied depreciation rate of 25% - 33.33%).

3.10. Property, Plant and Equipment

The initial measurement of fixed assets is performed at cost or purchase price. The purchase value is the value according to the supplier's invoices, increased by the dependent costs based on the acquisition and the costs of bringing the asset into a state of functional readiness.

For subsequent measurement of construction, after initial recognition, the Bank applies the revaluation model in accordance with IAS 16 “Property, Plant and Equipment”.

The Bank's equipment is stated at cost less accumulated depreciation and impairment losses, if any.

Buildings are regularly subject to revaluation. The frequency of revaluation depends on the movement of the fair value of the assets being revalued. The increase in the book value of buildings on the basis of revaluation is reflected in the revaluation reserve account. Decreased book values, which reduce previous increases in the value of the same assets, are charged directly to revaluation reserves, while all other reductions are charged to the income statement.

Revaluation reserves are transferred directly to retained earnings when the surplus is realized from the withdrawal from use or disposal of the asset and if the asset is not used by the Bank. In the latter case, the amount of realized profit is the difference between depreciation calculated on the revalued carrying value and depreciation calculated on the initial purchase value of the asset (optional).

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

Depreciation of other assets is calculated using the straight-line method to allocate their cost or revalued amount to their residual value over their estimated useful lives, as follows:

- buildings 1.3%
- computer equipment 20.0%
- vehicles 20.0%
- furniture and equipment 12.5% - 20.0%
- leasehold improvements 20.0%

Gains and losses on disposals are determined from the difference between the cash inflow and the carrying amount and are recognized in the income statement within other income/expenses.

The residual value of an asset is the estimated amount that the Bank could currently obtain from the sale of the asset, less the estimated cost of sales, if the asset is already old and in the condition expected to be at the end of its useful life. The residual value of an asset is zero if the Bank expects to use the asset until the end of its useful life. The asset's residual value and useful life are reviewed, and adjusted if appropriate, at each balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10. Property, plant and equipment (continued)

When revalued assets are sold, the amount of revaluation included in the revaluation reserve is transferred to retained earnings.

3.11. Impairment of Non-Financial Assets

Assets that have an indefinite useful life are not subject to depreciation and are tested for impairment on an annual basis and when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets (other than goodwill) that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

3.12. Investment Property

Investment property is property held for the purpose of earning from rent or for the purpose of increasing capital, or for both.

Investment property is held for long-term rental yields and is not occupied by the Bank.

Land held under operating leases is classified and accounted for as investment property if it meets other requirements from the definition of investment property.

Investment property is recognized as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the entity and the cost of the investment property can be measured reliably. Investment property is initially measured at cost. Transaction costs are included in the initial measurement. The purchase value of the investment property includes its purchase price and all costs directly attributable to the acquisition. After initial recognition, investment property is subsequently measured at fair value. The fair value of investment property reflects market conditions at the end of the reporting period. Gains or losses arising from changes in the fair value of investment property are recognized in the income statement in the period in which they arise.

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with the item will flow to the Bank and can be measured reliably. All other maintenance costs are charged to the period in which they are incurred. When an investment property is used by its owner, it is reclassified to property, plant and equipment, and its carrying amount at the date of reclassification becomes its carrying amount which will be further depreciated.

3.13. Inventories

Upon acquisition, inventories are measured using the historical cost method, or the net realizable value method, whichever is lower. Historical cost implies that inventories are recognised on the basis of acquisition costs, and net realizable value is the value at which inventories can be realized on the market sale transaction.

The Inventories also include assets acquired through the collection of receivables. If there is an indication that an asset is impaired, the recoverable amount of the asset is estimated to determine the amount of impairment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14. Leases

Bank as a *lessee*

The Bank classifies leases (leases of property and equipment) in accordance with IFRS16, which implies that on the first day of the lease, assets with the right to use and lease liabilities are recognized in the balance sheets at the present discounted value of those leasing liabilities. The leasing period means the entire period of the lease, as well as the period of possible extension of the lease provided for in the contract. The choice of the discount rate is conditioned by the interest rate implied in the lease (based on the lease payment, the unguaranteed residual value, the fair value of the fixed asset and the initial direct costs of the lender). The discount rate can also be determined as an incremental lending rate, ie. as the interest rate that the lessee would have to pay for a similar lease or, if it cannot be determined, at what price the lessee can obtain funds on the market for the purchase of the same or similar assets (assets of similar value) under the same conditions (similar term). The Bank recalculates the discount or incremental rate when changing the provisions of the contract (duration of the lease, changes in the option to purchase the subject property, changes in future payments due to changes in the rate in the lease agreement). Changes in estimates (for example, changes in estimates of the economic life or residual value of the leased asset), or changes in circumstances (for example, non-performance of financial obligations of the lessee) do not cause a new classification of leasing, i.e. recalculation of the discount or incremental rate.

Each month, the Bank will record the cost of interest on the lease liability and the cost of depreciation on the discounted right to use the asset. Each month, upon receipt of the invoice for the payment of the lease, the amount of leasing liability will decrease.

The Bank will revalue the lease liability based on the occurrence of certain events (i.e. change in the lease period, change in the lease price, significant change in the incremental rate, etc.). In that case, the Bank recognizes the amount of the revaluation of the lease liability as an adjustment to the right to use the asset.

If the amount of the lease is of small value (monthly lease amount up to EUR 100) and/or if the lease contract is concluded for a period of 12 months or less, the Bank will not treat those leases in accordance with this standard.

Bank as the lessor

A lease is an agreement under which the lessor transfers to the lessee the right to use the assets during an agreed period of time in exchange for one or more payments.

When an asset is leased out under an operating lease, the asset is recognized in the balance sheet depending on the type of asset.

Lease income is recognized on a straight-line basis over the term of the lease.

3.15. Borrowings

Borrowings are initially recognized at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortized cost. All differences between the realized inflow (less transaction costs) and the amount of repayments are recognized in the income statement over the period of the borrowings using the effective interest rate.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.16. Employee Benefits

(a) Employee benefits

Short-term employee benefits include salaries, wages, taxes and contributions for social insurance. Short-term employee benefits are recognized as an expense in the period in which they are incurred.

The Bank and its employees are legally obliged to pay taxes and social security contributions in accordance with applicable legal regulations. The Bank is not obliged to pay compensation to employees, which is the obligation of the Fund. Taxes and contributions related to defined benefit plans are recorded as an expense of the period to which they relate.

(b) Retirement benefits

In accordance with applicable legal regulations, the Bank is obliged to pay retirement benefits to employees upon retirement or termination of employment by force of law due to loss of working capacity in the amount of three average salaries in the business sector in the Republic of Serbia, according to the latest information published by a competent statistical body. These payments are recognized in the balance sheet as a liability, in accordance with the estimate of the certified actuary at a discounted amount.

Actuarial gains and losses arising from adjustments based on experience as well as changes in actuarial assumptions are charged or credited to the income statement and are allocated to the expected average remaining length of service of the employees in question.

The actuarial assumptions used when calculating retirement benefits were as follows:

- data on employees: total length of service as at 31 December 2023, year of birth and sex, number of years until old age or full pension;
- annual employee turnover rate of 14%;
- annual discount rate 6.25%;
- assumed geometric growth of earnings of 8.5% per year during the entire period for which funds are reserved.

Termination benefits are paid when the employment is terminated before the date of regular retirement, or when the employee accepts the agreed termination of employment, as redundancy, in exchange for these benefits. The Bank recognizes termination benefits upon termination of employment when it is evident that the Bank will either terminate the employment relationship with the employee, in accordance with a detailed formal plan without the possibility of resignation, or provide termination benefits for termination of employment in order to encourage voluntary termination of employment for the purpose of reducing the number of employees. Benefits that fall due more than 12 months after the balance sheet date are reduced to the present value.

3.17. Current Income Tax and Deferred Taxes

a) Current income tax

Current income tax is the amount that is calculated and paid in accordance with the tax regulations in the Republic of Serbia, based on the profit shown in the prescribed tax balance. The bank itself calculates the income tax, ie the annual tax liability and the amount of the advance payment for the next year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17. Current Income Tax and Deferred Taxes (continued)

a) Current income tax (continued)

Income tax in the amount of 15% is paid based on the annual profit shown in the Tax Balance and is reduced for certain investments during the year, as shown in the Tax Balance - PDP form. Accounting profit is adjusted for certain permanent as well as temporary differences in order to obtain the amount of taxable profit. The Tax Balance is submitted within 180 days after the expiration of the period for which the tax liability is determined.

b) Deferred taxes

Deferred income tax is calculated and recorded on temporary differences between the tax bases of assets and liabilities and their carrying amounts reported in the Bank's financial statements. Deferred tax liabilities are recognized for all taxable temporary differences between the tax bases of assets and liabilities on the balance sheet date and the amounts reported for reporting purposes, which will result in taxable amounts of future periods.

Deferred tax assets are recognized for all deductible temporary differences, unused tax credits and unused tax losses, to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax credits and unused tax losses can be realized.

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

3.18. Share Capital

Ordinary shares are classified as equity.

(a) Share issue costs

Additional costs that are directly attributable to the issue of new shares or the acquisition of a legal entity are recognized in equity as a deduction, net of tax, from the inflow of proceeds. Any amount greater than the fair value of the proceeds received above the nominal value of the shares issued is recognized in equity as a share premium.

(b) Dividends on shares

Dividends on shares are recorded as liabilities in the period in which the decision on their payment is made. Dividends approved for the year after the balance sheet date are disclosed in the Note on events after the balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.19. Financial Guarantees

Financial guarantees are contracts that oblige the issuer of the guarantee to make a payment or compensate the loss to the recipient of the guarantee, incurred if a particular debtor does not settle its obligations in a timely manner in accordance with the terms of the contract. The Bank provides such financial guarantees to banks, financial institutions and other organizations, on behalf of its clients, in order to provide loans, current account overdrafts, and other banking services.

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee is given. After initial recognition, the bank's guarantee liabilities are measured as greater than: a) the initially recognized amount less depreciation calculated to recognize income on the straight-line basis over the duration of the guarantee; and b) the best estimate of the amount of impairment loss for the guaranteed exposure, which is determined based on the ECL model.

4. FINANCIAL RISK MANAGEMENT

4.1 Introduction

The Bank's operations are exposed to various financial risks and these operations require the identification, assessment, monitoring, mitigation and control of risk, as well as the establishment of an adequate system for reporting on risk. The Bank manages its risks through a special organizational unit for risk management. The Bank by its acts prescribes procedures for identification, measurement, risk assessment and risk management in accordance with regulations, standards and rules of the profession.

The Bank's risk management policy defines a unique system for managing the risks to which the Bank is exposed in its operations.

By the nature of its activities, the Bank is exposed to various types of risks, such as:

1. liquidity risk;
2. credit risk;
3. market risk;
4. risks of the Bank's exposure towards an entity or a group of related parties;
5. risks of the Bank's investments in other legal entities and fixed assets;
6. risks related to the country of origin of the entity to whom the Bank is exposed;
7. operational risk (including legal risk).

4.2 Liquidity Risk

Liquidity risk is defined as the risk of possible adverse effects on the Bank's financial result and equity due to the Bank's inability to meet its due obligations. Liquidity risk arises due to significant withdrawal of existing sources of financing, inability to obtain new sources of funds (liquidity risk of sources of funds), as well as due to difficult conversion of assets into liquid assets due to market disruptions (market liquidity risk).

In order to adequately manage and control liquidity risk, the Bank has implemented internal procedures that define a comprehensive system for managing this risk, including competencies and responsibilities of participants in the process as well as controls and methodologies that achieve efficiency of liquidity risk management system.

The Bank's liquidity risk management system includes:

- defining the principles of liquidity risk management,
- organizational structure that supports adequate liquidity risk management,
- procedures for identifying, measuring, mitigating and monitoring liquidity risk,
- information system that supports liquidity risk management,
- timely and adequate activities in situations of increased liquidity risk,
- adoption of the Contingency Plan and the Bank's Recovery Plan,
- internal liquidity risk management system

In its operations, the Bank adheres to the following basic principles for liquidity risk management:

- The Bank actively monitors liquidity risk exposure in significant currencies exceeding 5% of the Bank's liabilities (RSD, EUR, USD and CHF).
- Ensuring continuous stability and diversification of funding sources, according to the type of source and tenors, in which sense the limits of concentration of sources of funds and maximum participation in the deposit base per client have been determined.
- Formation of a level of highly liquid assets and an adequate level of liquidity reserves consisting of cash, funds in accounts with foreign banks, obligatory reserves with the National Bank of Serbia in EUR and RSD and highly liquid securities issued by the Ministry of Finance of the Republic of Serbia.

4. FINANCIAL RISK MANAGEMENT (continued)

4.2 Liquidity Risk (continued)

- The Bank has established internal procedures for dealing with increased liquidity risk as well as early warning systems for potential deterioration of the Bank's liquidity profile. The Bank's business plan in case of unforeseen events as well as the Bank's Recovery Plan are subject to regular annual testing and revision.
- Liquidity risk assessment is a mandatory part of the procedure when approving a new product.
- Regularly conduct stress tests based on scenarios specific to the Bank or the general market in which the Bank operates, in order to identify sources of potential liquidity crisis as well as the conditions and ways under which the Bank would, in such situations, maintain the required liquidity level with full fulfillment regulatory and internally defined limits.

Bodies and organizational units of the Bank that are directly involved in the liquidity risk management process are:

- The Bank's Managing Board adopts a risk management strategy and policy, of which liquidity risk management is an integral part, as well as the Bank's Recovery Plan.
- The Bank's Executive Board adopts the Bank's risk management procedures and ensures their full implementation
- The Assets and Liabilities Management Committee (ALCO) monitors the Bank's liquidity risk exposures and early warning indicators and proposes measures to improve the Bank's liquidity profile
- The Asset Management Department is responsible for day-to-day liquidity management and maintaining defined internal and regulatory limits at the approved level.
- The Risk Management Department implements procedures for measuring, analysing and monitoring liquidity risk and develops methodologies for internal liquidity risk assessment and stress testing
- Internal audit performs an independent assessment of the adequacy of adopted liquidity risk management procedures at least once a year

The Bank's liquidity risk management means managing all items of assets, liabilities and off-balance sheet items of the Bank that may have an impact on its liquidity position. Internal identification, measurement and monitoring of liquidity risk relies on gap analysis of future cash flows of these positions allocated over time intervals according to the remaining maturity. For balance sheet items for which it is not possible to determine in advance the exact date of inflow or outflow of assets, the Bank uses assumptions based on the analysis of the historical movement of these positions or on the basis of expert assessment. For the purpose of estimating potential outflows of deposits without a defined maturity, the Bank uses an internal model based on the concept of deposit stability analysis.

The Bank defines individual and cumulative liquidity gap limits, which it observes both at the aggregate level (consolidated presentation) and by significant currencies. Limits are defined as the limit of the ratio between the cumulative gap of up to one month and the total assets of the bank as well as for the three-month gap in relation to the total assets of the Bank.

The following table shows the assets and liabilities grouped into categories according to the remaining contractual maturity at the balance sheet date.

All amounts are expressed in thousands of RSD unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

4.2 Liquidity Risk (continued)

As of 31 December 2023	up to 1 month	1-3 months	3-12 months	1 - 5 years	over 5 years	Total
Assets						
Cash and balances with the Central Bank	6,661,193	-	-	-	-	6,661,193
Securities	2,787,072	1,194,458	-	-	-	3,981,530
Loans and receivables from banks and other financial organizations	4,708,757	216,605	-	-	-	4,925,362
Loans and receivables from customers	300,234	393,814	1,984,431	2,356,536	1,238,283	6,273,298
Other assets	336,116	-	13	561	368	337,058
Total assets	**14,793,372**	**1,804,877**	**1,984,444**	**2,357,097**	**1,238,651**	**22,178,441**
LIABILITIES						
Deposits and other liabilities due to banks, other financial institutions and Central Bank	294,385	-	-	-	-	294,385
Deposits and other liabilities due to customers	8,645,881	1,093,120	4,526,099	4,233,661	189,622	18,688,383
Other liabilities	614,355	1,812	1,939	3,275	329	621,710
Total liabilities	**9,554,621**	**1,094,932**	**4,528,038**	**4,236,936**	**189,951**	**19,604,478**
Net Gap (Total Assets - Total Liabilities)	**5,238,751**	**709,945**	**(2,543,594)**	**(1,879,839)**	**1,048,700**	**2,573,963**

As of 31 December 2022	up to 1 month	1-3 months	3-12 months	1 - 5 years	over 5 years	Total
Assets						
Cash and balances with the Central Bank	2,156,085	-	-	-	-	2,156,085
Securities	2,562,195	1,098,084	-	-	-	3,660,279
Loans and receivables from banks and other financial organizations	1,539,166	2,933	-	-	-	1,542,099
Loans and receivables from customers	339,790	592,681	2,314,473	2,174,224	1,538,891	6,960,059
Other assets	603,841	235	52	4,264	459	608,851
Total assets	**7,201,077**	**1,693,933**	**2,314,525**	**2,178,488**	**1,539,350**	**14,927,373**
LIABILITIES						
Deposits and other liabilities due to banks, other financial institutions and Central Bank	244,899	-	11,868	1,342	-	258,109
Deposits and other liabilities due to customers	4,884,506	1,093,184	3,537,260	2,635,826	166,208	12,316,984
Other liabilities	181,883	2,181	2,230	1,843	191	188,328
Total liabilities	**5,311,288**	**1,095,365**	**3,551,358**	**2,639,011**	**166,399**	**12,763,421**
Net Gap (Total Assets - Total Liabilities)	**1,889,789**	**598,568**	**(1,236,833)**	**(460,523)**	**1,372,951**	**2,163,952**

All amounts are expressed in thousands of RSD unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

4.2 Liquidity Risk (continued)

Non-discounted cash flows

The amounts shown in the table below show the contracted undiscounted cash flows of financial instruments as at 31 December 2023.

As of 31 December 2023	up to 1 month	1-3 months	3-12 months	1 - 5 years	over 5 years	Total
Cash and balances with the Central Bank	6,661,187	-	-	-	-	6,661,187
Securities	3,656,960	1,567,268	-	-	-	5,224,228
Loans and receivables from banks and other financial organizations	4,714,479	219,807	-	-	-	4,934,286
Loans and receivables from customers	322,625	459,115	2,216,867	2,998,876	1,741,068	7,738,551
Total assets (contracted maturity dates)	**15,355,251**	**2,246,190**	**2,216,867**	**2,998,876**	**1,741,068**	**24,558,252**

As of 31 December 2023	up to 1 month	1-3 months	3-12 months	1 - 5 years	over 5 years	Total
Deposits and other liabilities due to banks, other financial institutions and Central Bank	300,436	3,202	-	-	-	303,638
Deposits and other liabilities due to customers	8,647,315	1,098,119	4,598,076	4,248,634	189,622	18,781,766
Total liabilities (contracted maturity dates)	**8,947,751**	**1,101,321**	**4,598,076**	**4,248,634**	**189,622**	**19,085,404**

As of 31 December 2022	up to 1 month	1-3 months	3-12 months	1 - 5 years	over 5 years	Total
Cash and balances with the Central Bank	2,156,085	-	-	-	-	2,156,085
Securities	2,562,195	1,098,084	-	-	-	3,660,279
Loans and receivables from banks and other financial organizations	1,539,024	2,933	-	-	-	1,541,957
Loans and receivables from customers	303,002	655,200	2,540,612	2,927,461	1,949,659	8,375,934
Total assets (contracted maturity dates)	**6,560,306**	**1,756,217**	**2,540,612**	**2,927,461**	**1,949,659**	**15,734,255**

As of 31 December 2022	up to 1 month	1-3 months	3-12 months	1 - 5 years	over 5 years	Total
Deposits and other liabilities due to banks, other financial institutions and Central Bank	244,900	-	11,868	1,386	-	258,154
Deposits and other liabilities due to customers	4,884,333	1,095,813	3,582,678	2,655,264	166,208	12,384,296
Total liabilities (agreed maturity dates)	**5,129,233**	**1,095,813**	**3,594,546**	**2,656,650**	**166,208**	**12,642,450**

All amounts are expressed in thousands of RSD unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

4.2 Liquidity Risk (continued)

The focus of the Bank during 2023 was to continue maintaining a high level of liquidity as well as diversifying and optimizing liquidity reserves with a reduced appetite for risk-taking. At the same time, the Bank continued to strengthen its deposit base, which continued to grow throughout 2023, while liquidity reserves were maintained.

Regulatory liquidity indicators

In accordance with the Decision on the Management of the Bank's Liquidity Risk, the Bank is obliged to compile and regularly report to the National Bank of Serbia on the Bank's liquidity level through the Bank's liquidity indicator, narrow bank liquidity indicator and liquidity coverage indicator.

Bank liquidity indicator and narrow bank liquidity indicator

The Bank's liquidity indicator represents the ratio of the first and second tier liquidity assets of the Bank, on the one hand, and the sum of the Bank's liabilities on sight or with no contractual maturity and liabilities of the Bank with an agreed maturity in the next month from the day of performing the liquidity ratio calculation, on the other.

A narrow indicator of a Bank's liquidity is the ratio of the Bank's first-line liquidity claims, on the one hand, and sums the Bank's liabilities on sight or with no contractual maturity and the Bank's contractual maturity within the next month from the reporting date on the other.

Banks's liquidity indicator	31 December
2023	4.45
2022	3.65

Narrow indicator	31 December
2023	3.14
2022	3.41

Liquid assets coverage indicator

The liquid assets coverage indicator represents the ratio of the Bank's liquidity buffer and the net outflow of its liquid assets that would occur during the next 30 days from the day of calculating this indicator in the assumed stress conditions.

This indicator significantly relies on the Basel III regulation of the European Union (Commission Delegated Regulation EU 2015/61) with some minor changes to adapt to local conditions. In that sense, the most significant differences relate to the inclusion of the amount of required reserves with the National Bank of Serbia that exceeds the amount of calculated reserves and the inclusion of securities of the Ministry of Finance of the Republic of Serbia without the application of corrective factors.

The regulatory requirement is to maintain highly liquid assets at a minimum level of 100% relative to the net outflow of funds. The indicator of liquidity coverage of the Bank as of 31 December 2023 and 2022 was as follows:

LCR	31 December
2023	596%
2022	383%

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit Risk

The Bank is exposed to credit risk and the possibility that the debtor will not fulfil its obligations towards the Bank in the agreed amount on the due date. Exposure to credit risk arises primarily from crediting operations.

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

- reviews the creditworthiness of the borrowers of loans, guarantees and other products,
- determines the limits of credit indebtedness on the basis of risk assessment,
- does business with creditworthy clients and obtains appropriate security instruments.

Clients are under continuous supervision, and limits on risk exposure are adjusted as necessary. Risk limits are determined depending on the different types of security instruments.

The concentration of risk by economic activities is also under constant monitoring, although no restrictions have been set.

Risk exposure to one debtor, including banks, is limited and includes both on-balance sheet and off-balance sheet risk exposure. The total risk exposure per client in relation to restrictions is considered before the transaction occurs.

Credit risk management at the level of individual placements

Credit risk management at the level of individual placements includes:

- credit risk management in the process of approving and realizing placements;
- credit risk management in the process of monitoring and collecting placements.

The organizational units of the Bank responsible for taking credit risk at the level of individual placements of corporate and retail entities are Corporate Department, Retail and SME Department and Treasury Department. Organizational parts of the Bank responsible for independent credit risk assessment at the level of individual placements is the Risk Management Department.

The Managing Board, The Executive Board and Credit Committee are the Bank's bodies that participate in the decision-making process on approving loans and other receivables of the Bank, as well as changes in loan terms and other receivables, and are composed of members who meet the requirements for membership defined by law and their powers, responsibilities and scope regulated by the Bank's Articles of Association.

Members of the Credit Committee and other committees regulated by the Law on Banks and the above Decision are appointed by the Managing Board of the Bank.

The dynamics of sessions of the Credit Committee, the quorum for decision-making, as well as the procedure of the Bank's Credit Committee are defined by the Rules of operation of the Credit Committee.

Large exposures

The Executive Board of the Bank is obliged to inform the Managing Board at least quarterly about the following:

- on all transactions concluded with related parties, including legal transactions with entities related to related parties of the Bank
- granted approvals, i.e. all placements granted to one person or a group of related parties, by which the Bank increases its exposure to that person or group of related parties

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit Risk (continued)

Credit risk management at the level of individual placements (continued)

Placement monitoring

Organizational parts of the Bank who are in charge of credit risk at the level of individual placements are obliged to monitor individual placements and borrowers. Monitoring of individual placement includes:

- Monitoring the financial status of the debtor,
- Monitoring the regularity in the fulfilment of obligations,
- Status and organizational changes of the debtor, i.e. up-to-date documentation,
- Monitoring of collateral,
- Identifying the need to restructure or refinance client liabilities, analyse economic feasibility and implement the process
- Other factors affecting the debtor’s ability to fulfil its obligations
- Monitoring and collection of placements for all debtors who are up to 30 days late

Monitoring of individual placements in the status of default

The organizational part of the Bank responsible for credit risk management in the process of monitoring and collection of placements with the status of outstanding liabilities is the Debt Collection Department and the Legal Department.

On a monthly basis, the Debt Collection Department reports to the Debt Collection follow-up Commission on the status of clients by segments and days past due in order to better monitor and collect receivables from clients and establish a system for early detection of potential problematic placements.

Debt Collection follow-up Commission as a body for bad assets management

- monitors clients who are in problematic status (over 60 days past due - Watch list);
- monitors clients according to the Early Recognition System (EWS) identified as potentially problematic, (makes decisions on actions towards individual clients based on information obtained from the Debt Collection Department)

The system for defining early identification of potential problematic claims (EWS) as well as the Watch List is the responsibility of the Risk Management Department in cooperation with the Debt Collection Department and is subject to continuous improvement according to current IT support.

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit Risk (continued)

Portfolio level credit risk management

Credit risk management at the level of the Bank's portfolio is applied in all organizational units of the Bank whose competence are related to the approval and monitoring of placements, as well as at the level of:

- Risk Management Department
- Financial Control Department
- Executive and Managing Board of the Bank

By monitoring and identifying credit risks at the portfolio level, the Bank, by analysing the structure and characteristics of the portfolio, timely identifies factors that may lead to an increase in credit risk.

Identification of credit risk at the level of the Bank's portfolio is carried out by determining current credit risk exposure based on current and historical data as well as by determining credit risk exposure that may occur in the future through projections and simulations of the Bank's portfolio.

Internal credit risk reporting covers the following areas:

- portfolio quality - portfolio quality reports contain detailed views on portfolio structure and focus on concentration indicators, as well as key indicators of the Bank's portfolio quality, based on which proposals/opinions are given on potential future effects and steps to be taken in order to improve the Bank's operations;
- classification of client loans - classification of loans by risk categories and ratings are done at least quarterly - a breakdown by portfolio segment is needed to provide appropriate insight in terms of risk sources;
- impairment of loans - analysis of provisions and allowances for loans is considered important as an indicator of portfolio quality and a means of identifying sources of loan deterioration;
- large debtors - the analysis of large engagements focuses on significant concentrations towards certain clients, as well as on compliance with regulations;
- indicators of early warning about the threat to the activities and financial position of the Bank defined by the Recovery Plan;
- level of problematic receivables, movement of NPL portfolios in accordance with the Decision on NBS reporting, structure of NPL portfolios and its coverage by impairment;
- quarterly portfolio stress within the ICAAP process and reporting to the Managing Board on the results of stress tests and their effect on internal capital requirements;
- monitoring the quality of assets by days of arrears and their movement for all segments of the portfolio;
- monitoring the status of foreclosed real estate based on the collection of receivables.

Control and supervision

Organizational parts of the Bank in the function of independent control and supervision over the risk management system:

- Internal Audit,
- Compliance and AML Department

In addition to regular independent assessments of the efficiency and reliability of the credit risk management system, the Bank is obliged to test the quality of the applied internal models for credit risk assessment at least once a year.

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit Risk (continued)

The Bank's exposure to credit risk

The Bank determines the credit risk exposure of its financial assets by applying IFRS 9 as described further in this section.

Impairment of financial assets

Assets carried at amortized cost

Assessment on an individual basis - Stage 3

The assessment of impairment calculation in accordance with this Methodology for Stage 3 exposures is performed for all exposures with:

- identified default status;
- all financial instruments that meet the definition of POCI in accordance with IFRS 9;
- exposure to banks classified in V, G and D categories where the total exposure in the Bank exceeds EUR 200,000 on the day of calculation;
- exposures with FB/NPE status.

The calculation of the impairment for exposures to the level 3 is performed on an individual basis if the client meets the following conditions:

- Legal entities and entrepreneurs - total exposure in the Bank is greater than 0.05% of the total portfolio and
- Individuals - total exposure in the Bank is greater than 0.2% of the total portfolio

Limit for calculating the impairment on an individual basis is calculated on a quarterly basis and is applied for the next quarter.

Individually significant exposures - The Bank assesses at each reporting date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and an impairment loss is recognized only if there is objective evidence that it is impaired as a result of one or more events that occurred after the initial assessment of the asset.

Criteria used by the Bank to determine whether there is objective evidence of impairment include:

1. the financial condition of the debtor indicates significant problems in its operations such as the debtor is late in settling obligations to the state, other creditors or employees or irregularly fulfils obligations for taxes and social security contributions of employees, in significant amounts, at the discretion of the bank; significant and continuous reduction of operating revenues in the previous two years; the debtor's capital was significantly reduced due to losses during the previous two reporting periods; there is a material reduction of operating income;

2. there is information on non-payment of obligations, frequent delays in the payment of interest and/or principal or non-compliance with other contractual provisions; at the latest when the debtor is 90 days late on the basis of any placement; placement is problematic in accordance with the Decision on the classification of balance sheet assets and off-balance sheet items of the Bank;

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit Risk (continued)

Impairment of financial assets (continued)

3. The bank significantly changed the terms of repayment of placements due to financial difficulties of the debtor in relation to the originally agreed, that is, clients who are in the status of NPE/RES, in accordance with items 35a to 35đ of the Decision on the classification of balance sheet assets and off-balance sheet items of the bank;
4. it is certain to initiate bankruptcy proceedings against the debtor or initiate another type of financial reorganization, which can be identified on the basis of: the debtor is blocked for more than 60 days on the day of assessment; the debtor is in the process of liquidation; a lawsuit was initiated against the debtor; pre-bankruptcy proceedings have been initiated against the debtor or bankruptcy proceedings are underway against any strategically important member of the economic entity to which the debtor belongs; the reasons for initiating bankruptcy proceedings against the debtor have been met, which are defined by the law governing bankruptcy; the debtor is in the process of preparing the reorganization plan/the creditors have accepted the proposed reorganization plan/the debtor is operating according to the adopted reorganization plan; or the debtor is in the process of consensual financial restructuring in accordance with the relevant regulation;
5. other objective evidence of impairment which classifies receivables from the client in the category of doubtful and disputable receivables

If the Bank determines that there is objective evidence that a financial asset is impaired, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows.

The Bank recognizes the existence of several possible collection scenarios when estimating expected future cash flows.

On this occasion, the scenarios that are taken into account are:
- realization of collateral (then separately judicial and extrajudicial),
- restructuring and reprogramming,
- bankruptcy,
- sale of receivables,
- everything else that is considered relevant

In determining the probability estimates of certain scenarios, the Bank is guided by the history of realization and collection of problematic receivables, but also by the specifics of individual financial instruments and accordingly assigns them appropriate weights, which must be 100% of all scenarios.

In this way, final accrued credit losses meet the standard definition in a way that represents the probability of a weighted estimate of credit losses.

Depending on the type of real estate over which the mortgage is established, the location where it is located and the date of the last appraisal, the Bank uses the reduced market value of the real estate in the process of calculating the impairment, as follows:

All amounts are expressed in thousands of RSD unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit Risk (continued)

Impairment of financial assets (continued)

Residential property/territory	**Haircuts 2023**	**Billing year**
Belgrade and Novi Sad	20%	1-5
Other	42.5%	1-5

Land/type	**Haircuts 2023**	**Billing year**
Land Vojvodina	25%	1-5
Land other	40%	1-5

Business property/territory	**Haircuts 2023**	**Billing year**
Belgrade and Novi Sad	20%	1-5
Other	42.5%	1-5

Industrial property/type	**Haircuts 2023**	**Billing year**
Factories	35%	1-5
Warehouses	50%	1-5

Residential property/territory	**Haircuts 2022**	**Billing year**
Belgrade and Novi Sad	20%	1-5
Other	42,5%	1-5

Land/type	**Haircuts 2022**	**Billing year**
Land Vojvodina	25%	1-5
Land other	40%	1-5

Business property/territory	**Haircuts 2022**	**Billing year**
Belgrade and Novi Sad	20%	1-5
Other	42.5%	1-5

Industrial property/type	**Haircuts 2022**	**Billing year**
Factories	35%	1-5
Warehouses	50%	1-5

In cases when the mortgage valuation date is older than 3 years, the haircut defined above is increased by 10%.

Expected cash flows must be reduced to their present value. As a discount factor, the Bank uses the effective interest rate (effective interest rate calculated on the day of concluding the loan agreement) in cases when a fixed interest rate has been agreed with the client, when the Bank has approved a change in repayment terms, when there is restructured receivable, the Bank uses the initial effective interest rate per restructured account. In the case of loans with a variable interest rate, the current effective interest rate valid on the day of calculation is used.

In order to determine the expected period of collateral collection, Debt Collection Department takes into account the following factors:

- type of mortgage (depending on the law under which the mortgage was established, i.e. whether it was established under the Mortgage Act or the Enforcement Procedure Act);
- validity of mortgage documentation (quality, i.e. completeness of documentation held by the Bank);
- type, purpose, functionality and size of the real estate that is the subject of the mortgage and the location where the real estate is located;
- supply and demand for real estate that is the subject of collateral;
- phase in which the mortgage collection process is located, ie. whether the collection was initiated through court or out-of-court settlement procedure or the collection is expected by exercising the rights from the bankruptcy procedure;
- client's cooperation with the Bank.

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit Risk (continued)

Impairment of financial assets (continued)

The minimum or maximum expected collection time from collateral ranges from one to five years, depending on the legal deadlines, court practice and regulations of the Republic of Serbia, which are followed in the process of realization of each individual mortgage.

In that sense, the estimated time of collection is mostly influenced by the type of procedure through which the execution is carried out.

The minimum expected collection period in the mortgage realization procedure is one year, if it is activated according to the out-of-court method of settling under the currently valid Mortgage Law, if the Real Estate Cadastre of the Republic of Serbia adheres to all legally prescribed deadlines for registering a note with the Bank.

In cases when collection is expected by realization of collateral by applying any other court procedure (Law on Enforcement and Security, Law on Civil Procedure, Bankruptcy Procedure, etc.), which the Bank cannot influence, and which primarily depends on the actions of the court, court executors and bankruptcy trustees, the expected collection period ranges from one to five years, depending on the specifics of each individual security instrument. The maximum expected collection period of five years is applied in cases when the existence of an objective risk of impairment has just been identified and the Bank has not yet started negotiations with the client and/or initiated a dispute against the client.

Assessment on a group basis - Stage 1,2,3

The Bank considers the following receivables on a group basis:

- receivables for which the review on an individual basis has shown that there is no objective evidence of impairment;
- receivables that belong to the group of small receivables and which are not considered on an individual basis.

For the purpose of calculation on a group basis, receivables in the Bank's loan portfolio are grouped on the basis of similar characteristics from the aspect of credit risk.

Stage 1 - expected credit losses

The calculation of the allowance under Stage 1 is performed if at the reporting date the credit risk of the financial instrument has not increased significantly since initial recognition. The Bank measures the loan loss provision for this financial instrument at an amount equal to the most expected twelve-month credit loss.

The expected credit loss recognized for Stage 1 financial instruments is accounted for as a one-year portion of accrued credit losses as follows:

$$ECL = EAD * MPD * LGD * DF$$

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

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk (continued)

Impairment of financial assets (continued)

Calculated in this way, expected 12-month credit losses are part of expected credit losses over the term and represent cash deficits over the term that will result if default occurs within 12 months after the reporting date (or a shorter period if the expected financial term of instrument is shorter than 12 months), weighted by the probability of such default.

Stage 2 – expected credit losses

At the reporting date, the Bank measures the allowance for a financial instrument at an amount equal to the expected credit loss over its life, if the credit risk for that financial instrument has increased significantly since initial recognition.

The Bank's general approach to calculating expected credit losses for the entire life of the financial instrument is presented by the formula:

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

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

The expected credit losses calculated in this way for the entire period of the financial instrument represent the losses that the Bank recognizes for the purposes of calculating the Stage 2 impairment.

Stage 3 – expected credit losses

The calculation of the impairment within Stage 3 is carried out if the criteria for identifying claims that must be assessed on an individual basis but are below the defined materiality threshold are recognized.

For borrowers on the group assessment at Stage 3, the calculation of expected credit losses is calculated as the difference between the gross book value of the placement and the value obtained by discounting all available collateral at the initial effective interest rate, as well as taking into account the collection beyond the collateral on the remaining amount (1-LGD unsecured).

The collateral value that is discounted is 90% of the allocated value after applying the haircut. The average collection from the collateral of 36 months is taken as the discount period.

All amounts are expressed in thousands of RSD unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit Risk (continued)

Impairment of financial assets (continued)

Total balance sheet exposure to credit risk

The total exposure to credit risk as of 31 December 2023 and 31 December 2022 is presented in the following overview without taking into account any collateral or any other credit protection. These values are stated in the Gross and Net carrying amounts.

	31 December 2023		31 December 2022	
	Gross	Net	Gross	Net
I. Assets overview	**22,444,027**	**22,178,441**	**15,176,682**	**14,927,373**
Cash and balances with Central Bank	6,661,193	6,661,193	2,156,090	2,156,085
Securities	3,981,530	3,981,530	3,660,279	3,660,279
Loans and receivables from banks and other financial organizations	4,932,993	4,925,362	1,545,686	1,542,099
Loans and receivables from customers	6,521,369	6,273,298	7,199,636	6,960,059
Other assets	346,941	337,058	614,991	608,851

Guarantees and letters of credit represent irrevocable obligations of the bank to make payments if the customer is unable to settle its obligation to a third party and bear the same risk as loans.

	31 December 2023		31 December 2022	
	Gross	Net	Gross	Net
II. Off-balance sheet items	**4,112,060**	**4,053,701**	**3,886,214**	**3,839,694**
Payable guarantees	888,317	880,226	930,614	919,690
Performance guarantees	810,810	802,688	743,790	739,817
Irrevocable commitments	2,161,651	2,120,681	2,092,795	2,062,831
Other	251,282	250,106	119,015	117,356
Total (I+II)	**26,556,087**	**26,232,142**	**19,062,896**	**18,767,067**

Change in loans and receivables from customers by risk Stages during 2023:

	Stage 1	Stage 2	Stage 3	Total
31 December 2022	**5,055,689**	**1,754,929**	**389,018**	**7,199,636**
New receivables	3,023,303	733,921	31,024	3,788,248
Reduction/Repayment of receivables	(2,939,416)	(1,424,106)	(102,992)	(4,466,514)
31 December 2023	**5,139,576**	**1,064,744**	**317,050**	**6,521,370**

Change in impairment of loans and receivables from customers by risk Stages during 2023:

	Stage 1	Stage 2	Stage 3	Total
31 December 2021	**67,259**	**37,475**	**134,843**	**239,577**
New receivables-impairment	46,674	19,315	76,778	142,767
Reduction/Repayment of receivables-impairment	(53,101)	(36,112)	(45,059)	(134,272)
31 December 2022	**60,832**	**20,678**	**166,562**	**248,072**

All amounts are expressed in thousands of RSD unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit Risk (continued)

Impairment of financial assets (continued)

Change in loans and receivables from customers by Stage of risk during 2022:

	Stage 1	Stage 2	Stage 3	Total
31.12.2021	**6,737,292**	**1,802,879**	**579,352**	**9,119,523**
New receivables	2,376,276	1,787,440	333,411	4,497,127
Reduction/Repayment of receivables	(4,057,880)	(1,835,390)	(523,744)	(6,417,014)
31.12.2022	**5,055,688**	**1,754,929**	**389,019**	**7,199,636**

Change in impairment of loans and receivables from customers by risk Stages during 2022:

	Stage 1	Stage 2	Stage 3	Total
31.12.2021	**36,611**	**25,225**	**145,458**	**207,294**
New receivables-impairment	59,979	37,637	95,487	193,103
Reduction/Repayment of receivables-impairment	(29,331)	(25,387)	(106,102)	(160,820)
31 December 2022	**67,259**	**37,475**	**134,843**	**239,577**

All amounts are expressed in thousands of RSD unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit Risk (continued)

Loans and receivables from customers, banks and other financial organizations

31 December 2023	Stage 1	Stage 2	Stage 3	Total	Impairment Stage 1	Impairment Stage 2	Impairment Stage 3	Total Impairment	Net
Housing	1,292,172	18,958	45,602	1,356,732	3,063	91	11,309	14,463	1,342,269
Cash and consumer	191,340	3,065	11,318	205,723	2,857	521	11,091	14,469	191,254
Credit cards	3,531	122	7	3,660	165	44	7	216	3,444
Overdraft on current accounts	2,838	5	80	2,923	214	4	80	298	2,625
Retail	**1,489,881**	**22,150**	**57,007**	**1,569,038**	**6,299**	**660**	**22,487**	**29,446**	**1,539,592**
Entrepreneurs	**106,066**	**20,146**	**8,792**	**135,004**	**4,908**	**3,849**	**4,880**	**13,637**	**121,367**
Total retail	**1,595,947**	**42,296**	**65,799**	**1,704,042**	**11,207**	**4,509**	**27,367**	**43,083**	**1,660,959**
Large companies	323,727	-	-	323,727	6,757	-	-	6,757	316,970
Medium companies	1,270,677	367,947	-	1,638,624	15,610	5,259	-	20,869	1,617,755
Small companies	1,670,852	324,609	226,420	2,221,881	25,651	8,818	133,161	167,630	2,054,251
Micro companies	278,371	329,893	24,832	633,096	1,608	2,092	6,033	9,733	623,363
Corporate	**3,543,627**	**1,022,449**	**251,252**	**4,817,328**	**49,626**	**16,169**	**139,194**	**204,989**	**4,612,339**
Total corporate	**5,139,574**	**1,064,745**	**317,051**	**6,521,370**	**60,833**	**20,678**	**166,561**	**248,072**	**6,273,298**
Banks	**4,932,993**	**-**	**-**	**4,932,993**	**7,631**	**-**	**-**	**7,631**	**4,925,362**

All amounts are expressed in thousands of RSD unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit Risk (continued)

Loans and receivables from customers, banks and other financial organizations

31 December 2022	Stage 1	Stage 2	Stage 3	Total	Impairment Stage 1	Impairment Stage 2	Impairment Stage 3	Total Impairment	Net
Housing	1,428,159	15,751	45,583	1,489,493	3,352	1,036	5,226	9,614	1,479,879
Cash and consumer	211,990	5,395	11,540	228,925	3,423	1,104	5,200	9,727	219,198
Credit cards	4,306	79	7	4,392	266	57	7	330	4,062
Overdraft on current accounts	3,483	2	102	3,587	291	1	102	394	3,193
Retail	**1,647,938**	**21,227**	**57,232**	**1,726,397**	**7,332**	**2,198**	**10,535**	**20,065**	**1,706,332**
Entrepreneurs	**169,426**	**16,821**	**17,784**	**204,031**	**9,024**	**2,830**	**3,368**	**15,222**	**188,809**
Total retail	**1,817,364**	**38,048**	**75,016**	**1,930,428**	**16,356**	**5,028**	**13,903**	**35,287**	**1,895,141**
Large companies	208,979	40,116	-	249,095	3,826	-	-	3,826	245,269
Medium companies	1,219,701	611,583	-	1,831,284	18,676	19,484	-	38,160	1,793,124
Small companies	1,354,304	775,266	266,240	2,395,810	25,674	9,433	115,455	150,562	2,245,248
Micro companies	333,538	289,916	47,763	671,217	2,722	3,530	5,486	11,738	659,479
Other	121,802	-	-	121,802	4	-	-	4	121,798
Corporate	**3,238,324**	**1,716,881**	**314,003**	**5,269,208**	**50,902**	**32,447**	**120,941**	**204,290**	**5,064,918**
Total corporate	**5,055,688**	**1,754,929**	**389,019**	**7,199,636**	**67,258**	**37,475**	**134,844**	**239,577**	**6,960,059**
Banks	**1,545,686**	**-**	**-**	**1,545,686**	**3,587**	**-**	**-**	**3,587**	**1,542,099**

All amounts are expressed in thousands of RSD unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit Risk (continued)

Loans and receivables from customers, banks and other financial organizations (continued)

The structure of receivables from customers located in Stage 1.

31 December 2023	Not overdue	Up to 30 days overdue	31-60 days	61-90 days	Total
Housing	1,199,351	92,821	-	-	**1,292,172**
Cash and consumer	182,844	8,496	-	-	**191,340**
Credit cards	3	3,528	-	-	**3,531**
Overdraft on current accounts	2,836	1	-	1	**2,838**
Retail	**1,385,034**	**104,846**	**-**	**1**	**1,489,881**
Entrepreneurs	**97,734**	**8,332**	**-**	**-**	**106,066**
Total retail	**1,482,768**	**113,178**	**-**	**1**	**1,595,947**
Large companies	323,727	-	-	-	**323,727**
Medium companies	1,270,677	-	-	-	**1,270,677**
Small companies	1,670,822	30	-	-	**1,670,852**
Micro companies	278,103	268	-	-	**278,371**
Corporate	**3,543,329**	**298**	**-**	**-**	**3,543,627**
Total	**5,026,097**	**113,476**	**-**	**1**	**5,139,574**
of which: restructured	-	-	-	-	-
Receivables from banks	**4,932,993**	**-**	**-**	**-**	**4,932,993**

All amounts are expressed in thousands of RSD unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit Risk (continued)

Loans and receivables from customers, banks and other financial organizations (continued)

31 December 2022	Not overdue	Up to 30 days overdue	31-60 days	61-90 days	Total
Housing	1,364,943	63,216	-	-	1,428,159
Cash and consumer	196,214	15,776	-	-	211,990
Credit cards	4	4,302	-	-	4,306
Overdraft on current accounts	3,482	1	-	-	3,483
Retail	**1,564,643**	**83,295**	**-**	**-**	**1,647,938**
Entrepreneurs	**130,416**	**39,010**	**-**	**-**	**169,426**
Total retail	**1,695,059**	**122,305**	**-**	**-**	**1,817,364**
Large companies	208,979	-	-	-	208,979
Medium companies	820,412	399,289	-	-	1,219,701
Small companies	1,283,854	70,450	-	-	1,354,304
Micro companies	325,083	8,455	-	-	333,538
Other	121,802	-	-	-	121,802
Corporate	**2,760,130**	**478,194**	**-**	**-**	**3,238,324**
Total	**4,455,189**	**600,499**	**-**	**-**	**5,055,688**
of which: restructured	-	-	-	-	-
Receivables from banks	**259,307**	**1,286,379**	**-**	**-**	**1,545,686**

All amounts are expressed in thousands of RSD unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit Risk (continued)

Loans and receivables from customers, banks and other financial organizations (continued)

The structure of receivables from customers located in Stage 2.

31 December 2023	Not overdue	Up to 30 days overdue	31-60 days	61-90 days	Over 90 days	Total
Housing	-	-	18,958	-	-	**18,958**
Cash and consumer	-	-	1,713	1,352	-	**3,065**
Credit cards	-	-	122	-	-	**122**
Overdraft on current accounts	-	-	5	-	-	**5**
Retail	**-**	**-**	**20,798**	**1,352**	**-**	**22,150**
Entrepreneurs	**16,322**	**-**	**3,824**	**-**	**-**	**20,146**
Total retail	**16,322**	**-**	**24,622**	**1,352**	**-**	**42,296**
Large companies	-	-	-	-	-	-
Medium companies	78,852	251,189	37,906	-	**-**	**367,947**
Small companies	232,531	71,171	20,907	-	**-**	**324,609**
Micro companies	302,236	25,885	1,772	-	**-**	**329,893**
Corporate	**613,619**	**348,245**	**60,585**	**-**	**-**	**1,022,449**
Total	**629,941**	**348,245**	**85,207**	**1,352**	**0**	**1,064,745**
of which: restructured	107,065	-	-	-	-	107,065
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**

All amounts are expressed in thousands of RSD unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk (continued)

Loans and receivables from customers, banks and other financial organizations (continued)

31 December 2022	Not overdue	Up to 30 days overdue	31-60 days	61-90 days	Over 90 days	Total
Housing	-	-	11,891	3,860	-	15,751
Cash and consumer	48	-	3,550	1,797	-	5,395
Credit cards	-	-	-	79	-	79
Overdraft on current accounts	-	-	1	1	-	2
Retail	**48**	**-**	**15,442**	**5,737**	**-**	**21,227**
Entrepreneurs	**6,634**	**-**	**10,187**	**-**	**-**	**16,821**
Total retail	**6,682**	**-**	**25,629**	**5,737**	**-**	**38,048**
Large companies	-	40,116	-	-	-	40,116
Medium companies	423,535	188,048	-	-	-	611,583
Small companies	257,283	494,225	23,758	-	-	775,266
Micro companies	271,273	18,643	-	-	-	289,916
Other	-	-	-	-	-	-
Corporate	**952,091**	**741,032**	**23,758**	**-**	**-**	**1,716,881**
Total	**958,773**	**741,032**	**49,387**	**5,737**	**-**	**1,754,929**
of which: restructured	51,481	-	-	-	-	51,481
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**

All amounts are expressed in thousands of RSD unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit Risk (continued)

Loans and receivables from customers, banks and other financial organizations (continued)

The structure of receivables from customers located in Stage 3.

31 December 2023	Not overdue	Up to 30 days overdue	31-60 days	61-90 days	Over 90 days	Total
Housing	1,420	723	-	-	43,459	**45,602**
Cash and consumer	119	128	-	-	11,071	**11,318**
Credit cards	-	-	-	-	7	**7**
Overdraft on current accounts	-	-	-	-	80	**80**
Retail	**1,539**	**851**	**-**	**-**	**54,617**	**57,007**
Entrepreneurs	**-**	**-**	**-**	**-**	**8,792**	**8,792**
Total retail	**1,539**	**851**	**-**	**-**	**63,409**	**65,799**
Large companies	-	-	-	-	-	**-**
Medium companies	-	-	-	-	-	**-**
Small companies	5	-	-	-	226,415	**226,420**
Micro companies	2,252	3,487	-	11,504	7,589	**24,832**
Corporate	**2,257**	**3,487**	**-**	**11,504**	**234,004**	**251,252**
Total	**3,796**	**4,338**	**-**	**11,504**	**297,413**	**317,051**
of which: restructured	77	26	-	-	642	745
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**

All amounts are expressed in thousands of RSD unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit Risk (continued)

Loans and receivables from customers, banks and other financial organizations (continued)

31 December 2022	Not overdue	Up to 30 days overdue	31-60 days	61-90 days	Over 90 days	Total
Housing	4,711	-	-	-	40,872	**45,583**
Cash and consumer	409	205	-	-	10,926	**11,540**
Credit cards	-	-	-	-	7	**7**
Overdraft on current accounts	-	-	-	-	102	**102**
Retail	**5,120**	**205**	**-**	**-**	**51,907**	**57,232**
Entrepreneurs	**3,633**	**4,311**	**-**	**-**	**9,840**	**17,784**
Total retail	**8,753**	**4,516**	**-**	**-**	**61,747**	**75,016**
Large companies	-	-	-	-	-	-
Medium companies	-	-	-	-	-	-
Small companies	1,639	-	-	-	264,601	**266,240**
Micro companies	26,506	-	-	-	21,257	**47,763**
Other	-	-	-	-	-	-
Corporate	28,145	-	-	-	285,858	**314,003**
Total	**36,898**	**4,516**	**-**	**-**	**347,605**	**389,019**
of which: restructured	408	205	-	-	779	1,392
Receivables from banks	-	-	-	-	-	-

All amounts are expressed in thousands of RSD unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit Risk (continued)

Loans and receivables from customers, banks and other financial organizations (continued)

The structure of receivables from customers located in Stage 3 as well as restructured receivables.

31 December 2023	Gross exposure	Impairment	Stage 3 receivables	Restructured receivables Stage 3	Impairment Stage 3	Share of Stage 3 receivables in Gross exposure	Amount of collateral for Stage 3
Total retail	**1,704,042**	**43,083**	**65,799**	**745**	**27,367**	**3.86%**	**43,946**
Housing	1,356,732	14,463	45,602	-	11,309	3.36%	39,901
Cash and consumer	205,723	14,469	11,318	745	11,091	5.50%	-
Credit cards	3,660	216	7	-	7	0.19%	-
Overdraft on current accounts	2,923	298	80	-	80	2.74%	-
Retail	**1,569,038**	**29,446**	**57,007**	**745**	**22,487**	**3.63%**	**39,901**
Entrepreneurs	**135,004**	**13,637**	**8,792**	**-**	**4,880**	**6.51%**	**4,045**
Corporate	**4,817,328**	**204,989**	**251,252**	**-**	**139,194**	**5.22%**	**241,144**
Accommodation and catering services	20,322	1	-	-	-	0.00%	-
Administrative and support service activities	128,602	3,096	483	-	474	0.38%	-
Agriculture, forestry and fishing	419,886	80,324	132,611	-	77,821	31.58%	132,612
Arts, entertainment and recreation	44,949	1,226	-	-	-	0.00%	-
Construction	985,887	54,478	64,304	-	49,542	6.52%	63,268
Financial and insurance activities	131,055	1,923	-	-	-	0.00%	-
Information and communication	19,403	492	-	-	-	0.00%	-
Manufacturing industry	1,510,901	33,772	13,479	-	6,566	0.89%	9,702
Professional, scientific, innovation and technical	77,412	414	-	-	-	0.00%	-
Real estate business	18,961	290	-	-	-	0.00%	-
Traffic and storage	168,789	5,708	20,468	-	2,084	12.13%	18,408
Wholesale and retail trade, repair	1,222,486	22,643	19,523	-	2,331	1.60%	17,154
Other	68,675	622	384	-	376	0.56%	-
Total	**6,521,370**	**248,072**	**317,051**	**745**	**166,561**	**4.86%**	**285,090**
Receivables from banks	**4,932,993**	**7,631**	**-**	**-**	**-**	**0.00%**	**-**

All amounts are expressed in thousands of RSD unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit Risk (continued)

Loans and receivables from clients, banks and other financial institutions (continued)

31 December 2022	Gross exposure	Impairment	Stage 3 receivables	Restructured receivables Stage 3	Impairment Stage 3	Share of Stage 3 receivables in Gross exposure	Amount of collateral for Stage 3
Total retail	**1,930,428**	**35,287**	**75,016**	**1,391**	**13,903**	**3.89%**	**52,108**
Housing	1,489,493	9,614	45,583	-	5,226	3.06%	41,877
Cash and consumer	228,925	9,727	11,540	1,391	5,200	5.04%	472
Credit cards	4,392	330	7	-	7	0.16%	-
Overdraft on current accounts	3,587	394	102	-	102	2.84%	-
Retail	**1,726,397**	**20,065**	**57,232**	**1,391**	**10,535**	**3.32%**	**42,349**
Entrepreneurs	**204,031**	**15,222**	**17,784**	**-**	**3,368**	**8.72%**	**9,759**
Corporate	**5,269,208**	**204,290**	**314,003**	**-**	**120,941**	**5.96%**	**303,301**
Accommodation and catering services	8,542	48	-	-	-	-	-
Administrative and support service activities	189,912	3,789	483	-	281	0.25%	-
Agriculture, forestry and fishing	388,366	28,980	143,999	-	27,302	37.08%	143,840
Arts, entertainment and recreation	38,674	72	-	-	-	-	-
Construction	679,122	94,392	102,304	-	86,594	15.06%	97,487
Financial and insurance activities	11,554	3	-	-	-	0.00%	-
Information and communication	22,714	340	-	-	-	0.00%	-
Manufacturing industry	2,113,534	51,179	18,185	-	4,546	0.86%	14,978
Professional, scientific, innovation and technical activities	104,490	1,008	-	-	-	-	-
Real estate business	-	-	-	-	-	-	-
Traffic and storage	211,452	4,029	17,379	-	175	8.22%	17,076
Wholesale and retail trade, repair	1,299,541	19,367	31,269	-	1,820	2.41%	29,920
Other	201,307	1,083	384	-	223	0.19%	-
Total	**7,199,636**	**239,577**	**389,019**	**1,391**	**134,844**	**5.40%**	**355,409**
Receivables from banks	**1,545,686**	**3,587**	**-**	**-**	**-**	**-**	**-**

All amounts are expressed in thousands of RSD unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit Risk (continued)

Loans and receivables from clients, banks and other financial institutions (continued)

Below are the changes of receivables at the Stage 3 level.

Changes in Stage 3 receivables	Gross amount as of 31 December 2022	New Stage 3 clients	Decrease of Stage 3 clients	Gross amount as of 31 December 2023	Net amount as of 31 December 2023
Housing	45,583	8,504	8,485	45,602	34,293
Cash and consumer	11,540	4,089	4,311	11,318	227
Credit cards	7	-	-	7	-
Overdraft on current accounts	102	20	42	80	-
Retail	**57,232**	**12,613**	**12,838**	**57,007**	**34,520**
Entrepreneurs	**17,784**	**-**	**8,992**	**8,792**	**3,912**
Total retail	**75,016**	**12,613**	**21,830**	**65,799**	**38,432**
Large companies	-	-	-	-	-
Medium companies	-	-	-	-	-
Small companies	266,240	13,482	53,302	226,420	93,259
Micro companies	47,763	4,929	27,860	24,832	18,799
Corporate	**314,003**	**18,411**	**81,162**	**251,252**	**112,058**
Total	**389,019**	**31,024**	**102,992**	**317,051**	**150,490**

All amounts are expressed in thousands of RSD unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit Risk (continued)

Changes in Stage 3 receivables	Gross amount as of 31 December 2021	New Stage 3 clients	Decrease of Stage 3 clients	Gross amount as of 31 December 2022	Net amount as of 31 December 2022
Housing	59,876	9,973	24,266	45,583	40,357
Cash and consumer	35,808	6,339	30,607	11,540	6,340
Credit cards	149	-	142	7	-
Overdraft on current accounts	86	62	46	102	-
Retail	**95,919**	**16,374**	**55,061**	**57,232**	**46,697**
Entrepreneurs	**35,237**	**2,157**	**19,610**	**17,784**	**14,416**
Total retail	**131,156**	**18,531**	**74,671**	**75,016**	**61,113**
Large companies	125,435	-	125,435	-	-
Medium companies	149,932	-	149,932	-	-
Small companies	137,365	211,268	82,393	266,240	150,785
Micro companies	35,464	32,608	20,309	47,763	42,277
Other	-	-	-	-	-
Corporate	**448,196**	**243,876**	**378,069**	**314,003**	**193,062**
Total	**579,352**	**262,407**	**452,740**	**389,019**	**254,175**

All amounts are expressed in thousands of RSD unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit Risk (continued)

Restructured receivables

Loans with amendments to the initially agreed terms are loans that are rescheduled or restructured due to deterioration in the financial condition of the debtor and due to problems in the settlement of obligations in the initially agreed maturity dates. The Bank performs a financial analysis of debtors who have a problem in settling liabilities and if it estimates that the debtor will be able to settle its obligations after the changed conditions, the Bank decides to reschedule such loans.

Restructured receivables as of 31 December 2023	Restructured receivables (RR)-Gross exposure	Stage 1 RP	Stage 2 RR	Stage 3 RR	Impairment of RR	Impairment of Stage 1 RR	Impairment of Stage 2 RR	Impairment of Stage 3 RR	Share of RR in gross exposure	Amount of collaterals for RR
Total retail	**745**	**-**	**-**	**745**	**730**	**-**	**-**	**730**	**0.04%**	**-**
Housing	-	-	-	-	-	-	-	-	-	-
Cash and consumer	745	-	-	745	730	-	-	730	0.36%	-
Credit cards	-	-	-	-	-	-	-	-	-	-
Overdraft on current accounts	-	-	-	-	-	-	-	-	-	-
Retail	745	-	-	745	730	-	-	730	0.05%	-
Entrepreneurs	-	-	-	-	-	-	-	-	-	-
Corporate	**107,065**	**-**	**107,065**	**-**	**462**	**-**	**462**	**-**	**2.22%**	**107,065**
Accommodation and catering services	-	-	-	-	-	-	-	-	-	-
Administrative and support service activities	-	-	-	-	-	-	-	-	-	-
Agriculture, forestry and fishing	-	-	-	-	-	-	-	-	-	-
Arts, entertainment and recreation	-	-	-	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-	-	-	-
Financial and insurance activities	-	-	-	-	-	-	-	-	-	-
Information and communication	-	-	-	-	-	-	-	-	-	-
Manufacturing industry	93,368	-	93,368	-	379	-	379	-	6.18%	93,368
Professional, scientific, innovation and technical activities	-	-	-	-	-	-	-	-	-	-
Real estate business	-	-	-	-	-	-	-	-	-	-
Traffic and storage	-	-	-	-	-	-	-	-	-	-
Wholesale and retail trade, repair	13,697	-	13,697	-	83	-	83	-	1.12	13,697
Other	-	-	-	-	-	-	-	-	-	-
Total	**107,810**	**-**	**107,065**	**745**	**1,192**	**-**	**462**	**730**	**1.65%**	**107,065**
Receivables from banks	-	-	-	-	-	-	-	-	-	-

All amounts are expressed in thousands of RSD unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit Risk (continued)

Restructured receivables (continued)

Restructured receivables as of 31 December 2022	Restructured receivables (RR)-Gross exposure	Stage 1 RP	Stage 2 RR	Stage 3 RR	Impairment of RR	Impairment of Stage 1 RR	Impairment of Stage 2 RR	Impairment of Stage 3 RR	Share of RR in gross exposure	Amount of collaterals for RR
Total retail	**1,439**	**-**	**48**	**1,391**	**634**	**-**	**5**	**629**	**0.07%**	**-**
Housing	-	-	-	-	-	-	-	-	-	-
Cash and consumer	1,439	-	48	1,391	634	-	5	629	0.63%	-
Credit cards	-	-	-	-	-	-	-	-	-	-
Overdraft on current accounts	-	-	-	-	-	-	-	-	-	-
Retail	1,439	-	48	1,391	634	-	5	629	0.08%	-
Entrepreneurs	-	-	-	-	-	-	-	-	-	-
Corporate	**51,433**	**-**	**51,433**	**-**	**92**	**-**	**92**	**-**	**0.98%**	**50,236**
Accommodation and catering services	-	-	-	-	-	-	-	-	-	-
Administrative and support service activities	-	-	-	-	-	-	-	-	-	-
Agriculture, forestry and fishing	-	-	-	-	-	-	-	-	-	-
Arts, entertainment and recreation	-	-	-	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-	-	-	-
Financial and insurance activities	-	-	-	-	-	-	-	-	-	-
Information and communication	-	-	-	-	-	-	-	-	-	-
Manufacturing industry	51,433	-	51,433	-	92	-	92	-	2.43%	50,236
Professional, scientific, innovation and technical activities	-	-	-	-	-	-	-	-	-	-
Real estate business	-	-	-	-	-	-	-	-	-	-
Traffic and storage	-	-	-	-	-	-	-	-	-	-
Wholesale and retail trade, repair	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Total	**52,872**	**-**	**51,481**	**1,391**	**726**	**-**	**97**	**629**	**0.73%**	**50,236**
Receivables from banks	-	-	-	-	-	-	-	-	-	-

All amounts are expressed in thousands of RSD unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit Risk (continued)

Restructured receivables (continued)

In 2023, the Bank had restructured receivables in the amount of RSD 107,065 thousand that were classified in Stage 2 according to the Bank's methodology which relate to loans to legal entities and restructured receivables in the amount of RSD 745 thousand that were classified in Stage 3 relating to cash and consumer loans.

There were no movements of restructured receivables during 2023 within Stage 1, while the movements within Stage 2 and Stage 3 are presented in the following two tables:

	Gross restructured Stage 2 receivables as of 31 December 2022	New restructured Stage 2 receivables	Decrease in restructured Stage 2 receivables	Gross amount as of 31 December 2023	Net amount as of 31 December 2023
Housing	-	-	-	-	-
Cash and consumer	48		48	-	-
Credit cards	-	-	-	-	-
Overdraft on current accounts	-	-	-	-	-
Retail	**48**	**-**	**48**	**-**	**-**
Entrepreneurs	**-**	**-**	**-**	**-**	**-**
Total retail	**48**	**-**	**48**	**-**	**-**
Large companies	-	-	-	-	-
Medium companies	-	43,103	-	43,103	43,103
Small companies	50,236	13,726	-	63,962	63,500
Micro companies	1,197	-	1,197	-	-
Other	-	-	-	-	-
Corporate	**51,433**	**56,829**	**1,197**	**107,065**	**106,603**
Total	**51,481**	**56,829**	**1,245**	**107,065**	**106,603**
Banks	**-**	**-**	**-**	**-**	**-**
Other receivables from banks	**-**	**-**	**-**	**-**	**-**
Other funds that are not classified	**-**	**-**	**-**	**-**	**-**
TOTAL	**51,481**	**56,829**	**1,245**	**107,065**	**106,603**

All amounts are expressed in thousands of RSD unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit Risk (continued)

Restructured receivables (continued)

	Gross restructured Stage 3 receivables as of 31 December 2022	New restructured Stage 3 receivables	Decrease in restructured Stage 3 receivables	Gross amount as of 31 December 2023	Net amount as of 31 December 2023
Housing	-	-	-	-	-
Cash and consumer	1,391	3	649	745	15
Credit cards	-	-	-	-	-
Overdraft on current accounts	-	-	-	-	-
Retail	**1,391**	**3**	**649**	**745**	**15**
Entrepreneurs	-	-	-	-	-
Total retail	**1,391**	**3**	**649**	**745**	**15**
Large companies	-	-	-	-	-
Medium companies	-	-	-	-	-
Small companies	-	-	-	-	-
Micro companies	-	-	-	-	-
Other	-	-	-	-	-
Corporate	-	-	-	-	-
Total	**1,391**	**3**	**649**	**745**	**15**
Banks	**-**	**-**	**-**	**-**	**-**
Other receivables from banks	**-**	**-**	**-**	**-**	**-**
Other funds that are not classified	**-**	**-**	**-**	**-**	**-**
TOTAL	**1,391**	**3**	**649**	**745**	**15**

All amounts are expressed in thousands of RSD unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk (continued)

Receivables from clients covered by collaterals (amount of receivable or collateral, whichever is lower)

31 December 2023.	Stage 1 clients					Stage 2 clients					Stage 3 clients				
	Real estate	Deposits	Guarantee	Other collaterals	Total	Real estate	Deposits	Guarantee	Other collaterals	Total	Real estate	Deposits	Guarantee	Other collaterals	Total
Housing	1,278,575	3,431	-	-	1,282,006	18,958	-	-	-	18,958	39,901	-	-	-	39,901
Cash and consumer	41,562	13,353	-	-	54,915	-	-	-	-	-	-	-	-	-	-
Credit cards	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Overdraft on current accounts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Retail	1,320,137	16,784	-	-	1,336,921	18,958	-	-	-	18,958	39,901	-	-	-	39,901
Entrepreneurs	51,702	-	2,371	-	54,073	-	-	-	-	-	4,045	-	-	-	4,045
Total retail	1,371,839	16,784	2,371	-	1,390,994	18,958	-	-	-	18,958	43,946	-	-	-	43,946
Large companies	6,811	-	-	-	6,811	-	-	-	-	-	-	-	-	-	-
Medium companies	355,645	170,606	6,965	-	533,216	283,676	46	2,510	-	286,232	-	-	-	-	-
Small companies	611,838	54,391	19,638	-	685,867	163,973	9,602	4,673	-	178,249	218,918	-	630	-	219,548
Micro companies	113,618	81,690	2,651	-	197,959	296,495	-	3,066	-	299,561	21,597	-	-	-	21,597
States	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporate	1,087,912	306,687	29,254	-	1,423,853	744,144	9,649	10,249	-	764,042	240,515	-	630	-	241,145
Total	2,459,751	323,471	31,625	-	2,814,847	763,102	9,649	10,249	-	783,000	284,461	-	630	-	285,091
Receivables from banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

All amounts are expressed in thousands of RSD unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit Risk (continued)

Receivables from clients covered by collaterals (amount of receivables or collateral, whichever is lower) (continued)

31 December 2022	Stage 1 clients					Stage 2 clients					Stage 3 clients				
	Real estate	Deposits	Guarantees	Other collaterals	Total	Real estate	Deposits	Guarantees	Other collaterals	Total	Real estate	Deposits	Guarantees	Other collaterals	Total
Housing	1,381,295	18,189	-	-	1,399,484	14,802	-	-	-	14,802	41,877	-	-	-	41,877
Cash and consumer	31,965	15,941	-	-	47,906	-	-	-	-	-	472	-	-	-	472
Credit cards	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Overdraft on current accounts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Retail	1,413,260	34,130	-	-	1,447,390	14,802	-	-	-	14,802	42,349	-	-	-	42,349
Entrepreneurs	69,128	2,440	11,295	-	82,863	2,289	-	185	-	2,474	8,968	-	791	-	9,759
Total retail	1,482,388	36,570	11,295	-	1,530,253	17,091	-	185	-	17,276	51,317	-	791	-	52,108
Large companies	8,782	-	-	-	8,782	40,116	-	-	-	40,116	-	-	-	-	-
Medium companies	385,596	29,377	60,156	-	475,129	371,852	11,402	50,142	-	433,396	-	-	-	-	-
Small companies	265,656	62,362	85,605	-	413,623	528,024	56,953	62,012	-	646,989	259,890	473	-	-	260,363
Micro companies	171,519	41,230	17,774	-	230,523	108,665	130,169	6,459	-	245,293	36,590	-	6,347	-	42,937
States	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporate	831,553	132,969	163,535	-	1,128,057	1,048,657	198,524	118,613	-	1,365,794	296,480	473	6,347	-	303,300
Total	2,313,941	169,539	174,830	-	2,658,310	1,065,748	198,524	118,798	-	1,383,070	347,797	473	7,138	-	355,408
Receivables from banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

All amounts are expressed in thousands of RSD unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit Risk (continued)

Concentration Risk

31 December 2023	Receivables from Stage 1 and Stage 2 clients				Receivables from Stage 3 clients			
	Serbia	Montenegro	EU	Other	Serbia	Montenegro	EU	Other
Total retail	**1,608,790**	**1**	**1**	**29,451**	**65,794**	**-**	**-**	**5**
Housing	1,281,707	-	-	29,423	45,602	-	-	-
Cash and consumer	194,405	-	-	-	11,318	-	-	-
Credit cards	3,653	-	-	-	7	-	-	-
Overdraft on current accounts	2,813	1	1	28	75	-	-	5
Retail	**1,482,578**	**1**	**1**	**29,451**	**57,002**	**-**	**-**	**5**
Entrepreneurs	**126,212**	**-**	**-**	**-**	**8,792**	**-**	**-**	**-**
Corporate	**4,566,076**	**-**	**-**	**-**	**251,252**	**-**	**-**	**-**
Accommodation and catering services	20,322	-	-	-	-	-	-	-
Administrative and support service activities	128,119	-	-	-	483	-	-	-
Agriculture, forestry and fishing	287,274	-	-	-	132,611	-	-	-
Arts, entertainment and recreation	44,949	-	-	-	-	-	-	-
Construction	921,583	-	-	-	64,304	-	-	-
Financial and insurance activities	131,055	-	-	-	-	-	-	-
Information and communication	19,403	-	-	-	-	-	-	-
Manufacturing industry	1,497,423	-	-	-	13,479	-	-	-
Professional, scientific, innovation and technical activities	77,412	-	-	-	-	-	-	-
Real estate business	18,961	-	-	-	-	-	-	-
Traffic and storage	148,321	-	-	-	20,468	-	-	-
Wholesale and retail trade, repair	1,202,963	-	-	-	19,523	-	-	-
Other	68,291	-	-	-	384	-	-	-
Total	**6,174,866**	**1**	**1**	**29,451**	**317,046**	**-**	**-**	**5**
Receivables from banks	**2,727,899**	**-**	**1,597,113**	**607,981**	**-**	**-**	**-**	**-**

All amounts are expressed in thousands of RSD unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit Risk (continued)

Concentration risk (continued)

31 December 2022	Receivables from Stage 1 and Stage 2 clients				Receivables from Stage 3 clients			
	Serbia	Montenegro	EU	Other	Serbia	Montenegro	EU	Other
Total retail	**1,851,427**	**-**	**3,978**	**7**	**75,016**	**-**	**-**	**-**
Housing	1,439,932	-	3,978	-	45,583	-	-	-
Cash and consumer	217,385	-	-	-	11,540	-	-	-
Credit cards	4,385	-	-	-	7	-	-	-
Overdraft on current accounts	3,478	-	-	7	102	-	-	-
Retail	**1,665,180**	**-**	**3,978**	**7**	**57,232**	**-**	**-**	**-**
Entrepreneurs	**186,247**	**-**	**-**	**-**	**17,784**	**-**	**-**	**-**
Corporate	**4,955,205**	**-**	**-**	**-**	**314,003**	**-**	**-**	**-**
Accommodation and catering services	8,542	-	-	-	-	-	-	-
Administrative and support service activities	189,428	-	-	-	483	-	-	-
Agriculture, forestry and fishing	244,367	-	-	-	144,000	-	-	-
Arts, entertainment and recreation	38,674	-	-	-	-	-	-	-
Construction	576,818	-	-	-	102,303	-	-	-
Financial and insurance activities	11,554	-	-	-	-	-	-	-
Information and communication	22,714	-	-	-	-	-	-	-
Manufacturing industry	2,095,351	-	-	-	18,185	-	-	-
Professional, scientific, innovation and technical activities	104,490	-	-	-	-	-	-	-
Real estate business	-	-	-	-	-	-	-	-
Traffic and storage	194,073	-	-	-	17,379	-	-	-
Wholesale and retail trade, repair	1,268,271	-	-	-	31,269	-	-	-
Other	200,923	-	-	-	384	-	-	-
Total	**6,806,632**	**-**	**3,978**	**7**	**389,019**	**-**	**-**	**-**
Receivables from banks	**1,299,374**	**-**	**157,559**	**88,753**	**-**	**-**	**-**	**-**

4. FINANCIAL RISK MANAGEMENT (continued)

4.4. Market Risk

Market risks are the possibility of negative effects on the financial result and capital of the bank based on market price fluctuations. Basic market risks to which the Bank is exposed include interest rate risk, FX risk and other market risks.

Interest Rate Risk

The Bank is exposed to changes in the prevailing level of market interest rates that affect its financial position and cash flows. As a result of such changes, the interest margin may increase, decrease and cause losses in the event of unexpected changes. Interest rates are based on market interest rates and they are regularly adjusted by the Bank.

The risk management activity aims to optimize net income from interest, maintain the market interest rate at a consistent level in line with the Bank's business strategy. The Bank's Management manages maturity compliance of assets and liabilities based on macro and micro economic forecasts, forecasting liquidity conditions and forecasting interest rate trends.

The Bank has implemented internal procedures that define the system and methodologies for interest rate risk management, competencies and responsibilities of system participants, but also controls that are undertaken in order to operate the system as efficiently as possible.

The subject of interest rate risk management are all interest rate sensitive balance sheet items included in the banking book that may cause a negative effect on the Bank's result and capital due to changes in interest rates.

The Bank can be exposed to various forms of interest rate:

- Maturity mismatch risk and repricing risk, as well as price risk. This risk arises from the difference between the maturity date (for fixed rates) and the price change date (for variable rates) for the Bank's assets, liabilities and off-balance sheet items.
- Yield curve risk - risk that arises due to changes in the shape and slope of the yield curve, when unforeseen shifts in the curve have adverse effects on revenue or basic economic value.
- Basis risk - due to different reference interest rates for interest rate sensitive positions with similar characteristics in terms of maturity, i.e. re-pricing.
- Optionality risk - due to options embedded in interest rate sensitive positions (loans with the possibility of early withdrawal, different types of bonds or bills containing the option to buy or sell, different types of maturity deposits that give depositors the right to withdraw funds at any time, often without paying any penalties).

In order to manage interest rate risk exposure, the Bank uses the GAP interest rate methodology.

Analysis of interest rate risk exposure involves analysing the balance and changes in on-balance sheet assets, liabilities and off-balance sheet items. The Bank identifies interest rate risk exposure by determining the mismatch of positions in major currencies and in total for all currencies with which it operates.

Analysing the positions of balance sheet assets and liabilities implies determining interest rate sensitive items classified according to the period of interest rate re-formation, i.e. determining the expected schedule of future cash flows.

Analysis of off-balance sheet items (swaps, forwards) involves identifying potential changes in positions, which occur as a cause of changes in interest rates in the market.

The analysis of interest rates implies continuous monitoring and adjustment of transactions to the conditions of changes in market interest rates.

All amounts are expressed in thousands of RSD unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

4.4. Market Risk (continued)

Interest Rate Risk (continued)

As at 31 December 2023	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Interest insensitive positions	Total
ASSETS							
Cash and balances with Central Bank	1,569,211	-	-	-	-	5,091,982	6,661,193
Securities	-	-	-	1,794,166	2,065,122	122,242	3,981,530
Loans and receivables from banks and other financial organizations	3,599,892	211,734	-	-	-	1,113,736	4,925,362
Loans and receivables from customers	1,181,432	2,187,959	2,523,604	248,107	4,804	127,392	6,273,298
Other assets	-	-	-	-	-	337,058	337,058
Total assets	**6,350,535**	**2,399,693**	**2,523,604**	**2,042,273**	**2,069,926**	**6,792,410**	**22,178,441**
LIABILITIES							
Deposits and other liabilities due to banks, other financial institutions and the Central Bank	117,658	-	-	-	-	176,727	294,385
Deposits and other liabilities due to customers	1,832,099	781,504	3,007,521	305,265	-	12,761,994	18,688,383
Other liabilities	-	-	-	-	-	621,710	621,710
Total liabilities	**1,949,757**	**781,504**	**3,007,521**	**305,265**	**-**	**13,560,431**	**19,604,478**
GAP (Assets - Liabilities):	**4,400,778**	**1,618,189**	**(483,917)**	**1,737,008**	**2,069,926**	**(6,768,021)**	**2,573,963**

As at 31 December 2022	up to 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Interest insensitive positions	Total
ASSETS							
Cash and balances with Central Bank	857,185	-	-	-	-	1,298,900	2,156,085
Securities	-	-	-	942,997	2,717,282	-	3,660,279
Loans and receivables from banks and other financial organizations	1,401,223	-	-	-	-	140,876	1,542,099
Loans and receivables from customers	1,759,487	2,267,204	2,365,440	176,836	3,956	387,136	6,960,059
Other assets	-	-	-	-	-	608,851	608,851
Total assets	**4,017,895**	**2,267,204**	**2,365,440**	**1,119,833**	**2,721,238**	**2,435,763**	**14,927,373**
LIABILITIES							
Deposits and other liabilities due to banks, other financial institutions and the Central Bank	234,645	-	11,868	1,309	-	10,287	258,109
Deposits and other liabilities due to customers	1,823,213	885,397	2,757,576	493,983	-	6,356,815	12,316,984
Other liabilities	-	-	-	-	-	188,328	188,328
Total liabilities	**2,057,858**	**885,397**	**2,769,444**	**495,292**	**-**	**6,555,430**	**12,763,421**
GAP (Assets - Liabilities):	**1,960,037**	**1,381,807**	**(404,004)**	**624,541**	**2,721,238**	**(4,119,667)**	**2,163,952**

All amounts are expressed in thousands of RSD unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

4.4. Market Risk (continued)

Interest Rate Risk (continued)

Limits for GAP interest rates are defined by the Decision of the Managing Board and they are monitored regularly.
As an integral part of interest rate risk assessment, the Bank conducts stress tests of the effects of changes in interest rates. In determining the exposure to interest rate risk in the banking book and the limit of this risk, the Bank assesses the effects of interest rate changes on the Bank's economic value, applying the standard interest rate shock test according to the nature and level of risks to which it is exposed. The standard interest rate shock represents a positive and a negative parallel shift in interest rates by 200 base points (1bp = 0.01%). In the current structure of interest rate GAPs increasing the interest rate by 200 basis points would change the economic value of capital by 15.64% (2022: 18.39%).

As at 31 December 2023

	0-1m	1-3m	3-6m	6-12m	1-2y	2-3y	3-4y	4-5y	5-7y	7-10y	10-15y	15-20y	> 20y	TOTAL
Sensitive assets	6,350,535	2,399,694	2,474,358	49,246	89,990	1,130,938	8,461	812,884	140,161	1,548,558	880	380,325	-	15,386,030
Sensitive liabilities	(1,949,758)	(781,504)	(974,341)	(2,033,180)	(175,941)	(129,324)	-	-	-	-	-	-	-	(6,044,048)
GAP	**4,400,777**	**1,618,190**	**1,500,017**	**(1,983,934)**	**(85,951)**	**1,001,614**	**8,461**	**812,884**	**140,161**	**1,548,558**	**880**	**380,325**	**-**	**9,341,982**
Basel 2 Sensitivity coefficients (200 bp changes of interest rates)	0.08%	0.32%	0.72%	1.43%	2.77%	4.49%	6.14%	7.71%	10.15%	13.26%	17.84%	22.43%	26.03%	
Effects	**3,521**	**5,178**	**10,800**	**(28,370)**	**(2,381)**	**44,972**	**520**	**62,673**	**14,226**	**205,339**	**157**	**85,307**	**-**	**401,942**
Regulatory capital														2,895,141
Total effects/Regulatory capital (max. 20%)														**15.64%**

As at 31 December 2022

	0-1m	1-3m	3-6m	6-12m	1-2y	2-3y	3-4y	4-5y	5-7y	7-10y	10-15y	15-20y	> 20y	TOTAL
Sensitive assets	4,017,894	2,267,204	2,320,865	44,574	59,440	27,816	949,035	1,322	835,638	1,464,764	108,159	394,899	-	12,491,610
Sensitive liabilities	(2,058,255)	(885,436)	(532,489)	(2,237,015)	(418,234)	(76,562)	-	-	-	-	-	-	-	(6,207,991)
GAP	**1,959,639**	**1,381,768**	**1,788,376**	**(2,192,441)**	**(358,794)**	**(48,746)**	**949,035**	**1,322**	**835,638**	**1,464,764**	**108,159**	**394,899**	**-**	**6,283,619**
Basel 2 Sensitivity coefficients (200 bp changes of interest rates)	0.08%	0.32%	0.72%	1.43%	2.77%	4.49%	6.14%	7.71%	10.15%	13.26%	17.84%	22.43%	26.03%	
Effects in (RSD thousand)	**1,568**	**4,422**	**12,876**	**(31,352)**	**(9,939)**	**(2,189)**	**58,271**	**102**	**84,817**	**194,228**	**19,296**	**88,576**	**-**	**420,676**
Regulatory capital														2,644,150
Total effects/Regulatory capital (max. 20%)														**18.39%**

4. FINANCIAL RISK MANAGEMENT (continued)

4.4. Market Risk (continued)

Foreign Exchange Risk

Foreign currency risk is the risk of adverse effects on the Bank's financial result and capital due to changes in the exchange rate, and the Bank is exposed to it on the basis of positions held in the banking book and trading book.

Foreign currency risk management is based on the prescribed methodology of the National Bank of Serbia. The Bank creates a foreign exchange position in all cases when it conducts transactions denominated in foreign currency or in dinars with indexed foreign currency clause, which includes the following transactions:

- placing and repayment of loans to clients in foreign currency or dinars with indexed foreign currency clause
- formation of sources of funds from clients in foreign currency or in dinars with indexed foreign currency clause
- performing foreign exchange (FX) trading for the Bank's account and FX trading with clients
- formation of other receivables and liabilities in foreign currency based on other business activities

Long/short foreign currency position is the sum of all net long/short positions in individual currencies. Higher absolute amount compared with these positions represents the total net open foreign exchange position. The maximum regulatory allowable indicator of the Bank's foreign exchange risk is 20% of the Bank's capital on a daily basis.

The Bank regularly monitors its exposure to foreign currency risk by complying with limits prescribed by the National Bank of Serbia, as well as internally prescribed limits. The Bank actively manages foreign currency risk through prudent assessment of open foreign currency positions by applying foreign currency swaps and observing risk limitations prescribed by the National Bank of Serbia and limitations contained in internal enactments adopted by the Bank's management.

Table in the text below shows summarized exposure to foreign exchange risk on 31 December 2023. The table also includes assets and liabilities according to their carrying values denominated in relevant currencies.

All amounts are expressed in thousands of RSD unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

4.4. Market Risk (continued)

FX Risk (continued)

As of 31 December 2023	USD	EUR	CHF	Other currencies	Total	RSD	Total
ASSETS							
Cash and balances with Central Bank	10,924	4,760,995	4,519	195	4,776,633	1,884,560	6,661,193
Securities	138,139	500,466	-	-	638,605	3,342,925	3,981,530
Loans and receivables from banks and other financial organizations	724,529	2,068,966	5,952	124,682	2,924,129	2,001,233	4,925,362
Loans and receivables from customers	-	5,546,469	6,173	-	5,552,642	720,656	6,273,298
Other assets	-	-	-	-	-	337,058	337,058
Total assets	**873,592**	**12,876,896**	**16,644**	**124,877**	**13,892,009**	**8,286,432**	**22,178,441**
LIABILITIES							
Deposits and other liabilities due to banks, other financial institutions and the Central Bank	-	121,278	-	126,407	247,685	46,700	294,385
Deposits and other liabilities due to customers	860,182	12,181,939	13,901	119,046	13,175,068	5,513,315	18,688,383
Other liabilities	6,265	476,577	1,314	68	484,224	137,486	621,710
Total liabilities	**866,447**	**12,779,794**	**15,215**	**245,521**	**13,906,977**	**5,697,501**	**19,604,478**
Net foreign currency position	**7,145**	**97,102**	**1,429**	**(120,644)**	**(14,968)**	**2,588,931**	**2,573,963**

As of 31 December 2022	USD	EUR	CHF	Other currencies	Total	RSD	Total
ASSETS							
Cash and balances with Central Bank	26,878	1,100,567	4,293	253	1,131,991	1,024,094	2,156,085
Securities	144,445	501,688	-	-	646,133	3,014,146	3,660,279
Loans and receivables from banks and other financial organizations	1,476,016	54,146	-	11,937	1,542,099	-	1,542,099
Loans and receivables from customers	292	4,711,727	6,279	-	4,718,298	2,241,761	6,960,059
Other assets	-	1,705	-	-	1,705	607,146	608,851
Total assets	**1,647,631**	**6,369,833**	**10,572**	**12,190**	**8,040,226**	**6,887,147**	**14,927,373**
LIABILITIES							
Deposits and other liabilities due to banks, other financial institutions and the Central Bank	-	248,185	-	-	248,185	9,924	258,109
Deposits and other liabilities due to customers	1,588,062	6,473,764	14,593	63,625	8,140,044	4,176,940	12,316,984
Other liabilities	882	48,105	1,247	68	50,302	138,026	188,328
Total liabilities	**1,588,944**	**6,770,054**	**15,840**	**63,693**	**8,438,531**	**4,324,890**	**12,763,421**
Net foreign currency position	**58,687**	**(400,221)**	**(5,268)**	**(51,503)**	**(398,305)**	**2,562,257**	**2,163,952**

All amounts are expressed in thousands of RSD unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

4.4. Market Risk (continued)

FX Risk (continued)

The impact of decrease foreign exchange rates on the Bank's net result:

	Balance of open foreign currency positions		RSD depreciation effect of 10%	
	Dec 2023	**Dec 2022**	**Dec 2023**	**Dec 2022**
EUR	98,807	(400,221)	8,399	(34,019)
CHF	1,430	(5,268)	122	(448)
USD	7,145	58,687	607	4,988
Other currencies (long position)	6,450	1,757	548	149
Other currencies (short position)	162,716	65,417	13,831	5,560

4. FINANCIAL RISK MANAGEMENT (continued)

4.5. Fair value of financial assets and liabilities

Fair value specified in financial statements is the amount for which an asset may be exchanged, or for which a liability may be settled, between informed, willing parties in an independent transaction.

Fair value is calculated by using market information available on the reporting date, as well as individual method of Bank's assessment.

The fair value of a financial instrument shown at its nominal value is approximately equal to its book value. This includes cash and receivables and liabilities without a defined maturity or fixed interest rate. For other receivables and liabilities, expected future cash flows are discounted to their present value using current interest rates. Having in mind that the variable interest rate is agreed for most financial assets and liabilities of the Bank, changes in prevailing interest rates lead to changes in contractual rates.

Quoted market prices are used for securities traded. The fair value of other securities is calculated as the net present value of expected future cash flows.

The fair value of irrevocable credit commitments and contingent liabilities are the same as their book values.

Assessment of financial instruments

The Bank measures the fair value using the following fair value hierarchy that reflects the significance of the inputs used in measurements:

- Level 1: Quoted market prices (unadjusted) in active markets for identical instrument.
- Level 2: Valuation techniques based on observable inputs other than quoted prices included in level 1, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments that are valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques that use significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant impact on the valuation of the instrument. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The fair value of financial assets and financial liabilities traded in active markets is based on quoted market prices or prices quoted by dealers. For all other financial instruments the Bank determines fair value by using valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparing to similar instruments for which there is an observable market price and other valuation models. Assumptions and inputs used in valuation techniques include free from risk and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond prices and equity securities, foreign exchange rates, equity and equity-indexed prices and expected price fluctuations and correlations. The objective of valuation techniques to determine the fair value which reflects the price of the financial instrument at the reporting date, which would be defined by the market participants in the free and independent transactions.

All amounts are expressed in thousands of RSD unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

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

Assessment of financial instruments (continued)

The Bank uses widely accepted models of valuation to determine the fair value of financial instruments. Securities of the Ministry of Finance of the Republic of Serbia denominated in RSD and EUR are revalued at the prevailing price on the secondary market.

The table below shows fair value of financial instrument recognized at fair value in financial statements.

As of 31 December 2023	Level 1	Level 2	Level 3	Total
Financial assets				
- at fair value through other comprehensive income	-	3,981,530	-	3,981,530
Total	**-**	**3,981,530**	**-**	**3,981,530**

As of 31 December 2022	Level 1	Level 2	Level 3	Total
Financial assets				
- at fair value through other comprehensive income	-	3,660,279	-	3,660,279
Total	**-**	**3,660,279**	**-**	**3,660,279**

During 2023 and 2022, there were no changes of levels nor reclassifications between fair valuation levels.

The following table shows the fair value of financial instruments that are not measured at fair value and analyses them by level in the fair value hierarchy within which the measurement of fair value is located:

	31 December 2023		31 December 2022	
Financial (monetary) assets	**Book value**	**Fair value**	**Book value**	**Fair value**
Cash and balances with Central Bank	6,661,193	6,661,187	2,156,085	2,156,085
Loans and receivables from banks and other financial organizations	4,925,362	4,925,362	1,542,099	1,542,099
Loans and receivables from customers	6,273,298	5,087,285	6,960,059	6,488,779
Other assets	337,058	337,063	608,851	608,851
Total	**18,196,911**	**17,010,897**	**11,267,094**	**10,795,814**
Financial (monetary) liabilities				
Deposits and other liabilities due to banks, other financial institutions and Central Bank	294,385	294,266	258,109	257,659
Deposits and other liabilities due to customers	18,688,383	18,093,190	12,316,984	11,959,574
Other liabilities	621,710	616,236	188,328	188,328
Total	**19,604,478**	**19,003,692**	**12,763,421**	**12,405,561**

All amounts are expressed in thousands of RSD unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

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

Assessment of financial instruments (continued)

	Fair value			
As of 31 December 2023	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS				
Cash and balances with Central Bank	6,661,187	-	-	6,661,187
Loans and receivables from banks and other financial organizations	-	-	4,925,362	4,925,362
Loans and receivables from customers	-	-	5,087,285	5,087,285
Other assets	-	-	337,063	337,063
Total	**6,661,187**	**-**	**10,349,710**	**17,010,897**
LIABILITIES				
Deposits and other liabilities due to banks, other financial institutions and Central Bank	-	-	294,266	294,266
Deposits and other liabilities due to customers	-	-	18,093,190	18,093,190
Other liabilities	-	-	616,236	616,236
Total	**-**	**-**	**19,003,692**	**19,003,692**

	Fair value			
As of 31 December 2022	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS				
Cash and balances with Central Bank	2,156,085	-	-	2,156,085
Loans and receivables from banks and other financial organizations	-	-	1,542,099	1,542,099
Loans and receivables from customers	-	-	6,488,779	6,488,779
Other assets	-	-	608,851	608,851
Total	**2,156,085**	**-**	**8,639,729**	**10,795,814**
LIABILITIES				
Deposits and other liabilities due to banks, other financial institutions and Central Bank	-	-	257,659	257,659
Deposits and other liabilities due to customers	-	-	11,959,574	11,959,574
Other liabilities	-	-	188,328	188,328
Total	**-**	**-**	**12,405,561**	**12,405,561**

4. FINANCIAL RISK MANAGEMENT (continued)

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

Assessment of financial instruments (continued)

The following is a description of the methodology and assumptions used to determine fair values of financial instruments that have not been valued at fair value in the financial statements.

Assets for which fair value approximates to book value
For financial assets and liabilities that are liquid or have short-term maturities (less than one year) it is assumed that the book value approximates fair value. This assumption also applies to deposits on requirements, savings accounts without a specific maturity and financial instruments with variable rate.

Fixed-rate financial instruments
Fair value of financial assets and liabilities with fixed rates valued at amortized cost are estimated by using market interest rates plus current credit risk. The estimated fair value of deposits with a fixed rate based on the discounted cash flows using prevailing interest rates on the debt on the money market with similar credit risk and maturity.

4.6. The risks of exposure to a single party or a group of related parties

The Bank's exposure to a single party represents the total amount of receivables and off-balance sheet items relating to that party or a group of related parties (loans, investments in debt securities, equity shares, guarantees issued, avals, etc.).
The exposure risk, i.e. exposure concentration, is the Bank's exposure towards:

- One party or a group of related parties (two or more persons or legal entities related by shares);
- Two or more retail or corporate entities related in the manner that deterioration or improvement of the financial position of one party affects the financial position of the other,
- A person who is an authorised representative of a corporate entity,
- Two or more persons or corporate entities related by their membership in legal entities' management bodies, including their respective family members;
- Family members of a person who are members of management bodies of two corporate entities at the same time;
- A party related to the Bank (members of the Banking Group the member of which is the Bank; members of the management bodies of the Bank and of the Banking Group and their respective family members; parties with share in the capital of the Bank or the Banking Group and their respective family members; legal entities in which all the above mentioned parties own a control package)

The main goal of the exposure risk management is to eliminate the risk bearing exposure of the Bank's assets to one party, group of related parties or parties related to the Bank. This goal can be achieved by strict compliance with and the application of the Bank's credit policy in relation to acceptance and approval of client's requests in order to identify related parties and monitor the Bank's exposure limits towards them.

4. FINANCIAL RISK MANAGEMENT (continued)

4.6. The risks of exposure to a single party or a group of related parties (continued)

Bank's exposure

- ✓ Large Bank's exposure is an exposure to a single party or a group of related parties amounting to no less than 10% of the Bank's capital,
- ✓ Towards a single party or a group of related parties may not exceed 25% of the capital of the Bank.

The total of all the Bank's large exposures may not exceed 400% of the Bank's capital. The Bank has adopted limits defined by NBS in line with the Decision on managing risks and operates in accordance with them.

4.7. The risks of investing into other entities and fixed assets

The Bank's investment risk is the risk related to the Bank's investment in a single retail/corporate entity operating outside the financial sector and the risk of the Bank's investment in fixed assets.

Managing this risk implies measuring, monitoring and controlling:

1. the amount of the Bank's investment (the Bank acquires the right to shares or share in capital) in any retail/corporate entity operating outside the financial sector that may not exceed 10% of the Bank's capital,
2. the amount of the Bank's investment in its own fixed assets
3. the total amount of the Bank's investment (the sum of items 1 and 2) that may not exceed 60% of the Bank's capital,
4. managing Board quarterly reporting of movements in indicators of items 1 to 3, and
5. managing Board suggestions relating to corrective measures in order to maintain the investment risk within the prescribed limits.

Limits of Bank's investments:

- The Bank's investments in a single entity operating outside the financial sector may not exceed 10% of the Bank's capital; the limit relates to the investment based on which the Bank acquires the right to shares or share in capital of the entity operating outside the financial sector
- The total amount of the Bank's investments in entities operating outside the financial sector and in fixed assets may not exceed 60% of the Bank's capital.

The Bank has adopted the limits defined by the National Bank of Serbia in accordance with the Decision on Risk Management and operates accordingly.

4. FINANCIAL RISK MANAGEMENT (continued)

4.8. Risks related to the country of origin of the entity towards which the Bank is exposed

The risk related to the country of origin of the retail/corporate entity to which the Bank is exposed (country risk) is the risk of adverse effects on the Bank's financial results that may occur due to the Bank's inability to collect its receivables from retail/corporate entity domiciled in a foreign country due to political, economic and social conditions in that country.

The reasons that lead to country risk exposure are as follows:

- Political reasons - significant political changes in a country due to which a debtor is unable to fulfil its obligations to the Bank on a regular basis (change of government, significant political change, political turmoil, wars, catastrophes, etc.)
- Economic reasons - extremely negative economic events in a country due to which foreign debt repayment is seriously questioned or completely hindered.

Country risk is reflected through:

- Risk of non-payment - relates to cases in which debtor is unable to fulfil its obligations to the Bank on a regular basis due to political and economic reasons.
- Transfer risk - represents the possibility that solvent debtor from a foreign country is unable to pay its debt to the Bank in the specified currency due to certain irregularities in that country.
- Guarantee risk - the risk that has occurred as a result of a guarantee issued to an entity in a foreign country for payment to be effected in a third country.

The main goal of the country risk management is to protect the entire Bank's portfolio from possible risk bearing and uncollectible receivables from debtors from countries at risk.

4. FINANCIAL RISK MANAGEMENT (continued)

4.9. Operational risk (also including the legal risk, and the risk of inadequate management of information and other technologies significant for the Bank's business)

Operational risk is defined as the risk of negative effects on the Bank's financial results and share capital arising from the employee omission, illegal acts, inadequate internal procedures and processes, inadequate management of the Bank's information and other systems and unforeseeable external events.

The bank implemented a system of procedures and methodologies in order to identify, estimate, control and manage operative risks to which it is exposed during its operation.

The main method for identifying and estimating operational risks is RCSA - the process of risk self-estimation and the control with which all the processes and activities in the bank are covered. Taking into account the frequency and impact of potential events, as well as the established controls, risk owners assess the level of risk on an A-D scale.

Events from operational risk are stated in the loss base, and by:

- Business line
- Cause of event
- Type of event
- Type of loss

The base of events is dominated by potential losses from lawsuits against the Bank. Accordingly, the Bank has taken appropriate measures and provided funds to cover losses from legal risk. Analysis of exposure to operational risk is also represented through the introduction of new services and products, and new activities in the Bank, e.g. implementation of mobile banking services, implementation of new AML software, inclusion in electronic invoice system, regional clearing, implementation of new ATMs and considering new activities in order for the Bank to achieve the level of necessary digitalization.

The Bank uses Key Risk Indicators (continued: KRI) as the means of estimation, monitoring and control of operational risk, as well as a preventive mechanism used to prevent losses based on operational risk which is used in the decision making process in order to improve the performance of working processes and the efficiency of controls. Key indicators provide information on changes in exposure toward operational risk and represent the mechanism for proactive reactions to those changes. During 2023, there was no exceedance of the defined exposure levels.

The whole framework of operational risk is based on established limits for operational risks which are based on tracking the levels of total operational risk events compared to the minimal capital requirement, as well as the level of the maximum individual event compared to the capital requirement for operational risks.

Information Risks

The risk management process of the ICT system is established within the framework of comprehensive risk management in the Bank. IT risks are classified as operational risks and are defined as the possibility of negative effects on the financial result and capital, the achievement of business goals, operations in accordance with regulations and the Bank's reputation due to inadequate management of the information system or other weaknesses in that system that negatively affect its functionality or security, that is, threatens the continuity of the Bank's operations.

4. FINANCIAL RISK MANAGEMENT (continued)

4.9. Operational risk (also including the legal risk, and the risk of inadequate management of information and other technologies significant for the Bank's business) (continued)

Information Risks (continued)

The Bank's information and communication technology system (ICT system) was established as an integral solution with the tendency to support all business processes. The ICT system is a technological-organizational unit that includes: a) electronic communication networks in the sense of the law governing electronic communications; b) devices or groups of interconnected devices such that within the device, that is, within at least one of the group of devices, automatic data processing is performed using a computer program; c) data that is maintained, stored, processed, searched or transmitted using the means mentioned under (a) and (b) for the purpose of their operation, use, protection or maintenance; d) the organizational structure through which this system is managed, e) all types of system and application software and software development tools.

Users of the ICT system are all persons authorized to use the ICT system (employees of the Bank, employees of service providers who access the Bank's ICT system, Bank clients who access the Bank's ICT system through electronic interactive communication channels, etc.). Responsibilities have been formally established in terms of managing and monitoring the operation of the system, as well as reporting to the Bank's management on the state, performance, security and possible problems in the functioning of the IS.

ICT system risk management is also established through the Bank's internal acts, policies and procedures related to the development and maintenance of the ICT system, its management, use, protection and monitoring. Activities related to the engagement of third parties related to the Bank's ICT system are also included.

ICT system risk assessment provides a structural qualitative assessment of the operating environment. These include sensitivity, threats, vulnerabilities, risk and protection. The assessment is taken into account when making decisions on establishing cost-effective safeguards to mitigate threats and abuse vulnerabilities.

ICT system risk assessment is performed using a methodology based on identified resources through a tabular presentation of identified risks (incident scenarios for potential threats to exploit vulnerabilities). As there is a different impact of risk on confidentiality, integrity and availability, this methodology involves calculating a unique impact on the asset taking into account all three factors. According to the performed risk assessment, the Bank's management decides which risk levels are acceptable, and which will require introduction of additional controls.

The Bank has a register of information goods, owners and users are defined, as well as the classification of information goods according to their importance for business, i.e. the degree of sensitivity and criticality, taking into account the possible consequences of breach of confidentiality.

The security of the Bank's information system is organized on several levels. The first level of security is physical security, which refers to the control of access to the Bank's facilities, as well as the control of access to central locations. The second level is logical security at the level of operating systems, computer network and network components, while the third level is logical control of access to application solutions and databases. Also, data security is ensured by additional activities such as the formation of regular copies of data from the system and the existence of a plan to continue operations due to adverse events and the backup location of the Bank. The bank performs regular tests of BCP and DR locations.

4. FINANCIAL RISK MANAGEMENT (continued)

4.9. Operational risk (also including the legal risk, and the risk of inadequate management of information and other technologies significant for the Bank's business) (continued)

Information Risks (continued)

The framework defines and regulates protection measures, basic principles, manner and procedures for achieving and maintaining an adequate level of security, as well as powers and responsibilities, respecting the principles of internationally recognized standards and recommendations of good practice such as ISO/IEC 27000 series standards for information security, ISO/ISC 20000 and ITIL for IT services management as well as COBIT as a framework for corporate governance and IT management, in accordance with the Law on Information Security, accompanying Regulations of this Law and the NBS Decision on minimum standards of financial institution information system management.

The ultimate goal of this policy is to define information security and protection in the information security management system in order to:
- ensure confidentiality, integrity, availability, authenticity, provability, irrefutability and reliability in the information system,
- ensure the continuity of critical business processes,
- reduce the potential impact of the incident on security and the risk of material and non-material damage through preventive action.

4.10. Capital Risk Management

The Bank's objectives when managing capital are to safeguard the Bank's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividends paid to shareholders, issue new shares or convert portion of liabilities to subordinated debt.

Under the NBS regulations, the Bank is required to:

- maintain the prescribed minimum monetary share capital of EUR 10 million in RSD counter value at the NBS middle exchange rate;
- maintain the minimum capital adequacy ratio, against the risk bearing assets, of 8%

All amounts are expressed in thousands of RSD unless otherwise stated

4. FINANCIAL RISK MANAGEMENT (continued)

4.10. Capital Risk Management (continued)

The Bank's Financial Control Department performs the control of capital based on the capital adequacy ratio and to the end of 2023 is:

	As of 31 December 2023	As of 31 December 2022
Paid in share capital	3,065,958	5,671,608
Share premium	-	2,877,486
Reserves from profit, other reserves and reserves for general bank risks	48,445	151,672
Losses from previous years	(56)	(5,604,554)
Intangible assets	(80,715)	(46,764)
Regulatory adjustments to the value of the elements of the basic share capital (additional value adjustments)	(3,981)	(3,782)
Revaluation reserves and other unrealized gains/(losses)	161,939	96,242
Gross amount of receivables from debtors - retail (except farmers and entrepreneurs), with full application of point 13 under 13) of the Decision on capital adequacy	(10,475)	(4,641)
Basic share capital	**3,181,115**	**3,137,267**
Additional share capital	**-**	**-**
Share capital	**3,181,115**	**3,137,267**
Supplementary capital	**-**	**-**
Total capital, balance as at 31 December	**3,181,115**	**3,137,267**
Capital adequacy ratio, as at 31 December	**34.57%**	**37.95%**

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Bank makes estimates and assumptions that will affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Deteriorating operating conditions for borrowers may have an impact on Management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management have properly reflected revised estimates of expected future cash flows in their impairment assessments.

The preparation of financial statements in accordance with IFRS requires management to use the best estimates and reasonable assumptions that affect the application of accounting policies, the presented amounts of assets and liabilities, as well as income and expenses.

Areas that demand the greatest degree of reasoning, which may significantly affect the amounts presented in the Bank's financial statements, are presented below.

(a) Classification and valuation and impairment of financial assets

Losses due to impairment of loans

The expected credit loss model is based on judgment because it requires an estimate of a significant increase in credit risk and the measurement of expected losses without some more detailed guidance. In terms of a significant increase in credit risk, the Bank has set out specific valuation rules that include quantitative and qualitative criteria. Measurement of expected credit loss involves complex models that rely on historical default and loss rates, their extrapolation in case of insufficient data, individual estimations of credit loss-adjusted cash flows, and probability of scenario realization including forward-looking information.

The following components have a major impact on expected credit losses:

- determining the level of assessment of expected credit loss on an individual or collective basis;
- the definition of default applied by the Bank;
- development and application of internal credit assessment models, which assign PDs to individual credit risk classes;
- development and application of internal models used to assess non-performance exposures ("EADs") for financial instruments and credit commitments;
- assessment of loss given default ("LGD"), including judgments made in the assessment of collateral;
- criteria for assessing whether there has been a significant increase in credit risk;
- selection of future macroeconomic scenarios and weighting of their probabilities.

Detailed disclosure of the identification of a significant increase in credit risk, including collective, individual credit, foresight techniques used to measure the expected loss and default definition, and other aspects of credit risk assessment are given in Note 4.3.

ECL on individual significant placements are based on estimates of discounted future cash flows of individual placements, takin into account the repayment and realization of any assets that serve as collateral for these placements.

All amounts are expressed in thousands of RSD unless otherwise stated

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(a) Classification and valuation and impairment of financial assets (continued)

The Bank used forward-looking information to measure expected credit losses. The most significant projected assumptions for the future that correlate with the level of expected credit losses and their assigned weights were as follows as at 31 December 2023.

The ARDL model (autoregressive distributed lag model) was used for forward looking PD. The Model takes into account predictions of the most prestigious institutions such as the European Central Bank, International Monetary Fund etc. for assessing macroeconomic variables entering the model. These predictions are the basis for the first scenario. The second scenario is a pessimistic scenario which stresses value from the first scenario and worsens macroeconomic forecasts, while the third scenario presents an optimistic scenario and to a lesser extent improves estimates of macroeconomic variables. All variables in the models were selected based on their economic significance (taking into account the relevant economic literature), as well as on the basis of their statistical significance in the model.

Consumer and cash loans

The regression for Consumer and cash loans includes macroeconomic variables: 6m BELIBOR, real dinar earnings, retail trade turnover and interaction of the regime of high inflation and six-month BELIBOR. The table shows the weighted values of the projected PD.

Variables	*Scenario*	*Assigned weight*	*Realized DR 2023*	*Projected PD 2024*
6m BELIBOR, real dinar wages, turnover in retail trade and the interaction of the high inflation regime and 6m BELIBOR	Starting	25%	1.50%	0.55%
	Pessimistic	50%	1.50%	1.15%
	Optimistic	25%	1.50%	0.52%

Credit cards

The regression for Credit Cards includes macroeconomic variables: Exchange rate EUR/RSD, 6m BELIBOR and seasonally adjusted real earnings. The table shows the weighted values of the projected PD.

Variables	*Scenario*	*Assigned weight*	*Realized DR 2023*	*Projected PD 2024*
Industrial production of the processing industry, real dinar earnings and 6m BELIBOR	Starting	25%	0.63%	0.43%
	Pessimistic	50%	0.63%	0.95%
	Optimistic	25%	0.63%	0.37%

Entrepreneurs

Regression for Entrepreneurs include macroeconomic variables: 6m EURIBOR, change in RSD/EUR exchange rate, real effective exchange rate and industrial production. The table shows the weighted values of the projected PD.

Variable	*Scenario*	*Assigned weight*	*Realized DR 2023*	*Projected PD 2024*
Share of imports of goods and services in GDP	Starting	25%	8.41%	1.08%
	Pessimistic	50%	8.41%	2,48%
	Optimistic	25%	8.41%	0.97%

All amounts are expressed in thousands of RSD unless otherwise stated

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(a) Classification and valuation and impairment of financial assets (continued)

Legal entities

The regression for legal entities includes macroeconomic variables: 6m EURIBOR, change in RSD/EUR exchange rate, real effective exchange rate, industrial production and share of corporate loans in GDP. The table shows the weighted values of the projected PD.

Variable	*Scenario*	*Assigned weight*	*Realized DR 2023*	*Projected PD 2024*
6m EURIBOR, effective real exchange rate and aggregate loans to corporate in % of GDP	Starting	25%	3.23%	0.88%
	Pessimistic	50%	3.23%	1.93%
	Optimistic	25%	3.23%	0.84%

Housing loans

Macroeconomic variables are included in the regression for housing loans: Change in the nominal exchange rate against the EUR, nominal dinar earnings, the six-month EURIBOR and the interaction of the high inflation regime and own arrears. The table shows the weighted values of the projected PD.

Variable	*Scenario*	*Assigned weight*	*Realized DR 2023*	*Projected PD 2024*
Change in the nominal exchange rate against the EUR, nominal dinar earnings, the 6m EURIBOR and the interaction of the high inflation regime and own arrears	Starting	25%	0.27%	0.55%
	Pessimistic	50%	0.27%	1.25%
	Optimistic	25%	0.27%	0.51%

Overdrafts

Macroeconomic variables are included in the regression for overdrafts: real dinar wages, 6m BELIBOR and the consumer sentiment indicator. The table shows the weighted values of the projected PD.

Variable	*Scenario*	*Assigned weight*	*Realized DR 2023*	*Projected PD 2024*
Real dinar earnings, 6m BELIBOR and the consumer sentiment indicator	Starting	25%	0.63%	0.39%
	Pessimistic	50%	0.63%	0.87%
	Optimistic	25%	0.63%	0.26%

Significant Increase in Credit Risk (SICR)

In order to determine whether there has been a significant increase in credit risk, the Bank compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition.

If 10% of loans and advances to customers classified as Stage 1 as at 31 December 2023 are measured by applying the ECL lifetime (for Stage 2), the expected impairment loss would be higher by RSD 3,898 thousand (31 December 2022: higher by RSD 4.070 thousand).

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(a) Classification and valuation and impairment of financial assets (continued)

Business model assessment

The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Bank considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimising potential losses due to credit deterioration are considered consistent with the “hold to collect” business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the “hold to collect” business model, provided that they are infrequent or insignificant in value, both individually and in aggregate. The Bank assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Bank’s control, is not recurring and could not have been anticipated by the Bank, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

The “hold to collect and sell” business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model’s objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets.

The residual category includes those portfolios of financial assets, which are managed with the objective of realising cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(a) Classification and valuation and impairment of financial assets (continued)

Assessment whether cash flows are solely payments of principal and interest (SPPI)

Determining whether financial assets cash flows are solely payments of principal and interest requires judgement.

The Bank identified and considered contractual terms that change the timing or amount of contractual cash flows. The SPPI criterion is met if a loan allows early settlement and the prepayment amount substantially represents principal and accrued interest, plus a reasonable additional compensation for the early termination of the contract. The asset's principal is the fair value at initial recognition less subsequent principal repayments, i.e. instalments net of interest determined using the effective interest method. As an exception to this principle, the standard also allows instruments with prepayment features that meet the following condition to meet SPPI: (i) the asset is originated at a premium or discount, (ii) the prepayment amount represents contractual amount and accrued interest and a reasonable additional compensation for the early termination of the contract, and (ii) the fair value of the prepayment feature is immaterial at initial recognition.

The Bank's loans include cross-selling clauses that represent a reduction in the interest rate upon the customer entering into other contracts with the Bank or achieving certain criteria, such as maintaining a minimum turnover on current bank accounts held with the Bank. The cash flows are SPPI if such clauses merely reduce the Bank's overall profit margin on the instrument and there are no other features inconsistent with a basic loan arrangement.

The Bank considered examples in the standard and concluded that features that arise solely from legislation and that are not part of the contract, that is, if legislation changed, the features would no longer apply, are not relevant for assessing whether cash flows are SPPI. The Bank's loan agreements allow adjusting interest rates in response to certain macro-economic or regulatory changes. Management applied judgement and assessed that competition in the banking sector and the practical ability of the borrowers to refinance the loans would prevent it from resetting the interest rates at an above-market level and hence cash flows were assessed as being SPPI.

Modification of financial assets

When financial assets are contractually modified (e.g. renegotiated), the Bank assesses whether the modification is substantial and should result in derecognition of the original asset and recognition of a new asset at fair value. This assessment is based on quantitative and qualitative factors, described in the relevant accounting policy and the qualitative factors require significant judgment. In particular, the Bank applies judgment in deciding whether credit impaired renegotiated loans should be derecognized and whether the new recognized loans should be considered as credit impaired on initial recognition. The derecognition assessment depends on whether the risks and rewards, that is, the variability of expected (rather than contractual) cash flows, change as a result of such modifications. Management determined that risks and rewards did not change as a result of modifying such loans and therefore in substantially all such modifications, the loans were neither derecognized nor reclassified out of the credit-impaired stage.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(a) Classification and valuation and impairment of financial assets (continued)

Write-off policy

Financial assets are derecognized, in whole or in part, when the Bank has exhausted all practical recovery efforts and concluded that there are no reasonable expectations of recovery. Determining cash flows for which there is no reasonable expectation of recovery requires assessment. Management has considered the following indicators that there is no reasonable expectation of recovery:

- The decision of the National Bank of Serbia on the accounting write-off of the bank's balance sheet assets stipulates that the Bank is obliged to write off the low-collectability balance sheet assets by transferring the balance sheet assets to the bank's off-balance sheet records. Pursuant to the aforementioned decision, the bank is obliged to write off the problem loan in the event that the amount of impairment of the loan is calculated, which the bank has recorded in favour of the value adjustment of 100% of its gross book value. With these placements, it is evident that there is very little possibility of collection or no source of collection of receivables at all. The possibility of collection is assessed on the basis of the status of proceedings against the client and other participants in the placement.
- In accordance with applicable collection procedures and international financial reporting standards, a bank may partially write off receivables by transferring the uncollectible portion of receivables from the balance sheet to off-balance sheet records. This move recognizes partial non-collectability and reduces the balance receivable to the amount of expected collection, without affecting the legal position of the bank as a creditor, since the claim remains fully recognized and recorded in the bank's books (both on- balance sheet and off-balance sheet records). The decision on partial write-off is made in accordance with the competencies of the Committee for Problematic Placements and based on the analysis of the possibility of voluntary or forced collection, previously conducted procedures, the relationship between the value of receivables and collateral, and available legal remedies in favour of the Bank. If these arguments confirm the partial non-collectability, a part of the claim can be written off.
- If the cost of conducting enforcement proceedings (especially court proceedings) is higher than the amount of the claim, the receivables may be written off when the collection methods are exhausted or become inexpedient by initiating court/enforcement proceedings.

(b) Fair value of securities

The fair value of financial instruments traded in an active market at the balance sheet date is based on quoted market prices of supply or demand, without any deduction for transaction costs. The fair value of financial instruments not quoted in an active mark.et is determined using appropriate valuation techniques, which include net present value techniques, comparison with similar instruments for which there are market prices and other relevant models.

When market inputs are not available, they are determined by valuations that include some degree of judgment in estimating fair value. Valuation models reflect the current market situation at the measurement date and do not have to represent the market conditions before or after the measurement date. Therefore, valuation techniques are revised periodically to adequately reflect current market conditions.

More detailed disclosures are provided in Note 4.5 (Fair value of financial assets and liabilities).

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(c) Estimate of the fair value of buildings and investment property and foreclosed assets

The Bank receives independent appraisals for its investment property and foreclosed assets at least annually, and for business premises (classified as property, plant and equipment) at least every three years.

At the end of each reporting period, management updates its estimate of the fair value of each property, taking into account the most recent independent valuations. Management determines the value of assets within the range of reasonable fair value estimates.

The best evidence of fair value is current price in an active real estate market. If current price information is not available, management reviews information from a variety of sources, including:

- current active market prices for properties of different nature or recent prices for similar properties in less active markets, adjusted to reflect these differences,
- discounted cash flow projections on reliable estimates of future cash flows,
- capitalized revenue forecasts based on the estimated net income of the real estate market and the capitalization rate derived from market evidence analysis.

(d) Recognition of deferred tax assets

Deferred tax assets represent income taxes that may be collected through future reductions in taxable profit. Deferred tax assets are recorded if the achievement of the relevant tax benefits is probable. The future taxable profit and the amount of tax benefits that are probable in the future are based on the medium-term business plan prepared by management, as well as on the subsequent extrapolation of the results of the same plan. The Bank did not recognize deferred tax assets for tax losses carried forward.

(e) Provisions for litigation

The Bank is subject to a number of claims incidental to the normal conduct of its business, relating to and including commercial, contractual and employment matters, which are handled and defended in the ordinary course of business. The Bank routinely assesses the likelihood of any adverse judgments or outcomes to these matters as well as ranges of probable and reasonable estimated losses. A number of these cases relate to claims for disputed clauses in loan agreements, such as those relating to loan origination fees and insurance premiums collected by the Bank from individuals as borrowers. In estimating the provision, the Bank assesses the probability of any adverse outcomes on these matters, and for those with a probable negative outcome, calculates the provision based on the actual receivable plus the best estimate of default interest and legal costs.

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

A provision for litigation is recognized when it is probable that an obligation exists for which a reliable estimate can be made after careful analysis. The required provision may change in the future due to new events and as additional information becomes available.

Matters that are either contingent liabilities or do not meet the recognition criteria for provision are disclosed, unless the possibility of transferring economic benefits is remote. Refer to Note 28 for further information about the Bank's contingent liabilities in respect of litigations and related provisions.

All amounts are expressed in thousands of RSD unless otherwise stated

6. INTEREST INCOME AND EXPENSES

	2023	2022
Interest income based on EIR		
On loans	479,748	387,461
On deposits	11,632	5,012
On securities and REPO transaction	223,003	162,705
On foreign currency loans	3,448	3,657
On foreign currency deposits	90,696	20,773
On foreign currency securities	15,814	15,937
Total:	**824,341**	**595,545**
Interest expense		
On deposits	70,481	51,010
On securities	33,783	31,904
On other liabilities	3	15,822
On foreign currency borrowings	-	4,867
On foreign currency deposits	97,867	59,974
On foreign currency securities	181	176
On other foreign currency liabilities	13,485	977
Total:	**215,800**	**164,730**
Net interest income	**608,541**	**430,815**

Total interest income and expense accounted for using the effective interest method presented in the table relate to financial assets and liabilities that are not carried at fair value through profit and loss statement.

Interest income from loans in dinars in the amount of RSD 479,748 thousand (2022: RSD 387,461 thousand), also includes income from suspended interest in the amount of RSD 5,691 thousand (2022: RSD 38,539 thousand).

Income from interest from securities in the amount of RSD 223,003 thousand (2022: RSD 162,705 thousand), mostly refers to income from interest from government bonds in the amount of RSD 164,357 thousand.

Interest expenses on deposits in dinars in the amount of RSD 70,481 thousand (2022: RSD 51,010 thousand), mainly refer to interest expenses on short-term deposits of other companies in the amount of RSD 35,463 thousand, to interest expenses on demand deposits of households in the amount of RSD 17,001 thousand and on interest expenses on retail sight deposits in the amount of RSD 14,219 thousand.

Interest expenses from securities in dinars in the amount of RSD 33,783 thousand (2022: RSD 31,904 thousand) consist of expenses from the RS bond premium in dinars.

Interest expenses on deposits in foreign currency in the amount of RSD 97,867 thousand (2022: RSD 59,974 thousand), mostly refers to interest expenses on retail savings deposits in the amount of RSD 56,418 thousand, while the amount of RSD 16,601 thousand refers to interest expenses on retail sight deposits, and the amount of RSD 11,465 thousand refers to interest from retail long-term savings deposits with maturity of 25 months in foreign currency.

All amounts are expressed in thousands of RSD unless otherwise stated

6. INTEREST INCOME AND EXPENSES (continued)

Interest income	**2023**	**2022**
Corporate	342,790	257,387
- interest	*328,291*	*241,512*
- fees	*14,499*	*15,875*
Retail	118,329	80,685
- interest	*118,230*	*80,534*
- fees	*99*	*151*
Foreign entities	55,096	14,468
- interest	*55,096*	*14,468*
National Bank of Serbia	102,855	12,517
Republic of Serbia	180,275	178,528
Entrepreneurs	15,205	13,334
- interest	*14,557*	*12,646*
- fees	*648*	*688*
Banks and other financial institutions	4,099	87
Retail interest previously written off	843	5,974
Corporate interest previously written off	3,980	31,859
Entrepreneurs interest previously written off	869	706
Total	**824,341**	**595,545**

Interest expense	**2023**	**2022**
Corporate	41,966	22,199
Retail	116,147	67,900
Entrepreneurs	1,497	697
Republic of Serbia	33,964	32,080
Banks and other financial institutions	2,054	12,711
Public sector	1,370	16,397
Foreign entities	5,357	5,294
National Bank of Serbia	-	6,467
Other clients	-	8
Leasing	13,445	977
Total	**215,800**	**164,730**
Net interest income	**608,541**	**430,815**

7. FEE AND COMMISSION INCOME AND EXPENSE

	2023	**2022**
Fee and commission income in RSD	787,400	512,678
Fee and commission income in foreign currency	13,848	10,426
Total:	**801,248**	**523,104**
Fee and commission expense in RSD	8,100	7,207
Fee and commission expense in foreign currency	27,649	19,065
Total:	**35,749**	**26,272**
Net fee and commission income	**765,499**	**496,832**

All amounts are expressed in thousands of RSD unless otherwise stated

7. FEE AND COMMISSION INCOME AND EXPENSE (continued)

Fees and commissions income in dinars in the amount of RSD 787,400 thousand (2022: RSD 512,678 thousand) mostly refer to fees from retail for carrying out foreign exchange operations in the amount of RSD 333,008 thousand (2022: RSD 196,195 thousand); fees for purchase an3d sale of foreign currency from other clients in the amount of RSD 311,469 thousand (2022: RSD 185,363 thousand); for banking services from corporate for payment transactions in the amount of RSD 41,520 thousand (2022: RSD 43,323 thousand); fees for banking services from companies based on guarantees, letters of intent, etc. in the amount of RSD 29,314 thousand (2022: RSD 29,132 thousand); fees for banking services from entrepreneurs for payment transactions in the amount of RSD 10.215 thousand (2022: RSD 11,394 thousand).

	2023	2022
Income from fees for banking services		
- payment cards	18,020	13,818
- domestic payment operations (companies, bank, retail)	62,577	58,451
- commissions for issued guarantees	34,340	34,594
- foreign currency payment operations	24,079	16,524
- banking services	8,488	9,068
- other fees and commissions	5,921	5,903
- exchange operations	333,008	196,195
- buying and selling of foreign currency	311,469	185,363
- other – early repayment	3,346	3,188
Total income	**801,248**	**523,104**
Expenses from fees for banking services		
- payment cards	1,047	937
- domestic payment operations	5,156	5,286
- foreign currency payment operations	27,597	18,263
- banking services	743	21
- other fees and commissions	1,154	964
- buying and selling of foreign currency	52	801
Total expenses:	**35,749**	**26,272**
Net gains from fees and commissions	**765,499**	**496,832**

8. NET GAINS FROM DERECOGNITION OF THE FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

	2023	2022
Gains from the sale of bonds at FVOCI of Republic of Serbia	-	5,565
Net gain	**-**	**5,565**

All amounts are expressed in thousands of RSD unless otherwise stated

9. NET FOREIGN EXCHANGE GAINS/(LOSSES) AND CURRENCY CLAUSE EFFECTS

	2023	2022
Foreign exchange gains based on:		
Foreign currency deposits and loans	414,334	388,404
Foreign currency accounts	51,430	127,091
Transactions with derivatives	515,433	33,694
Cash and deposits held with NBS	73,230	4,866
Payment card transactions	10,716	15,832
Other	2,583,849	1,452,402
Contracted currency clause	4,942	8,654
Based on securities	15,978	29,095
Total	**3,669,912**	**2,060,038**
Foreign exchange losses based on:		
Foreign currency deposits and loans	358,505	225,654
Foreign currency accounts	154,827	178,931
Transactions with derivatives	123,788	92,602
Cash and deposits held with NBS	80,378	90,068
Payment card transactions	8,065	14,559
Other	2,538,786	1,456,863
Contracted currency clause	12,709	18,535
Based on securities	22,923	21,237
Total	**3,299,981**	**2,098,449**
Foreign exchange gains/(losses), net	**369,931**	**(38,411)**

10. NET LOSS FROM IMPAIRMENT OF FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH INCOME STATEMENT

	2023	2022
Impairment loss on balance sheet assets	(572,442)	(606,891)
Income from reversal of impairment of balance sheet assets	535,992	458,460
Provision for off-balance sheet items	(98,061)	(88,045)
Income from reversal of provisions for off-balance sheet items	86,223	60,820
Expenses from write-off of uncollectible receivables	(1,410)	(488)
Income from collected receivables previously written-off	87,543	105,490
Impairment of financial assets valued at FV through OCI	(503)	(822)
Reversal of impairment of financial asset valued through OCI	364	2,064
Modification loss	(56,270)	-
Net loss:	**(18,564)**	**(69,412)**

Movements on the accounts of impairment of balance assets in 2023 were as follows:

	Loans to clients	Receivables for interest and fees	Other receivables	Total
Opening balance 01 January 2023	**238,594**	**6,783**	**3,931**	**249,308**
New impairment allowance	427,735	11,438	133,269	572,442
Exchange rate differences	160	-	4,333	4,493
Write-off	(159)	-	-	(159)
Transfer to off-balance sheet items	(24,506)	-	-	(24,506)
Income from reversal of impairment	(395,585)	(10,020)	(130,387)	(535,992)
Balance at the year end	**245,239**	**8,201**	**11,146**	**265,586**

All amounts are expressed in thousands of RSD unless otherwise stated

10. NET LOSS FROM IMPAIRMENT OF FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH INCOME STATEMENT (continued)

Movements on the accounts of impairment of balance assets in 2022 were as follows:

	Loans to clients	Receivables for interest and fees	Other receivables	Total
Opening balance 01 January 2021	**205,826**	**3,900**	**6,489**	**216,215**
Reclassification	(1,071)	1,071	-	-
New impairment allowance	465,232	19,263	122,396	606,891
Reversal of impairment allowances	(316,055)	(17,451)	(124,954)	(458,460)
Transfer to off-balance	(115,338)	-	-	(115,338)
Balance at the year end	**238,594**	**6,783**	**3,931**	**249,308**

11. NET GAIN FROM DERECOGNITION OF INVESTMENTS IN ASSOCIATED UNDERTAKINGS AND JOINT V ENTURES

	2023	2022
Gains from sale of investments in other financial organisations	429	-
Total	**429**	**-**

12. OTHER OPERATING INCOME

	2023	2022
Rent income	17,013	15,014
Income from sales of assets from collection of receivables	-	14,360
Income from sales of investment property	-	88
Total	**17,013**	**29,462**

13. SALARIES, SALARY COMPENSATIONS AND OTHER PERSONAL EXPENSES

	2023	2022
Costs of salaries	255,571	194,960
Costs of employee compensations	40,191	34,530
Taxes for salaries and wages	36,340	28,364
Contributions for salaries and wages	67,950	56,401
Compensations for temporary and occasional work	3,052	2,244
Other personal expenses	20,552	39,664
Net expense for provisions for unused days of annual leave, retirement and bonus	85,534	3,153
Total	**509,190**	**359,316**

14. DEPRECIATION COSTS

	2023	2022
Intangible assets	25,480	22,813
Fixed assets	37,631	29,297
Right of use assets	37,293	17,133
Total	**100,404**	**69,243**

All amounts are expressed in thousands of RSD unless otherwise stated

15. OTHER INCOME

	2023	2022
Income from derecognition of provisions for litigation	58,992	37,883
Income from sale of fixed assets	39	-
Income from sale of asset acquired by collecting of receivables	502	-
Income from changes in value of fixed assets acquired by collecting receivables and investment property	-	9,559
Income from balances on closed customer accounts	-	34
Other income	2,089	3,705
Income from legal actions finalised in favour of the Bank	4,161	3,214
Other income from previous year	11,677	1,916
Total	**77,460**	**56,311**

16. OTHER EXPENSES

	2023	2022
Costs of materials	33,887	21,224
Costs of production services	37,740	18,848
Non-material costs (without taxes and contributions)	287,881	263,076
Taxes	17,931	16,554
Contributions	57,863	51,636
Provisions for liabilities (Note 28)	27,355	72,718
Shortages and damages	279	103
Losses on sale of asset acquired by collecting of receivables	42,477	865
Other expenses	62,245	18,900
Losses on changes in value of fixed assets acquired by collecting receivables and investment property	2,848	8,937
Total	**570,506**	**472,861**

Cost of material amounting to RSD 33,887 thousand (2022: RSD 21,224 thousand) and mostly refer to electricity and heating costs in the amount of RSD 14,178 thousand (2022: RSD 12,263 thousand).

Of the total costs of production services in the amount of RSD 37,740 thousand (2022: RSD 18,848 thousand), the amount of RSD 13,627 thousand (2022: RSD 12,080 thousand) is cost of electronic communications and automatic data processing.

Non-material costs in the amount of RSD 287,881 thousand (2022: RSD 263,076 thousand) are mostly made up of the amount of RSD 37,781 thousand (2022: RSD 38,974 thousand) which refers to the costs of bank deposit insurance premiums; an amount of RSD 59,841 thousand (2022: RSD 51,266 thousand) related to service services - software maintenance; the amount of RSD 27,257 thousand (2022: RSD 26,695 thousand) related to the costs of maintaining software applications; the amount of RSD 19,108 thousand (2022: RSD 17,452 thousand) related to service services - IT equipment.

Other expenses amounting to RSD 103,400 thousand (2022: RSD 19,765 thousand) mostly refer to provisions to referrers in the amount of RSD 55,091 thousand and costs on sale of assets acquired by collecting of receivables in the amount of RSD 42,477 thousand.

Expenditures from changes in the value of fixed assets acquired through the collection of receivables and investment real estate, of RSD 2,848 thousand, refer to the posting of valuations by authorized appraisers, in December 2023, namely expenditures of new valuations of acquired assets of RSD 2,071 thousand and investment real estate of RSD 777 thousand.

All amounts are expressed in thousands of RSD unless otherwise stated

17. INCOME TAX

Total tax (expense)/income consists of the following taxes:

	2023	2022
Income tax	-	-
Deferred tax credit (Note 29)	-	8,290
Deferred tax loss (Note 29)	(7,820)	-
Total tax income	**(7,820)**	**8,290**

Current income tax on the Bank's profit before tax differs from the theoretical amount that would result from the use of weighted average tax rate and would be as follows:

	2023	2022
Gain prior to taxation	640,209	9,843
Income tax per rate of 15%	(96,931)	(1,476)
Tax effects of income and expenses not recognized for tax purposes	(33,292)	17,497
Tax effect of unrecognized tax losses carried forward	(63,639)	(16,021)
Tax effect of temporary differences	(7,820)	8,290
Income tax presented in the income statement	**(7,820)**	**8,290**

The Bank did not recognize potential deferred tax assets based on unused amounts of tax losses carried forward. The table below shows tax losses and the amount of unused tax credit per year:

Tax period of unused tax credit inception	Tax loss	Amount of unused tax credit	Last tax period in which unused tax credit may be used
2020	125,983	18,897	2025
2021	288,514	43,277	2026
2022	110,271	16,541	2027
TOTAL	**524,768**	**78,715**	

Based on the results achieved in 2023 and the calculated income tax in the amount of RSD 63,639 thousand, the Bank used a tax credit in the amount of RSD 48,408 thousand from 2019 and in the amount of RSD 14,986 thousand from 2020.

18. CASH AND BALANCES WITH CENTRAL BANK

	31 December 2023	31 December 2022
Giro account	1,771,280	923,372
Cash on hand in RSD	112,901	100,500
Receivables for calculated interest, fee and commission per cash funds held with Central Bank	1	2
Cash on hand in foreign currency	174,323	126,788
Obligatory foreign currency reserve held with NBS	4,602,195	1,002,450
Receivables for interest on avista deposits with NBS in foreign currency	93	2,633
Accruals for cash and assets with the NBS	378	220
Accrued receivables for interest for avisa deposits with NBS in foreign currency	22	120
Total	**6,661,193**	**2,156,085**

All amounts are expressed in thousands of RSD unless otherwise stated

18. CASH AND BALANCES WITH CENTRAL BANK (continued)

The Bank calculates and allocates the obligatory reserve with the National Bank of Serbia in the amount and in the manner determined by the Decision on obligatory reserve of banks with the National Bank of Serbia. The obligatory reserve in dinars is allocated to the gyro account and is therefore not separately disclosed.

The obligatory reserve with the NBS represents the minimum reserve of dinar and foreign currency funds allocated in accordance with the Decision of the NBS and can be used for liquidity if necessary.

The obligatory reserve in dinars is calculated by the Bank on liabilities in dinars, loans and securities, as well as in other dinars liabilities other than dinars deposits received on transactions performed by the Bank in the name and on behalf of third parties which do not exceed the number of placements provided by the Bank given from those deposits.

The National Bank of Serbia pays interest on the amount of the average daily balance of the allocated RSD obligatory reserve in the accounting period, which does not exceed the amount of the RSD obligatory reserve at the interest rate of 0.75% annually.

The Bank calculates its foreign currency obligatory reserve on liabilities for foreign currency deposits, loans and securities and other foreign currency liabilities, as well as on deposits, loans and other foreign currency received from abroad in the operations performed by the Bank on behalf and for the account of third parties.

The National Bank of Serbia does not pay interest on the amount of realized average balance of allocated foreign currency reserves.

The table below shows summary of cash and cash equivalents disclosed in cash flow statements:

	31 December 2023	31 December 2022
In RSD		
Current and gyro account	1,771,280	923,372
Cash on hand	112,901	100,500
In foreign currency		
Foreign currency account	1,111,487	140,739
Cash on hand	174,323	126,788
Total cash	**3,169,991**	**1,291,399**
Less: Allowances for impairment	*5,494*	*954*
Balance as of 31 December	**3,164,497**	**1,290,445**

All amounts are expressed in thousands of RSD unless otherwise stated

19. SECURITIES

	31 December 2023	31 December 2022
Securities in RSD	3,006,766	2,756,297
Securities in foreign currency	629,221	647,556
Accrued interest	122,242	-
Premium/(discount)	223,301	256,426
Total	**3,981,530**	**3,660,279**

Securities measured in the bank's balance relate to securities at fair value through other comprehensive income and consist entirely of long-term bonds of the Republic of Serbia.

Impairment allowance of securities measured at fair value through other comprehensive income:

	31 December 2023	31 December 2022
Balance on 1st January	6,519	7,742
Increase	528	876
Decrease	(401)	(2,099)
Total impairment allowance	**6,646**	**6,519**

20. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL ORGANIZATIONS

	31 December 2023	31 December 2022
Bank foreign currency account	1,090,276	134,417
Funds on the account with the domestic bank intended for the purchase of securities	1,703	3,547
Avista deposits with Central Bank in foreign currency	-	1,283,831
Bank's foreign currency account with CRHOV	14,015	1,820
Other earmarked deposits in foreign currency	7,456	7,625
Short-term deposits with domestic banks in foreign currency	703,042	-
Short-term deposits with other foreign banks in foreign currency	1,101,949	110,142
Interest receivables from banks in foreign currency	5,688	717
Repo transactions	2,001,233	-
Total	**4,925,362**	**1,542,099**

Movement of impairment allowance is shown in the table below:

	31 December 2023	31 December 2022
Balance on 1st January	3,587	558
Increase	207,326	163,046
Reduction	(203,281)	(160,017)
Total correction	**7,632**	**3,587**

All amounts are expressed in thousands of RSD unless otherwise stated

21. LOANS AND RECEIVABLES FROM CUSTOMERS

	31 December 2023	31 December 2022
Accrued interest on loans, deposits and other placements	20,648	19,901
Calculated fee and commission on loans, deposits and other placements	2,136	2,657
Impairment of accrued interest, fees and commissions on loans, deposits and other placements	(3,002)	(2,668)
Accrued interest on loans, deposits and other placements in foreign currency	8	3
Loans on transaction accounts	40,003	45,025
Consumer loans	665	956
Liquidity and working capital loans	4,129,686	4,190,932
Investment loans	705,356	1,016,184
Housing loans	1,342,551	1,472,160
Cash loans	190,455	209,717
Other loans	16,039	34,114
Impairment of loans granted in dinars	(243,741)	(235,750)
Other earmarked deposits	18,961	-
Impairment of other earmarked deposits	(290)	-
Accrued receivables for interest from loans, deposits and other placements	16,374	126,623
Deferred maturities and interest - moratorium	19,661	29,016
Impairment of accrued expenses and deferrals in dinars	(939)	(873)
Loans for imports of goods and services from abroad in foreign currency	37,107	60,531
Impairment of long-term loans for import of goods and services from abroad in foreign currency	(99)	(286)
Accrued receivables for interest for loans, deposits and other placements in foreign currency	177	10,473
Accrued income for receivables stated at amortized value using the effective interest rate	(18,458)	(18,656)
Total	**6,273,298**	**6,960,059**

Movement of impairment allowance is shown in the table below:

	31 December 2023	31 December 2022
Balance on 1st January	239,577	207,294
Increase	361,060	465,865
Reduction	(352,566)	(433,582)
Total correction	**248,071**	**239,577**

All amounts are expressed in thousands of RSD unless otherwise stated

21. LOANS AND RECEIVABLES FROM CUSTOMERS (continued)

Changes in loans and receivables from customers in 2023 are as follows:

	Short-term loans		Long-term loans		Total 2023	Total 2022
	In RSD	In foreign currency	In RSD	In foreign currency		
Opening balance 01 January						
Interest and fee receivables	8,461	-	14,097	3	22,561	25,227
New calculation	148,865	-	366,116	3,742	518,723	418,398
Repayments	(146,739)	-	(368,016)	(3,738)	(518,493)	(421,063)
Impairment of receivables for interest and fees	(2,086)	-	(916)	-	(3,002)	(2,668)
Accrued interest receivables calculated for loans, deposits and other placements	28,864	-	7,171	177	36,212	166,111
Deferred income for receivables stated at amortized cost	(17,175)	-	(1,283)	-	(18,458)	(18,657)
Impairment allowance of accruals in RSD	(656)	-	(283)	-	(939)	(873)
Net interest and fees on 31 December	**19,534**	**-**	**16,886**	**184**	**36,604**	**166,474**
Placements to clients on 01 January	1,375,930	-	5,593,159	60,531	7,029,620	8,934,763
New placements	2,977,929	-	5,643,371	23,641	8,644,941	8,672,192
Placed deposits	-	-	18,961	-	18,961	-
Write-offs	-	-	(450)	-	(450)	(405)
Repayments	(3,150,089)	-	(5,970,077)	(47,066)	(9,167,232)	(10,576,929)
Modification	-	-	(45,016)	-	(45,016)	-
Impairments and provisions	(55,333)	-	(188,698)	(99)	(244,130)	(236,036)
Net placements as of 31 December	**1,148,437**	**-**	**5,051,250**	**37,007**	**6,236,694**	**6,793,585**
Loans and receivables from customers on 31 December	**1,167,971**	**-**	**5,068,136**	**37,191**	**6,273,298**	**6,960,059**

	Legal entities	Entrepreneurs	Retail	Foreign persons	Other customers	Total 2023	Total 2022
Interest and fee receivables in RSD	17.252	1.236	3.745	187	364	**22.784**	**22.559**
Impairment of interest and fee receivables in RSD	*(2,277)*	*(193)*	*(501)*	-	*(30)*	***(3,001)***	***(2,668)***
Interest and fee receivables in foreign currency	8	-	-	-	-	**8**	**3**
Accrued interest receivables calculated on the basis of loans, deposits and other placements	5,594	410	21,115	281	8,811	**36,211**	**166,111**
Impairment of accruals in RSD	*(100)*	*(21)*	*(664)*	-	*(154)*	***(939)***	**(873)**
Deferred income for receivables	*(15,113)*	*(422)*	*(2,923)*	-	-	***(18,458)***	**(18,657)**
stated at amortized cost by applying the effective interest rate						**-**	
Short-term loans	1,139,962	60,692	3,115	-	-	**1,203,769**	**1,375,930**
- in RSD						**-**	
Long-term loans	3,604,475	73,016	1,523,937	19,559	-	**5,220,987**	**5,593,159**
- in RSD	37,107					**37,107**	**60,531**
- in foreign currency	*(202,138)*	*(13,422)*	*(28,281)*	-	-	***(243,841)***	***(236,036)***
Loan impairment	18,961	-	-	-	-	**18,961**	**-**
Placed deposits *Impairment of placed deposits*	*(290)*	-	-	-	-	***(290)***	**-**
Total net	**4,603,731**	**121,296**	**1,519,543**	**20,027**	**8,991**	**6,273,298**	**6,960,059**

All amounts are expressed in thousands of RSD unless otherwise stated

21. LOANS AND RECEIVABLES FROM CUSTOMERS (continued)

The concentration of gross credit risk exposure by sectors is given in the following table:

	31 December 2023	31 December 2022
Accommodation and catering services	32,372	21,450
Administrative and support service activities	128,602	189,912
Agriculture, forestry and fishing	419,886	389,476
Arts, entertainment and recreation	44,949	38,674
Construction	1,012,452	700,770
Financial and insurance activities	131,055	11,554
Information and communication	19,403	22,714
Manufacturing industry	1,530,385	2,177,575
Professional, scientific, innovation and technical activities	78,103	107,321
Real estate business	18,961	-
Traffic and storage	169,748	213,901
Wholesale and retail trade, repair	1,270,960	1,375,966
Mining	18,593	21,288
Other service activities	-	20,745
Health and social care	8,187	-
Water supply	4,603	12,570
Education	16,894	23,758
Electricity supply	47,179	23,299
Public administration and defence; compulsory social security	-	122,266
Loans to individuals - housing loans	1,356,732	1,489,493
Placements to individuals - cash and consumer loans	205,723	228,925
Loans to individuals - credit cards	3,660	4,392
Placements to individuals - overdraft	2,923	3,587
Placements to customers, gross	**6,521,370**	**7,199,636**

22. INTANGIBLE ASSETS

Balance on 1 January 2022	**388,128**
New purchases	18,051
Write-offs	(57)
Intangible assets in progress	7,767
Balance on 31 December 2022	**413,889**
<u>Accumulated amortization and impairment loses</u>	
Balance on 1 January 2022	**344,369**
Depreciation	22,813
Write-offs	(57)
Balance on 31 December 2022	**367,125**
Balance on 1 January 2023	**413,889**
New purchases	59,431
Write-offs	-
Intangible assets in progress	-
Balance on 31 December 2023	**473,320**
<u>Accumulated amortization and impairment loses</u>	
Balance on 1 January 2023	**367,125**
Depreciation	25,479
Write-off	-
Balance on 31 December 2023	**392,604**
Net current value 31 December 2022	**46,764**
Net current value 31 December 2023	**80,716**

All amounts are expressed in thousands of RSD unless otherwise stated

23. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Equipment and other fixed assets	Leasehold improvements	Fixed assets in progress	Right to use lease assets	Total
Cost or valuation						
Opening balance as of 01 January 2022	**511,007**	**349,557**	**14,020**	**12,127**	**88,297**	**975,008**
Additions	-	7,061	-	806	5,071	12,938
Changes in contract	-	-	-	-	(5,603)	(5,603)
Transfer from item in preparation	-	12,933	-	(12,933)	-	-
Disposals	-	(40,646)	-	-	-	(40,646)
Balance on 31 December 2022	**511,007**	**328,905**	**14,020**	**-**	**87,765**	**941,697**
Accumulated depreciation						
Opening balance as of 01 January 2022	**201,060**	**290,526**	**13,439**	**-**	**47,412**	**552,437**
Depreciation	6,643	22,443	211	-	17,133	46,430
Changes in contract	-	-	-	-	(5,603)	(5,603)
Disposals	-	(40,646)	-	-	-	(40,646)
Balance on 31 December 2022	**207,703**	**272,323**	**13,650**	**-**	**58,942**	**552,618**
Net current value 1 January 2022	**309,947**	**59,031**	**581**	**12,127**	**40,885**	**422,571**
Net current value 31 December 2022	**303,304**	**56,582**	**370**	**-**	**28,823**	**389,079**
Cost or valuation						
Opening balance as of 01 January 2023	**511,007**	**328,905**	**14,020**	**-**	**87,765**	**941,697**
Additions	-	74,969	56,391	8,801	416,843	557,004
Changes in contracts	-	-	-	-	(11,788)	(11,788)
Transfer from item in preparation	-	8,801	-	(8,801)	-	-
Disposals	(6,142)	(13,228)	-	-	-	(19,370)
Balance on 31 December 2023	**504,865**	**399,447**	**70,411**	**-**	**492,820**	**1,467,543**
Accumulated depreciation						
Opening balance as of 01 January 2023	**207,703**	**272,323**	**13,650**	**-**	**58,942**	**552,618**
Depreciation	6,624	27,304	3,704	-	37,294	74,926
Changes in contracts	-	-	-	-	(11,788)	(11,788)
Sales	-	(9,168)	-	-	-	(9,168)
Disposals	-	(4,060)	-	-	-	(4,060)
Balance on 31 December 2023	**214,327**	**286,399**	**17,354**	**-**	**84,448**	**602,528**
Net current value 1 January 2023	**303,304**	**56,582**	**370**	**-**	**28,823**	**389,079**
Net current value 31 December 2023	**290,538**	**113,048**	**53,057**	**-**	**408,372**	**865,015**

There are no registered mortgages over the buildings as collateral for loan repayment.

All amounts are expressed in thousands of RSD unless otherwise stated

23. PROPERTY, PLANT AND EQUIPMENT (continued)

Lease costs amount to RSD 59,902 thousand (2022: RSD 21,555 thousand) and are stated over the cost of depreciation of lease rights in the amount of RSD 37,293 thousand, interest in the amount of RSD 13,445 thousand, VAT costs in the amount of RSD 9,540 thousand and FX gains in amount of RSD 376 thousand. The standard stipulates that total costs during the lease period will be the same as before the application of IFRS 16, but they will be higher in the initial periods and will decrease later.

The table below shows lease summary as of 31 December 2023:

	31 December 2023	31 December 2022
Business premises	408,372	28,823
Total	**408,372**	**28,823**

24. INVESTMENT PROPERTY

	31 December 2023	31 December 2023
Investment property	268,009	268,786
Total:	**268,009**	**268,786**

At the end of 2023, the value of all investment properties that were in stock was reduced to the value estimated by authorized FinSelect appraisers. The following table shows movement of investment property item during 2023.

Balance on 1 January 2022	**209,661**
Value correction - appraisals/investment	7,780
Sale	(10,947)
Transfer from assets acquired through debt collection	62,292
Balance on 31 December 2022	**268,786**
Balance on 1 January 2023	**268,786**
Value correction - appraisals	(777)
Sale	-
Transfer from assets acquired through debt collection	-
Balance on 31 December 2023	**268,009**

The costs of property tax, as well as the costs of tax on the transfer of absolute rights, are borne by the Bank. The net income from lease of property classified as investment for the year 2023 is RSD 12,002 thousand (2022: RSD 11,696 thousand), while total income from the lease in 2023 is RSD 17,013 thousand (2022: RSD 15,014 thousand).

All amounts are expressed in thousands of RSD unless otherwise stated

25. OTHER ASSETS

	31 December 2023	31 December 2022
Receivables for fee	5,150	6,645
Impairment of receivables for fees and commissions, receivables from sales and other receivables from ordinary activities in RSD	(4,229)	(3,141)
Receivables from advances given for working capital	9,901	5,253
Receivables from advances paid for permanent investments	3,362	13,907
Receivables from employees	699	564
Receivables from prepaid taxes and contributions	-	39
Other receivables from operating activities	13,229	10,570
Transition and temporary accounts	(78,727)	2,381
Accounts receivable	2,095	1,357
Impairment of other receivables	(5,410)	(2,935)
Receivables from advances paid for working capital in foreign currency	26,627	36,298
Receivables from employees in foreign currency	4	4
Accounts receivable in foreign currency	2,019	1,726
Impairment of other receivables in foreign currency	(236)	(25)
Other investments	374	476
Impairment of investments in RSD	(6)	(17)
Deferred other costs	9,380	8,340
Other accruals	8,356	9,432
Impairment of accruals in RSD	-	(21)
Assets acquired by collection of receivables	344,470	517,998
Total	**337,058**	**608,851**

Receivables for advances paid for working capital in foreign currency in the amount of RSD 26,627 thousand (31 December 2022: RSD 36,298 thousand), refer to advance holds with Bank Intesa for use of Visa and Master cards.

In addition, the amount of assets acquired through collection of receivables, which at the end of 2023 amount to RSD 344,470 thousand (31 December 2022: RSD 517,998 thousand), is the result of the sale during the year in the amount of RSD 171,457 thousand and decrease in value based on appraisals in the amount of RSD 2,071 thousand.

Carrying amount of acquired assets at the beginning and end of the period:

Balance on 1 January 2022	**447,493**
Value - estimation adjustment	(7,159)
Sales	(66,168)
Additions	205,504
Transfer to investment property	(61,672)
Balance on 31 December 2022	**517,998**
Balance on 1 January 2023	**517,998**
Value - estimation adjustment	(2,071)
Sales	(171,457)
Additions	-
Transfer to investment property	-
Balance on 31 December 2023	**344,470**

All amounts are expressed in thousands of RSD unless otherwise stated

26. DEPOSITS AND OTHER LIABILITIES TO BANKS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK

	31 December 2023	31 December 20221
Transaction deposits	45,841	7,058
Other deposits	-	1,309
Other financial liabilities	265	964
Liabilities for fees and commissions on loans, deposits and other financial liabilities	491	457
Accrued liabilities for accrued interest on loans, deposits and other financial liabilities	104	136
Transaction deposits in foreign currency	129,562	1,624
Other deposits in foreign currency	117,640	246,513
Accrued liabilities for interest on loans, deposits and other financial liabilities in foreign currency	482	48
Total	**294,385**	**258,109**

Within other deposits in foreign currency, amount of RSD 117,640 thousand (31 December 2022: RSD 246,513 thousand) refers to short term loan of Adriatic Bank A.D. Podgorica in the amount of RUB 100,000 thousand under following conditions:

Date of Agreement	Amount in original currency	Amount in RSD thousand	Maturity date	Period of cancelation term	Interest rate in%
27.12.2023	100,000,000 RUB	117,640	03.1.2024	7D	7
Total in RSD thousand		**117,640**			

Within transaction deposits in foreign currency, the amount of RSD 129,563 thousand (2022: RSD 1,624 thousand) the largest part refers to the deposit of CJSC Zepter Bank in the amount of RSD 120,337 thousand.

All amounts are expressed in thousands of RSD unless otherwise stated

27. DEPOSITS AND OTHER LIABILITIES TO OTHER CUSTOMERS

	31 December 2023	31 December 2022
Transaction deposits	3,751,754	2,691,048
Savings deposits	921,745	589,523
Deposits on loans	70,264	24,341
Dedicated deposits	150,728	146,952
Other deposits	591,351	718,100
Liabilities based on interest on loans, deposits and other financial liabilities	1,286	825
Accrued interest on loans, deposits and other financial liabilities	26,187	6,150
Transaction deposits In foreign currency	8,406,404	3,304,488
Savings deposits in foreign currency	3,504,753	3,742,312
Deposits on loans in foreign currency	284,849	338,133
Dedicated deposits in foreign currency	616,997	404,582
Other deposits in foreign currency	151,928	226,013
Other financial liabilities in foreign currency	162,315	72,457
Accrued interest on loans, deposits and other financial liabilities in foreign currency	47,822	52,060
Total	**18,688,383**	**12,316,984**

Transaction deposits are non-interest bearing.
Interest rate on avista deposits in RSD was in range of 1.00% - 3.00%.
Interest rate on short-term deposits in RSD was in range of 1.25% - 5.5%.
Interest rate on long-term deposits in RSD was in range of 3.50% - 6.5%.
Interest rate on avista deposits in EUR was in range of 0.50% - 1.50%.
Interest rate on short-term deposits in EUR was in range of 0.25% - 3.00%.
Interest rate on long-term deposits in EUR was in range of 2.00% - 4.50%.
Interest rates on short-term and long-term deposits in USD, GBP amount to 0.1%.

All amounts are expressed in thousands of RSD unless otherwise stated

27. DEPOSITS AND OTHER LIABILITIES TO OTHER CUSTOMERS (continued)

	Legal entities	Entrepreneurs	Public sector	Retail	Foreign persons	Other customers	Total 2023	Total 2022
Transaction deposits								
- in RSD	1,994,674	240,335	11,033	214,638	1,153,294	137,780	**3,751,754**	**2,691,049**
- In foreign currency	610,603	59,050		1,133,757	6,602,934	60	**8,406,404**	**3,304,487**
Savings deposits								
Short-term deposits:								
- in RSD	-	-	-	907,827	7,249	-	**915,076**	**567,983**
- In foreign currency	-	-	-	2,633,320	421,004	-	**3,054,324**	**1,968,564**
Long-term deposits:								
- in RSD	-	-	-	6,669	-	-	**6,669**	**21,540**
- In foreign currency	-	-	-	432,853	17,576	-	**450,429**	**1,773,748**
Deposits on loans								
Short-term deposits:								
- in RSD	-	-	-	-	-	-	**-**	**-**
- In foreign currency	-	-	-	30,402	-	-	**30,402**	**26,645**
Long-term deposits:								
- in RSD	18,000	-	-	52,264	-	-	**70,264**	**24,341**
- In foreign currency	29,293	-	-	225,154	-	-	**254,447**	**311,488**
Dedicated deposits								
Short-term deposits:								
- in RSD	40,310	-	-	211	-	-	**40,521**	**70,606**
- In foreign currency	13,266	-	-	-	-	-	**13,266**	**10,696**
Long-term deposits:								
- in RSD	110,207	-	-	-	-	-	**110,207**	**76,346**
- In foreign currency	603,731	-	-	-	-	-	**603,731**	**393,886**
Other deposits								
Short-term deposits:								
- in RSD	542,633	32,136	-	1	-	-	**574,770**	**680,961**
- In foreign currency	54,415	-	-	-	26,950	-	**81,365**	**204,955**
Long-term deposits:								
- in RSD	16,581	-	-	-	-	-	**16,581**	**37,139**
- In foreign currency	21,204	49,359	-	-	-	-	**70,563**	**21,058**
Total	**4,054,917**	**380,880**	**11,033**	**5,637,096**	**8,229,007**	**137,840**	**18,450,773**	**12,185,492**
Other financial liabilities								
- in RSD	-	-	-	-	-	-	**-**	**-**
- In foreign currency	162,315	-	-	-	-	-	**162,315**	**72,457**
Interest liabilities								
- in RSD	1,286	-	-	-	-	-	**1,286**	**825**
- In foreign currency	-	-	-	-	-	-	-	**-**
Accrued interest on loans, deposits and other financial liabilities								
- in RSD	11,793	529	-	13,677	188	-	**26,187**	**6,150**
- In foreign currency	924	17	-	45,509	1,372	-	**47,822**	**52,060**
Total	**176,318**	**546**	**-**	**59,186**	**1,560**	**-**	**237,610**	**131,492**
Total deposits and other liabilities	**4,231,235**	**381,426**	**11,033**	**5,696,282**	**8,230,567**	**137,840**	**18,688,383**	**12,316,984**

Short-term savings deposits of retail and foreign persons in foreign currency, in the amount of RSD 3,054,324 thousand, refer to: avista savings deposits of natural persons in foreign currency in the amount of RSD 8,244 thousand (31 December 2022: RSD 8,698 thousand), up to one month RSD 279,496 thousand (31 December 2022: RSD 44,280 thousand), up to three months in the amount of RSD 2,040 thousand (31 December 2022: RSD 63,896 thousand), up to four months in the amount of RSD 688 thousand (31 December 2022: RSD 795 thousand), up to six months in the amount of RSD 22,435 thousand (31 December 2022: RSD 43,498 thousand), up to 9 months in the amount of RSD 138,825 (31 December 2022: RSD 87,059) and up to one year in the amount of RSD 2,602,595 thousand (31 December 2022: RSD 1,720,338 thousand).

All amounts are expressed in thousands of RSD unless otherwise stated

27. DEPOSITS AND OTHER LIABILITIES TO OTHER CUSTOMERS (continued)

Long-term savings deposits of retail and foreign persons in foreign currency, in the amount of RSD 450,429 thousand (31 December 2022: RSD 1,773,748 thousand), have significantly decreased compared to last year and refer to: household deposits in foreign currency for 13 months amounting to RSD 2,420 thousand (31 December 2022: RSD 2,410 thousand), for 15 months amounting to RSD 3,885 thousand (31 December 2022: RSD 13,367 thousand) and for 25 months amounting to RSD 444,124 thousand (31 December 2022: RSD 1,757,971 thousand).

28. PROVISIONS

	31 December 2023	31 December 2022
Provisions for litigation	46,512	98,189
Provisions for off-balance sheet assets	58,359	46,520
Provisions for pensions	3,459	3,107
Short term provision for employees	95,597	10,484
Total	**203,927**	**158,300**

Provisions for legal costs in the amount of RSD 46,512 thousand (31 December 2022: RSD 98,189 thousand), which refer possible liabilities arising from outcomes of legal actions, were decreased to the greatest extent due to the lawsuit won which has been initiated against the Bank by the bankruptcy manager of Sinergy Timber, for refuting the legal actions of the public executor during the execution procedure for the collection of claims of the client in question, in which the Bank took over real estate because there were no other buyers. The provision set aside on this basis amounts to RSD 52,381 thousand has been cancelled during 2023. Separate provisions related to lawsuits for loan processing fees and NKOSK amount to RSD 29,333 thousand. The Bank, similarly, to other banks on the market, is the subject of various court disputes related to certain fees in credit agreements. For such cases, the Bank created a provision (included in the above amount) of RSD 20,185 thousand. Currently, it is not possible to accurately determine the outcome of all these lawsuits. The Bank's management estimates that there will be no materially significant losses based on the outcome of ongoing court disputes, above the amount for which the provision was made.

As of 31 December 2023, provisions for pensions in the amount of RSD 3,459 thousand (31 December 2022: RSD 3,107 thousand) were made in accordance with IAS 19. Short term provision for employees refer to provision for unused holiday and bonuses.

Movements on provisioning accounts during 2023:

	Provisions for pensions	Short term provision for employees	Provisions for litigations	Provisions for off-balance sheet assets
Balance on 01.01.2023	**3,107**	**10,484**	**98,189**	**46,520**
Provisions during the year	352	95,597	27,355	98,061
Cancellation provisions/cancellation income	-	(10,484)	(79,032)	(86,222)
Balance on 31 December 2023	**3,459**	**95,597**	**46,512**	**58,359**

Movements on provisioning accounts during 2022:

	Provisions for pensions	Short term provision for employees	Provisions for litigations	Provisions for off-balance sheet assets
Balance on 01.01.2022	**4,724**	**7,988**	**63,353**	**18,401**
Provisions during the year	-	10,484	72,719	64,365
Cancellation provisions/cancellation income	(1,617)	(7,988)	(37,883)	(36,246)
Balance on 31 December 2022	**3,107**	**10,484**	**98,189**	**46,520**

All amounts are expressed in thousands of RSD unless otherwise stated

29. DEFERRED TAX ASSETS AND LIABILITIES

Deferred taxes are calculated on temporary differences using the liability method, using the effective tax rate of 15% (31 December 2022: 15%).

Deferred tax assets and liabilities are "offset" when there is a legally enforceable right to "offset" current tax assets with current tax liabilities and when deferred income tax applies to the same fiscal authority.

	31 December 2023	31 December 2022
Deferred tax assets	77,459	121,164
Deferred tax liabilities	-	-
Net deferred tax assets	**77,459**	**121,164**

Movements on deferred tax assets and liabilities are given in the following table:

	Tax credits - provisions for litigation	Tax credits - IAS 19 provision	Tax credits – value decrease of acquired assets	Tax depreciation	Fair value of securities	Total
Balance on 01.01.2022	**9,503**	**708**	**26,116**	**(28,635)**	**4,311**	**12,003**
Charged/credited to P/L	5,225	(242)	(2,719)	6,027	-	8,291
Charged/credited to OCI	-	-	-	-	100,870	100,870
Balance on 31 December 2022	**14,728**	**466**	**23,397**	**(22,608)**	**105,181**	**121,164**
Charged/credited to P/L	(7,752)	53	179	(300)	-	(7,820)
Charged/credited to OCI	-	-	-	-	(35,885)	(35,885)
Balance on 31 December 2023	**6,976**	**519**	**23,576**	**(22,908)**	**69,296**	**77,459**

All amounts are expressed in thousands of RSD unless otherwise stated

30. OTHER LIABILITIES

	31 December 2023	31 December 2022
Liabilities for fees and commissions on other liabilities		
- in RSD	8	8
- in foreign currency	36	47
Liabilities toward suppliers		
- in RSD	43,650	16,961
- in foreign currency	1,173	2,031
Liabilities for advances received		
- in RSD	-	1,273
Other liabilities from business operations		
- in RSD	43,275	73,248
- in foreign currency	20,934	16,911
Liabilities accrued		
- in RSD	14,105	17,738
- in foreign currency	2,760	846
Liabilities arising from temporary and occasional work		
- in RSD	879	1,115
Other liabilities towards employees		
- in RSD	2	389
Liabilities for taxes and contributions	5,929	3,371
Accrued liabilities for other accrued expenses		
- in RSD	6,933	11,188
- in other currency	56,405	-
Deferred income		
- in RSD	13,837	12,734
Liabilities for leases in foreign currency	411,784	30,468
Total	**621,710**	**188,328**

Accrued liabilities for other accrued expenses in the amount of RSD 55,083 relate to accrued liabilities toward referrers.

Other liabilities from business operations in the amount of RSD 43,274 thousand (31 December 2022: RSD 73,248 thousand) mostly refer to liabilities for calculated costs in the amount of RSD 22,248 thousand (31 December 2022: RSD 53,165) and liabilities for transferred assets of retail from closed accounts in the amount of RSD 9,030 thousand (31 December 2022: RSD 8,577 thousand).

Lease liabilities are detailed in Note 23.

All amounts are expressed in thousands of RSD unless otherwise stated

31. OFF-BALANCE SHEET

	31.12.2023.	31.12.2022.
Lending under transactions for and on behalf of third parties	33,983	34,026
Guarantees and other commitments	1,582,793	1,571,346
Irrevocable commitments for undisbursed loans and investments	871,820	484,562
Other irrevocable commitments	15,830	-
Guarantees and other commitments in foreign currency	116,334	103,059
Derivatives	468,717	234,622
Other off-balance sheet assets	16,051,710	18,370,081
Written-off financial assets	1,799,648	1,891,693
Total:	**20,940,834**	**22,689,389**

Guarantees and other commitments are presented in table below:

	31.12.2023.	31.12.2022.
Payment guarantees	815,669	852,478
Performace guarantees	767,124	718,868
Total:	**1,582,793**	**1,571,346**

Irrevocable commitments for undisbursed loans and investments in amount of RSD 871,820 thousand (31.12.2022: RSD 484,562 thousand), mostly consist of commitments for undisbursed loans in with foreign currency clause in the amount of RSD 654,838 thousand (31.12.2022.: RSD 355,495 thousand).

Other off-balance sheet assets consist of:

	31.12.2023.	31.12.2022.
Received residential properties as collateral in favor of the Bank	4,311,316	4,779,055
Received commercial real estate as collateral in favor of the Bank	6,182,290	7,726,777
Documented Government Securities in the Bank's Portfolio - nominal value of bonds	3,410,480	3,410,480

Structure of written-off receivables is as follows:

	31.12.2023.	31.12.2022.
Corporate	459,918	452,156
Entrepreneurs	175,752	186,846
Retail	1,163,978	1,252,691
Total:	**1,799,648**	**1,891,693**

All amounts are expressed in thousands of RSD unless otherwise stated

32. EQUITY

Within the item of equity, the Bank presents share capital, issue premium, accumulated loss, profit reserves, other reserves and revaluation reserves.

On 13 April 2023, the sale of shares was carried out based on the Agreement on the sale of shares outside the regulated market between former shareholders and Alexander Shnaider, which made Aleksander Shnaider the owner of 100% of the value of the shares and the sole shareholder of the Bank.

On 28 December 2023 Shareholders' General Assembly has passed decision to partially cover loss in the amount of RSD 5,586,365 thousand. Previous years loss has been covered from reserves from profit in the amount of RSD 103,228 thousand, from share premium in the amount of RSD 2,877,487 thousand and from share capital in the amount of RSD 2,605,650 thousand. After loss coverage, remaining loss from previous years is RSD 56 thousand.

Share capital consists of 11,343,217 ordinary shares which had individual value of RSD 500.00 as of 31 December 2022. On 31 December 2023, after coverage of loss from previous years share capital amounts to RSD 3,065,958 thousand and consists of 11,343,217 ordinary shares with individual value of RSD 270.29.

	31 December 2023	31 December 2022
Share capital - ordinary shares	3,065,958	5,671,608
Share premium	-	2,877,487
Profit for the current year	623,389	18,133
Loss of previous years	(56)	(5,604,554)
Profit reserves	-	103,228
Other reserves	48,445	48,445
Revaluation reserves	(85,501)	(282,902)
Total	**3,661,235**	**2,831,445**

Other reserves relate to special reserves from profit for estimated losses on balance sheet assets in the amount of RSD 38,782 thousand and off-balance sheet items in the amount of RSD 9,663 thousand which were formed in the earlier period.

Negative revaluation reserves in the amount of RSD 85,501 thousand (31 December 2022: RSD 282,902 thousand) were generated by negative effect of change in fair value from financial assets in the amount of RSD 455,328 thousand (31 December 2022: RSD 694,687 thousand). Also, within the revaluation reserves are shown reserves from change in value of fixed assets in the amount of RSD 313,748 thousand (31 December 2022: RSD 319,890 thousand), loss from calculation of deferred tax for increase in value of fixed assets through revaluation reserves in the amount of RSD 9,098 thousand (31 December 2022: RSD 9,098 thousand), actuarial loss in the amount of RSD 4,119 thousand (31 December 2022: RSD 4,188 thousand), and gain from calculation of deferred tax for the fair value of property in the amount of RSD 69,296 thousand (31 December 2022: RSD 105,181 thousand).

All amounts are expressed in thousands of RSD unless otherwise stated

32. EQUITY (continued)

Ownership structure is presented below:

	31 December 2023		31 December 2022	
	Share capital	**% of equity**	**Share capital**	**% of equity**
Igor Vladimirovich Kim	-	-	4,097,772	72.25
German Alekseevich Tsoy	-	-	1,012,914	17.86
Kirill Vladimirovich Nifontov	-	-	180,357	3.18
Morelam OOO	-	-	156,536	2.76
Expobank LLC	-	-	86,775	1.53
John MC Naughton	-	-	79,403	1.40
Ernst Voldemarovich Bekker	-	-	28,358	0.50
Borislav Strugarević	-	-	28,358	0.50
Dmitriy Sergeevich Ganushkin	-	-	1,135	0.02
Alexander Shnaider	3,065,958	100.00	-	-
Total	**3,065,958**	**100.00**	**5,671,608**	**100.00**

33. COMPLIANCE WITH INDICATORS OF THE NATIONAL BANK OF SERBIA

The bank is obliged to conduct its operations in accordance with the provisions of the Law on Banks and other regulations of the National Bank of Serbia. According to the annual account for 2023, the Bank achieved the following indicators:

Business indicators	**Prescribed**	**Actual in 2023**
Equity	Min. EUR 10,000,000	27.148.720
Bank investments	Maks. 60%	35.63%
The sum of the Bank's large exposures, including:	Maks 400%	
- sum of large exposures to one person or group of related parties		95.14%
- sum of exposures to persons related to the Bank		95.14%
Average monthly liquidity ratio:		
- in the first month of the reporting period	Min. 1.00	3.84
- in the second month of the reporting period	Min. 1.00	4.12
- in the third month of the reporting period	Min. 1.00	4.33
Foreign exchange risk indicator	Max 20%	8.25%

As of 31 December 2023, the Bank had all indicators harmonized.

All amounts are expressed in thousands of RSD unless otherwise stated

34. RELATED PARTY TRANSACTIONS

	31 December 2023		31 December 2022	
Assets	**Bank shareholders**	**Other related parties**	**Bank shareholders**	**Other related parties**
Foreign currency accounts	-	-	13,997	-
Fee receivables on loans and deposits	-	5	1,190	5
Housing loans	-	4,512	-	5,429
Cash loans	-	5	-	282
Other loans	1	3	11	23
Deferred interest receivables calculated on the basis of loans, deposits and other placements	-	13	-	22
Total assets	**1**	**4,538**	**15,198**	**5,761**

Housing loans in the amount of RSD 4,512 thousand (31 December 2021: RSD 5,429 thousand) are loans given to employees who are considered related parties under the applicable Law on Banks. The approved loans were given on market terms.

	31 December 2023		31 December 2022	
	Bank shareholders	**Other related parties**	**Bank shareholders**	**Other related parties**
Liabilities				
Transaction deposits in dinars	-	2,261	5,305	4,348
Transaction deposits In foreign currency	270	18,948	5,516	193,656
Savings deposits and RSD	-	-	12,962	-
Savings deposits In foreign currency	-	21	65,877	14,112
Deposits based on loans in RSD	-	-	210	126
Other deposits	-	117,640	-	-
Accruals for liabilities	-	91	-	-
Other liabilities in foreign currency	-	3,736	-	-
Total liabilities	**270**	**142,697**	**89,870**	**212,242**

Revenues and expenses from related party relations were:

	31 December 2023		31 December 2022	
	Bank shareholders	**Other related parties**	**Bank shareholders**	**Other related parties**
Expenses				
Interest costs from deposits	-	694	1,365	175
Interest costs from loans in foreign currency	-	-	-	4,867
Interest costs from deposits in foreign currency	-	1,889	-	-
Fees costs and other expenses	16,294	-	1,570	726
Expenses from FX transactions	-	-	72,636	557
Total	**16,294**	**2,583**	**75,571**	**6,325**

All amounts are expressed in thousands of RSD unless otherwise stated

34. RELATED PARTY TRANSACTIONS (continued)

	31 December 2023		31 December 2022	
	Bank shareholders	Other related parties	Bank shareholders	Other related parties
Income				
Interest income for loans granted	2,274	255	-	852
Fees income	29	3,542	78	966
Other income	-	-	27	-
Income from FX transactions	25,010	-	25,874	130
Total	**27,313**	**3,797**	**25,979**	**1,948**

The above tables show balances of assets, liabilities on 31 December 2023 and income and expenses in 2023 incurred in transactions with the following other related parties: M Aleksandr Shnaider, Expobank LLC, Astra Premier LTD, Adriatic Bank ad Podgorica, members of Managing Board, as well as part of the Bank's management (Executive Board and members of other boards) .

As of 31 December 2023, the Bank granted the following loans to management and Directors:

	31 December 2022	31 December 2022
Credits to directors and management		
At the beginning of the year	14,466	16,189
Impairment due to changes in management	(578)	-
Loans approved during the year	-	800
Repayments during the year and revaluation of placements	(2,396)	(2,523)
Interest income	675	475
Interest charged	(675)	(475)
At the end of the year	**11,492**	**14,466**

During 2023, in accordance with the Methodology for calculating the impairment, impairment in the amount of RSD 10 thousand (2022: RSD 33 thousand) has been allocated for these loans.

Management earnings

During 2023, members of the Executive Board and other key management personnel earned gross earnings in the amount of RSD 165,885 thousand (2022: RSD 95,556 thousand).

During 2023, members of the Management Board and Audit Committee received gross compensation in the amount of RSD 18,901 thousand (2022: RSD 9,553 thousand).

All amounts are expressed in thousands of RSD unless otherwise stated

35. RECONCILIATION OF RECEIVABLES AND LIABILITIES

The provisions of Article 22 of the Law on Accounting prescribe the obligation to reconcile mutual claims and obligations with customers. Reconciliation is performed at least once a year, before preparing financial statements. In accordance with the Bank's internal procedures, 31 October of the current year is set as the date for reconciling receivables and liabilities with customers.

As of 31 October 2023, there were no materially significant disputed liabilities and receivables. The Bank sent 2,199 IOS to legal entities, 1,301 IOS to Entrepreneurship, 23 banks and financial institutions and 44 non-residents, to confirm the Bank's claims and liabilities. The effect of sending is as follows:

	Number of sent IOS's	Receivable	Liability
Total sent receivables/liabilities:	3,567	13,875,484	5,586,746
Confirmed	365	6,422,247	1,300,533
Not returned/moved/unknown address	3,197	7,453,187	4,286,103
Disputed	5	50	110

36. FOREIGN CURRENCY EXCHANGE RATE

The exchange rates of the most significant currencies used in the conversion of balance sheet items include:

	31 December 2023	31 December 2022
EUR	117.1737	117.3224
USD	105.8671	110.1515
CHF	125.5343	119.2543
RUB	1.1764	1.5292

37. EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the reporting period that would require disclosure in the notes to the financial statements of the Bank for the year 2023.

Signed on behalf of Adriatic Bank A.D. Beograd:

ADRIATIC BANK A.D. BEOGRAD
ADRIATIC BANK
1

Marko Ćorić
Financial Control Manager

Đorđe Lukić
Chairman of the Executive Board

Adriatic Bank A.D. Beograd
Annual report
2023

March 2024

CONTENT

1. ABOUT US

1.1 Bank's ID

1.	Business name:	**Adriatic Bank A.D. Beograd**
2.	Seat and address:	**Beograd, Dalmatinska 22**
3.	Registration number:	**07534183**
4.	TIN:	**100003148**
5.	Web-site:	**https://www.adriaticbank.rs/index.php/sr/**
6.	e-mail:	**office@expobank.rs**
7.	No. and date of Decision of registering in the register of business entities:	**BD 498 of 14.02.2005**
8.	Activity:	**6419 – Other monetary intermediaries**
9.	Number of employees:	**143**
10.	Number of shareholders:	**1 shareholder**
11.	Place of insight into the Shareholder Register:	**Central Securities, Depository and Clearing**
12.	Code of activity:	**House of the Republic of Serbia, www.crhov.rs**
13.	Social networks:	
14.	Auditor for 202:	MOORE

ADDRESS BY THE CHAIRMAN OF THE EXECUTIVE BOARD

Dear,

In 2023, Adriatic Bank underwent a transformation that led to impressive business success. The change in ownership structure not only marked a new era in our history but also sparked a series of innovations that have enhanced our operations. Together, we have exceeded expectations and strengthened our market position.

Our commitment to personalized services was shaped by a successful rebranding in August, symbolizing our new business philosophy. The investment in Skyline, a prestigious business space, highlighted our commitment to innovation and excellence, creating an environment that inspires our employees and fosters exceptional service for our clients and partners.

The past year witnessed our efficiency, adaptability, and innovation, with significant progress in digitization and process automation. The modernization of key systems and intensive work on information security confirmed our commitment to maintaining high standards and responding to digital challenges. We focused on our employees, our most valuable resource, investing in their development and creating a stimulating work environment. This strengthened our corporate culture and unity, key to achieving our goals.

We are grateful to everyone who contributed to our success this year. Your support and dedication are the foundation of our progress.

With optimism, we look to the future, ready to embrace new opportunities, continuing to innovate and improve our services to exceed the expectations of our clients and partners.

Sincerely,

Đorđe Lukić

President of the Executive Board

1.2 Adriatic Bank timeline

December 1990

Founded as Centrobanka a.d. Belgrade, for 15 years we have operated as a local commercial bank for small and medium enterprises and individuals

February 2006

Laiki Popular Bank Public Co Ltd (Cyprus) acquired 90.4% of Centrobanka a.d. Belgrade and changed its name to Laiki Bank

March 2008

Bank changed its name to Marfin Bank Joint-Stock Company Beograd

February 2017

Expobank CZ has acquired 100% of the shares of the Bank and has become the sole shareholder

April 2023

The Bank has sold 100% of its shares. On September 1st, it was renamed Adriatic Bank a.d

1.3 Ownership structure of the Bank

The ownership structure is presented in the table below:

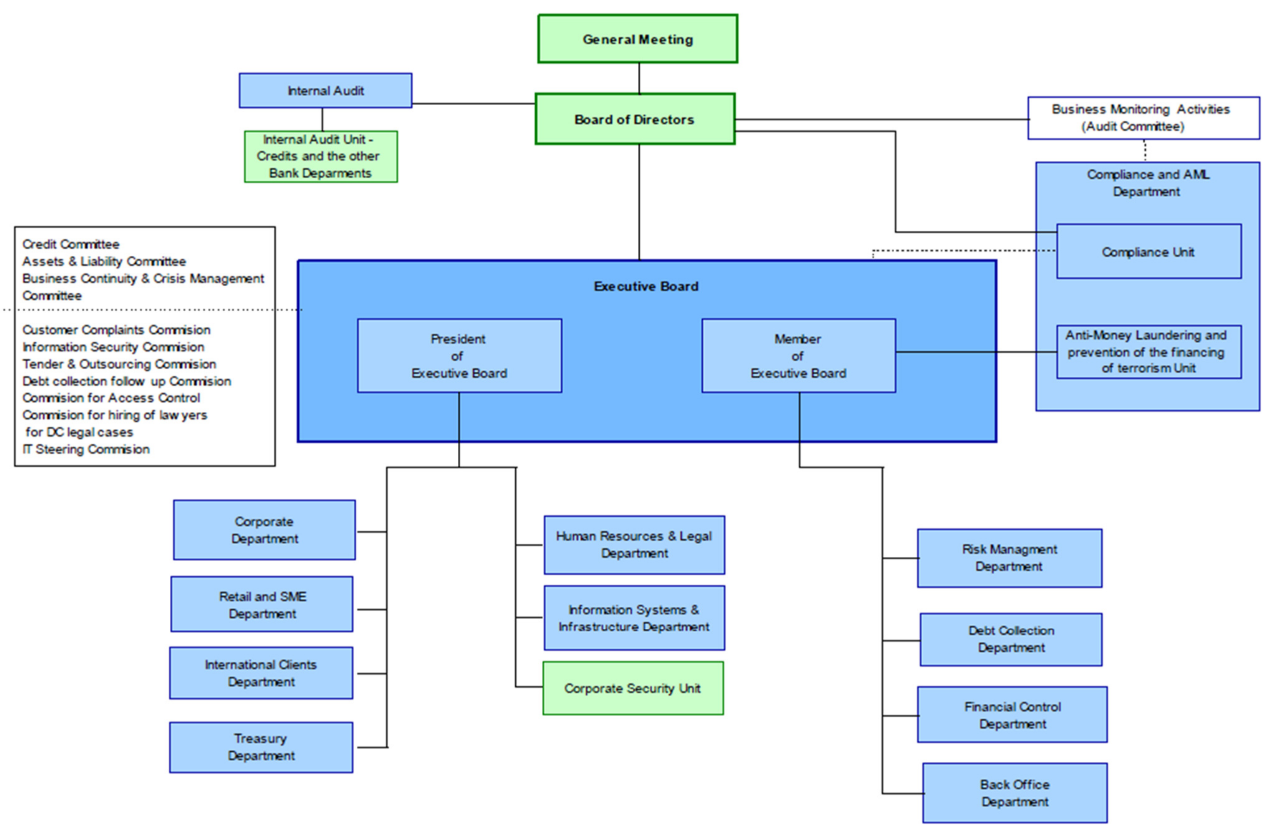
No.	Shareholder	Number of shares	% of ownership
1	SHNAIDER ALEXANDER	11,343,217	100%
	Total	**11,343,217**	**100%**

** data as of 13. december 2023.*

Value of share capital (in thousands of dinars):	3,065,958
Number of issued shares (ordinary and preference shares, with ISIN number and CFI code):	Ordinary shares: ISIN:RSCEBAE31481 CFI:ESVUFR, 11,343,217 shares
Business name, registered office and business address of the auditing company that audited the last financial report:	MOORE STEPHENS Revizija i računovodstvo d.o.o. Beograd, Studentski trg 4/V, 11070 Beograd, Srbija

1.4 Organizational structure of the Bank

Organization Structure Adriatic Bank JSC Belgrade



By changing the ownership structure in April 2023 and appointing new management structures in May, the Bank's business policy is also changing, focusing on the development and diversification of commercial activities. For this purpose, from one sector that encompassed business with individuals and legal entities, three separate sectors have been differentiated, focusing on different market segments:

• Sector for business with the economy

• Sector for business with individuals and small & medium-sized enterprises

• Sector for services to international clients.

An imperative in the functioning of the aforementioned organizational units, in addition to servicing certain categories of clients, is also mutual cooperation to intensify the so-called "cross-selling" and achieve synergy among all sales centers.

Banking experts have been recruited to key positions in all three organizational units with the task of developing client portfolios and further developing teams.

Significant personnel changes have occurred in the risk management and support sectors (Back Office), with professionals with relevant experience being engaged in managerial positions.

2. CORPORATE GOVERNANCE

Corporate governance is organized through the activities of the Supervisory, Executive, Credit, and other committees defined by the Law on Banks and the Bank's Statute.

All relevant provisions of the Law on Banks and internal regulations defining the composition and operation of the Supervisory and Executive Board are fully implemented.

The Bank's operations are also supported by other committees:

1. Asset and Liability Management Committee (ALCO Committee)
2. Bank Business Monitoring Committee (Audit Committee)
3. Credit Committee
4. Crisis Management and Business Continuity Committee.

In addition to the above-mentioned committees, the Executive Board has established Commissions to support the performance of its duties prescribed by the Law on Banks, the purpose, composition, scope of work, and manner of work of which are regulated by internal regulations.

2.1_Supervisory Bord

The Supervisory Board of the Bank consists of five members, including the Chairman of the Supervisory Board, of whom three members are individuals independent of the Bank:

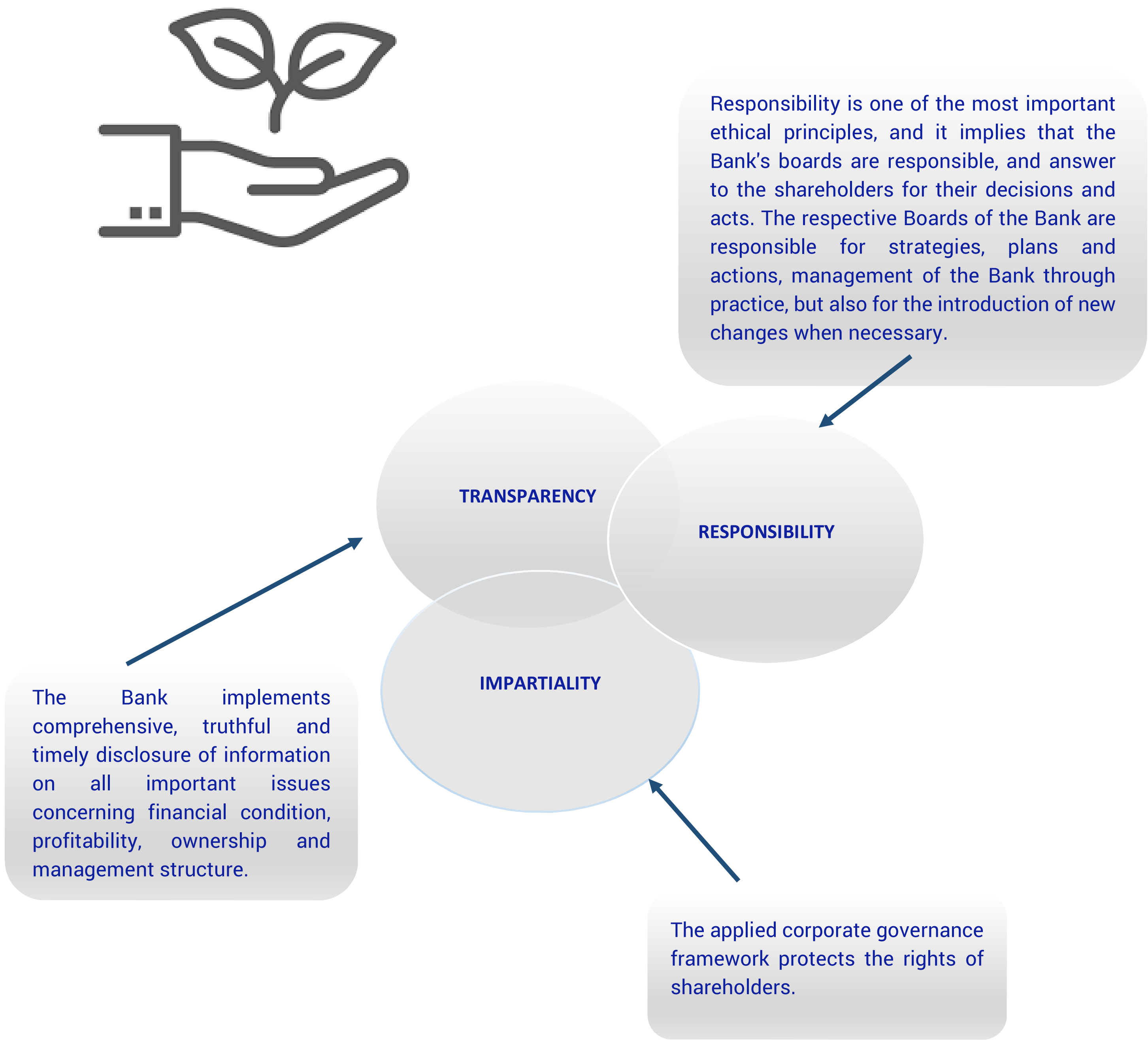
1	Name, surname and place of residence:	Wolfgang Mitterberger
Education:		Master of Business Administration, Master of Social and Economic Sciences
Current employment (company's business name and position):		Member of the board of Adriatic Bank AD Podgorica; Managing Director in companies: MERU Holding GmbH Vienna, MERU KaW Projektentwicklungs GmbH Vienna, MERU Velden Hills Projektentwicklungs GmbH Vienna, MERU Real Prime Service GmbH Vienna
Number and percentage of shares possessed in the joint stock company:		There is no share capital in the company
2	Name, surname and place of residence:	Fraser Eliot Marcus, US
Education:		Bachelor - English Language and Mathematics
Current employment (company's business name and position):		Global director at Ormonde Capital Partners London and Dallas, board member of Adriatic Bank AD Podgorica and Adriatic LLC Capital Management Dallas
Number and percentage of shares possessed in the joint stock company:		There is no share capital in the company
3	Name, surname and place of residence:	Bassem Snaije, France
Education:		Master of economy
Current employment (company's business name and position):		SciencesPo – Paris University, Associate Professor of Economics, Finance and Geopolitics
Number and percentage of shares possessed in the joint stock company:		There is no share capital in the company
4	Name, surname and place of residence:	Milovan Popović,Serbia
Education:		Master of economy
Current employment (company's business name and position):		Auditing company "BDO" d.o.o. Belgrade, member and representative
Number and percentage of shares possessed in the joint stock company:		There is no share capital in the company
5	Name, surname and place of residence:	Dragiša Lekić, Serbia
Education:		Bachelor of Economics
Current employment (company's business name and position):		/
Number and percentage of shares possessed in the joint stock company:		There is no share capital in the company

2.2 Executive Bord

The Executive Board of the Bank consists of two members, including the President of the Executive Board:

1	Name, surname and place of residence:	Đorđe Lukić, Serbia
Education:		Bachelor of Economics
Current employment (company's business name and position):		Adriatic Bank AD Beograd, CEO
Number and percentage of shares possessed in the joint stock company:		There is no share capital in the company
2	Name, surname and place of residence:	Nemanja Marković, Serbia
Education:		Bachelor of Economics
Current employment (company's business name and position):		Adriatic Bank AD Beograd, Member of executive board
Number and percentage of shares possessed in the joint stock company:		There is no share capital in the company

2.3 Corporate governance principles



3. MACROECONOMIC ENVIRONMENT

The economic achievements of the Republic of Serbia in 2023 reflect resilience and dynamism in facing global challenges. A stable credit rating of BB+, with stable outlooks from international rating agencies, clearly demonstrates the reliability of economic policy and management, confirming confidence in Serbia's ability to maintain stability and growth.

The growth of gross domestic product (GDP) by 2.5%, reaching a value of 7.097 billion dinars, is an example of the country's economic vitality. Additionally, the reduction of the current account deficit to 1.0 billion euros, representing a significant improvement compared to the previous year, highlights the effectiveness in resource management and financial discipline crucial for long-term economic stability.

Despite being a global economic challenge, inflation in Serbia has remained at a controlled level of 8.0% at the end of November, thanks to the thoughtful measures of the National Bank of Serbia. The decision to increase the key policy rate to 6.5% demonstrates determination in preserving the value of the national currency and economic stability, ensuring a favorable environment for investment and savings.

The labor market shows strong resilience, with unemployment steadily maintained at 9.0% in the third quarter. This indicator, along with an employment rate of 50.7%, indicates that the employment sector remains robust and adaptive, even in changing economic conditions.

Serbia's foreign trade balance shows positive trends, with export growth of 4.5% and a decline in imports of 5.8%, improving the import-export coverage to 78.7%. This indicates successful positioning of Serbian products and services in the international market, as well as the strong adaptability and competitiveness of the domestic economy.

Overall, the economic indicators and measures taken by the National Bank of Serbia and the government indicate a solid foundation for maintaining economic stability and supporting continuous growth. Serbia successfully faces global challenges, maintaining a stable economic course and confirming its ability to adapt and progress. This approach promises not only to preserve existing economic strength but also to open up new opportunities for development and prosperity in the future.

4. STRATEGY

Adriatic Bank's strategy for the period 2024-2026 is focused on strengthening its market position and improving business results, relying on building strong relationships with clients. With the aim of meeting and exceeding client expectations, the bank is dedicated to providing services of the highest quality and launching innovative products tailored to the specific requirements of its clients. This strategy aims to lay the groundwork for gaining a competitive advantage by combining high-quality services with a personalized approach to enhance client satisfaction and ensure long-term collaboration.

The main strategic objectives include:

1. **Support for small and medium-sized enterprises (SMEs):** Intensifying collaboration by providing specialized products and services, with a focus on agility and adaptability of banking solutions to the needs of these enterprises, aiming to expand the client base through effective marketing initiatives and continuous improvement of service quality.

2. **Innovative services for corporate employees**: Developing financial solutions for employees in the corporate sector, further strengthening relationships with corporate clients and providing comprehensive support in managing their finances.

3. **Development of private banking:** The goal is to provide high-quality personalized services to clients with high financial standards, stimulating deposit and investment growth and enriching the bank's financial portfolio.

4. **Technological innovation and process modernization**: Through significant investments in technology and process efficiency, including the modernization of branches and digital payment services such as mobile banking applications, Google Pay, and Apple Pay, the bank aims to improve operational efficiency and client experience.

5. **Risk and asset quality management:** Implementing an integrated approach to risk management with a focus on the credit portfolio and non-performing assets, aiming to maintain and gradually reduce the share of non-performing assets in line with regulatory frameworks and improve financial stability.

5. FINANCIAL RESULT

5.1 Balance Sheet as of December 31, 2023

(in thousands of dinars)

	31.dec.23	Percentage	31.dec.22	Percentage
ASSETS				
Cash and balances with Central Bank	6,661,193	28.38%	2,156,085	13.69%
Securities	3,981,530	17.0%	3,660,279	23.2%
Loans and receivables from banks and others financial organizations	4,925,362	21.0%	1,542,099	9.8%
Loans and receivables from customers	6,273,298	26.7%	6,960,059	44.2%
Intangible assets	80,716	0.3%	46,764	0.3%
Property, plant and equipment	865,015	3.7%	389,079	2.5%
Investment property	268,009	1.1%	268,786	1.7%
Deferred tax assets	77,459	0.3%	121,164	0.8%
Other assets	337,058	1.4%	608,851	3.9%
TOTAL ASSETS	**23,469,640**	**100.0%**	**15,753,166**	**100.0%**
LIABILITIES AND EQUITY				
Deposits and other liabilities due to banks, other financial institutions and Central Bank	294,385	1.25%	258,109	1.64%
Deposits and other financial liabilities due to customers	18,688,383	79.63%	12,316,984	78.19%
Provisions	203,927	0.87%	1,583	0.01%
Other liabilities	62,171	0.26%	188,328	1.20%
TOTAL LIABILITIES	**19,808,405**	**84%**	**12,921,721**	**82%**
EQUITY				
Share capital	3,065,958	13.06%	8,549,095	54.27%
Profit for the period	632,389	2.69%	18,133	0.12%
Previous years losses	-56	0.00%	-5,604,554	-35.58%
Reserves /(unrealised loss)	-37,056	-0.16%	-131,229	-0.83%
TOTAL CAPITAL	**3,661,235**	**16%**	**2,831,445**	**18%**
TOTAL LIABILITIES AND EQUITY	**23,469,640**	**100%**	**15,753,166**	**100%**

** All amounts are expressed in 000 RSD unless otherwise indicated*

ASSETS

During 2023, the balance sheet total assets increased by 49%. The most significant changes in the Bank's assets in 2023 compared to 2022 relate to: a significant increase in loans and receivables from banks and other financial institutions by 219.39% (RSD 3,383,263 thousand), a decrease in exposure to clients by 9.9% (RSD 686,761 thousand), and an increase in property, plant, and equipment by 122.3% (RSD 475,936 thousand).

The following table shows changes in loans and receivables from clients by sector:

SECTOR	31.12.2023	%	31.12.2022	%
Corporate	4,603,442	73.38%	4,873,953	70.03%
Entrepreneurs	121,295	1.93%	237,543	3.41%
Retail	1,519,543	24.22%	1,702,025	24.45%
Non residents	20,027	0.32%	19,312	0.28%
Other	8,991	0.14%	127,226	1.83%
Ukupno:	**6,273,298**	**100%**	**6,960,059**	**100%**

In 2023, compared to the previous year, there was a decrease in exposure to all listed sectors. The largest percentage decrease of 92.93% is related to other sectors, but the largest impact on the bank's assets was the reduction in receivables from companies by 5.55% (RSD 270,511 thousand). Loans to individuals decreased by 10.72% (RSD 182,482 thousand). As a result of these reductions, the share of exposure to individuals decreased by 0.23%, while the share of exposure to companies increased by 3.35%.

Loans granted to individuals were mostly long-term loans with a maturity period of over one year in dinars, with annual interest rates ranging from 10.98% to 14.5%. The average interest rate for newly approved housing loans in December was 8.61%.

Within the newly approved loans to companies, the largest share was held by long-term investment loans with a currency clause, with an average interest rate in December of 8.28%, as well as long-term working capital loans in RSD with an average interest rate in December of 10.42%.

The increase in the position of loans and receivables from banks and other financial institutions in 2023 was mainly due to an increase in repo transactions with the National Bank of Serbia, which amounted to 2 billion dinars as of December 31, 2023.

The increase in the position of Real Estate, Plant, and Equipment is largely the result of the rebranding of the bank and the new business premises, Skyline (lease of space and equipment).

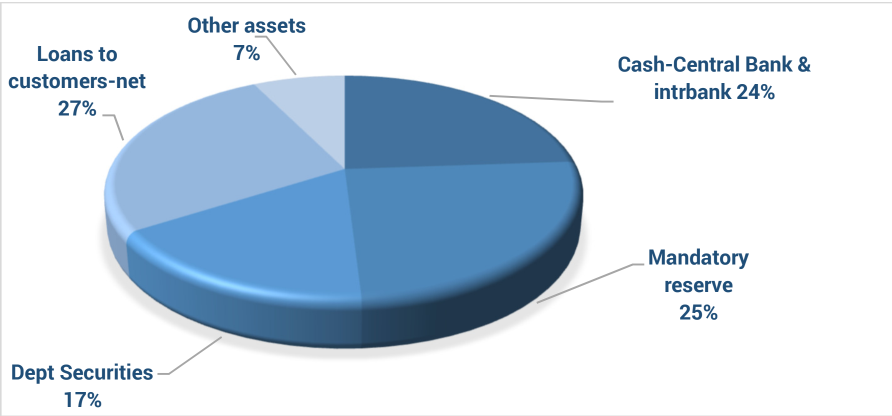
LIABILITES

The changes in the Bank's liabilities mainly relate to an increase in customer deposits by 51.7%, as well as a significant increase in other liabilities by 230.1% (RSD 433,382 thousand). The amount reserved has increased by 28.8% (RSD 45,627 thousand), largely due to provisions for short-term employee benefits. Similar to other banks in the market, the Bank is subject to various legal disputes regarding certain fees in loan agreements. For such cases, the Bank has created a provision (included in the above amount) of RSD 46,512 thousand. It is currently not possible to accurately determine the outcome of all these lawsuits. The Bank's management estimates that there will be no material losses arising from the outcome of ongoing legal disputes, above the amount for which provisions have been made.

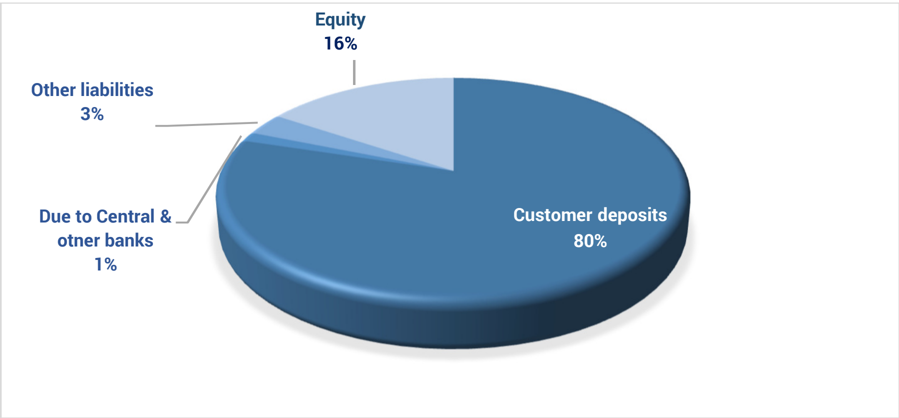
In the structure of customer deposits, deposits from individuals account for 60.9%, while 39.1% of deposits are from companies. Individuals mainly placed deposits for a period of up to one year in foreign currency. The average rate on new deposits maturing up to one year in foreign currency in December was 3.14%.

Company deposits mostly consist of demand deposits in dinars. Companies mostly placed deposits for a period of up to one year. The average interest rate on newly placed dinar deposits up to one year in December was 3.69%.

Asset structure (%)



Liabilities structure (%)



5.2 Income statement for the year ended December 31, 2023

(in thousands of dinars)

	31.dec.23	31.dec.22
Interest income	824,341	595,545
Interest expenses	-215,800	-164,730
Net interest income	**608,541**	**430,815**
Fee and commission income	801,248	523,104
Fee and commission expense	-35,749	-26,272
Net fee and commission income	**765,499**	**496,832**
Net gain on derecognition of financial instruments at fair value	-	5,565
Net foreign exchange gains/(loss) and currency clause effects	369,931	-38,411
Net loss from impairment of financial assets that are not valued at fair value through profit and loss	-18,564	-69,412
Net gain on derecognition of financial instruments valued at amortized cost	-	101
Net gains from derecognition of investments in associated undertakings and joint ventures	429	-
Other operating income	17,013	29,462
TOTAL NET OPERATING INCOME	**1,742,849**	**854,952**
Salaries, compensations and other personal expenses	-509,190	-359,316
Depreciation expenses	-100,404	-69,243
Other income	77,460	56,311
Other expenses	-570,506	-472,861
PROFIT BEFORE TAX	**640,209**	**9,843**
Deferred tax gain	-	8,290
Deferred tax loss	-7,820	-
PROFIT AFTER TAX	**632,389**	**18,133**

- *All amounts are expressed in 000 RSD unless otherwise indicated*

During 2023, there was an increase in net interest income by 41.3%. Interest income increased by 38.4%, mainly as a result of the growth in income due to increased interest rates on loans during 2023, which were influenced by the increase in reference interest rates and interest on RS bonds, as well as deposits placed with other banks. The bank generated income from interest on bonds purchased from the RS in the amount of RSD 238,817 thousand, accounting for 28.9% of total interest income (2022: RSD 178,528 thousand or 29.98%).

Interest expenses increased by 31% in 2023, mainly due to an increase in interest expenses on deposits from companies, as well as on operations with banks and the Ministry of Finance.

Net fee and commission income amounted to RSD 765,499 thousand, marking an increase of 54.1% compared to 2022. The majority of fee income was generated from banking services related to currency exchange operations, totaling RSD 333,008 thousand (2022: RSD 196,195 thousand), and fees for currency exchange transactions amounted to RSD 311,469 thousand (2022: RSD 185,363 thousand), accounting for 94.5% of total fee income. Significant revenues were also generated from fees for banking services provided to other companies, such as guarantees and letters of intent, which amounted to RSD 29,314 thousand by the end of the year (2022: RSD 29,132 thousand). Fee income from payment services increased by 15.58% compared to 2022, primarily driven by fees from foreign currency payment transactions, totaling RSD 24,079 thousand (2022: RSD 16,524 thousand). A significant income from exchange rate differences and effects of contracted currency clauses amounted to RSD 36,931 thousand, compared to a loss of RSD 38,411 thousand in 2022.

In line with the cautious and conservative credit risk management policy, adjustments were made for all potential credit losses based on known and predictable risks. This year, the bank incurred expenses related to the impairment of financial assets and credit-risk-related off-balance sheet items amounting to RSD 18,564 thousand, which is lower compared to 2022 when the net expense amounted to RSD 69,412 thousand.

In the section of Other Operating Income, rental income has increased, amounting to RSD 16,888 thousand this year, compared to RSD 14,975 thousand in 2022. The bank did not generate income from the sale of assets acquired through the collection of receivables this year, unlike in 2022 when income of RSD 14,360 thousand was generated.

Other income increased by RSD 21,149 thousand compared to the previous year, i.e., by 37.6%. The main reason for the increase is a higher amount of unused provisions for legal disputes amounting to RSD 58,992 thousand (2022: RSD 37,883 thousand)

Other expenses increased by RSD 97,645 thousand, i.e., by 20.6%. The largest share in the increase in expenses is attributed to other expenses amounting to RSD 43,346 thousand

Rent costs amount to RSD 59,902 thousand (2022: RSD 22,555 thousand) and are expressed through the cost of leasing rights depreciation in the amount of RSD 37,293 thousand, interest in the amount of RSD 13,445 thousand, VAT costs in the amount of RSD 9,540 thousand, and positive exchange rate differences in the amount of RSD 376 thousand.

5.3 Business events after the reporting period

As of the date of this report, there have been no significant events after the end of the reporting period that would require separate disclosure in the attached financial statements of the Bank for the year 2023.

6. BUSINESS WITH CLIENTS

6.1 Corporate Department

During 2023, the Corporate Department directed its resources towards enhancing its market position by achieving growth in various areas of activity. This was accomplished by providing outstanding support and services to all our clients, employing innovative approaches to enhance business operations, processes, and product range. The Bank took additional steps to assist our clients in overcoming the economic challenges arising from the Russian-Ukrainian crisis, aiming to offer personalized services tailored to each partner's business needs, all aimed at fostering their business growth.

Special attention during this period was focused on intensifying collaboration with our existing clients and attracting new clients from sectors that have experienced growth or have high growth potential. Our mission was to expand the client base, including both large corporations and small and medium-sized enterprises. We continuously worked on building and strengthening long-term partnerships based on mutual respect and trust. One of the key aspects of our strategy was focused on improving pricing policies that match the level of risk, aiming to achieve satisfactory returns. Client satisfaction remains a fundamental indicator of the success of our partnerships.

For the 2024, the Corporate Department plans include further expanding the client base and improving collaboration with existing clients through continuous enhancement of products and services. Our focus will be on supporting and stimulating the growth of our clients' businesses, thus reaffirming our commitment to their success.

6.2 Retail and SME Department

During 2023, the Bank established a new organizational structure that encompasses the Retail and Small and Medium-sized Enterprises (SME) business sector. This Department is built on foundations of innovation and strategic planning, with clearly defined objectives and activities that include:

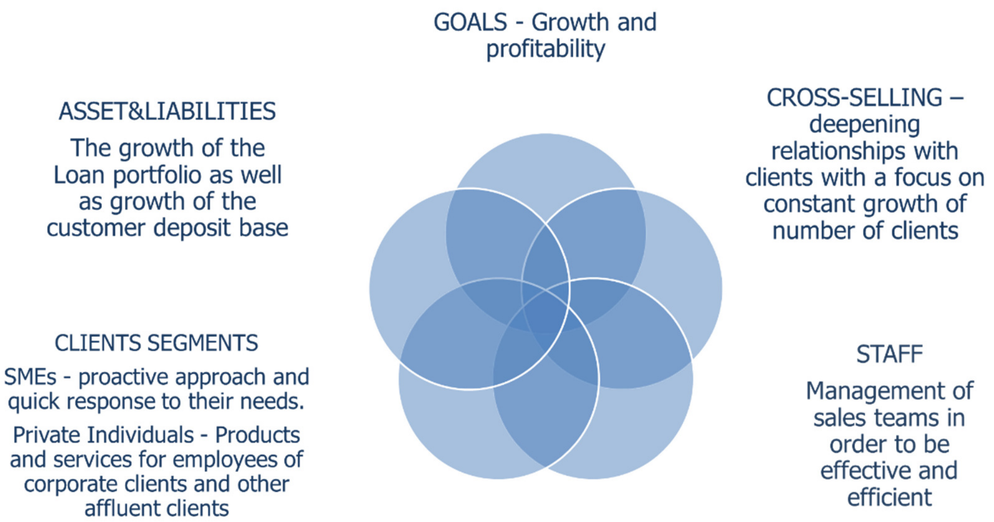
- Developing and implementing a business strategy focused on the SME segment and individual clients.
- Expanding and enhancing the branch network, as well as the professional development of employees within branches.
- Creating and executing business plans for sale of products and services, with efficient monitoring of the sales team and branch performance.
- Ensuring profitability and high-quality services for clients through regular branch meetings focusing on their performance, branch visits, and key client interactions.
- Initiating campaigns and special offers to encourage cross-selling and strengthen client loyalty.
- Managing human resources, including employee motivation, education, recruitment, as well as defining and managing employee goals in line with the Department's strategy.

The strategic goal of this Department is to position itself primarily in the SME segment, aiming to become the first choice for top-tier clients by offering a comprehensive set of products and services for successful business. Through a flexible, proactive approach and quick reactions, the Bank seeks to expand its client base, utilizing active marketing strategies and continuously improving the quality of its services.

Parallel to the development of the SME segment, the Bank has also defined strategies to enhance collaboration with individuals, modernizing its offerings to meet high-quality standards. The focus is on creating products and services that cater to the needs of employees in SMEs and corporate clients, facilitating cross-selling and strengthening loyalty. Through these efforts, the Bank is engaged in developing new products and optimizing existing processes and internal procedures.

The new organizational structure of the Department, which includes a network of branches and the sales team at the Bank's headquarters, is designed to support this dynamic business environment and ensure the Bank's recognition in the field of innovation and services in the banking sector

Objectives of Retail and SME Department:



6.3 International Clients Department

The International Clients Department at Adriatic Bank comprises a team of highly qualified professionals dedicated to providing exceptional services to both individual and corporate clients worldwide. At the heart of our service is the personal banker, a key figure who, in collaboration with teams across the entire Adriatic Group and your personal advisors, strives to offer you the very best our Bank can provide. At Adriatic Bank, we aim to create a unique synergy among our talented individuals, innovation, and a wide range of opportunities to support you in achieving your goals.

Clients are always our top priority. Your personal banker accompanies you every step of your financial journey – whether it's analyzing specific issues, providing insights into the broader picture of your finances, or assessing potential opportunities and risks. Our mission is to deeply understand your needs, build a relationship based on mutual trust and privacy, and together lay the foundation for a long-term strategy. Our imperative is to provide tailored advice, with a guarantee of quick and efficient response to all the changes life may bring you.

7. FINANCIAL RISK MANAGEMENT

7.1 Risk Management System

The Bank continuously identifies, assesses, monitors and controls risks in accordance with national and international banking and accounting regulations, ensuring an integrated, prudent and consistent risk management system. By its acts, the Bank's Managing Board has established an adequate risk management system and internal control system, which includes various corporate bodies and management committees: Managing Board, Executive Board, Audit Committee, Assets and Liabilities Management Committee (ALCO), Credit Committee.

The functioning of the system is regulated by policies and procedures adopted individually for each materially significant type of risk.

In accordance with the adopted strategic goals of the Bank's operations and the bases for their realization, the Bank has defined the goals for the needs of continuous risk management (credit, market, interest rate, currency, operating), as follows:

- ✓ Achieving and maintaining the status of a stable and reputable financial institution, specialising in supporting the population, small and medium enterprises,
- ✓ Maintaining the trust of its clients and ensuring the security and profitability of their investments,
- ✓ Providing assistance to clients in their business, development, business projects,
- ✓ Achieving stable growth,
- ✓ Strengthening its market position,
- ✓ Maintaining the stability of the Bank's financing sources,
- ✓ Ensuring liquid, economical and successful operations, in order to prevent any kind of instability

In order to improve the level of capital and improve the portfolio, the Bank focuses on:

- ✓ Change of the structure of assets by intensifying the collection of the non-performing loans and the sale of NPL portfolios,
- ✓ Focusing on lending to A and B category clients only
- ✓ Enhanced monitoring of lending activities

Sveobuhvatnosti i pouzdanost sistema upravljanja rizicima, kao i sklonost Banke ka rizicima, zasniva se na:

- ✓ Active participation of the Bank's Executive Board and Managing Board in the risk management process (the Executive Board and the Managing Board regularly review reports on the Bank's exposure to risks, as well as measures to manage and mitigate these risks; the Audit Committee versees the implementation and adequate enforcement of adopted risk management strategies and policies)
- ✓ Establishment and operation of the Bank's Credit Committee
- ✓ Establishment of the Bank's Assets and Liabilities Management Committee (ALCO)

- ✓ Adoption of the Business Continuity Plan (BCP) and the Disaster Recovery Plan (DRP)
- ✓ Adopted methodologies for risk identification and measurement
- ✓ Adopted measures to mitigate certain types of risks and rules for the application of these measures
- ✓ Established limit system
- ✓ Calculation and distribution of internal capital

The long-term goal of the Bank in risk management is to minimise the negative effects on the financial result and capital of the Bank due to exposure to all potential risks.

In accordance with its strategic and long-term commitment, the Bank has defined the following objectives regarding risk management:

- avoiding or minimising risks in order to maintain operations within acceptable risk levels, in accordance with the Bank's defined risk appetite;
- minimising risks within the acceptable level of the Bank's exposure in dinars with a currency clause and in foreign currency, both at the portfolio level and by type of exposure;
- minimising negative effects on the Bank's capital;
- maintaining the Bank's capital adequacy ratio at a level that covers all identified risks;
- increasing the share of exposure to companies with the aim of diversifying the portfolio of placements;
- increasing the source of financing in order to improve the structure and level of the deposit base;
- adequate placement management in order to timely identify potentially problematic placements;
- establishing an adequate system of prevention against misuse of the Bank for money laundering and terrorist financing, which would minimise the possibility of using the business relationship, transaction, service or products of the Bank for money laundering and terrorist financing, as well as raising employee awareness regarding this risk
- ensuring constant harmonisation of the Bank's operations with the law, regulations and internal acts, especially in the field of money laundering and terrorist financing, namely mutual harmonisation of the Bank's internal acts.
- ensuring the continuous development of IT support in order to adequately monitor and manage all risks.

In the long term, the Bank must maintain risks within the prescribed limits (each risk individually up to the level prescribed by law or up to the level of limits defined by the Bank's internal acts).

The basic principles of risk management are defined by the Risk Management Policy. Based on the Risk Management Strategy and the Risk Management Policy, the Bank's Executive Board adopts and implements risk management procedures that describe individual risk management processes.

Risk management policies and procedures prescribe the manner of organising the Bank's individual risk management process, methods and methodologies for identifying, measuring or assessing, mitigating and monitoring specific risks, as well as the principles of functioning of the internal control system.

7.2 Credit risk

The process of assessing and monitoring credit risk at the level of an individual client and a group of related persons is carried out in accordance with the adopted policies and procedures that establish the rules and criteria for approving new placements, defining the activities that are undertaken, as well as the obligations and responsibilities of the persons involved in the monitoring process.

The process of identification, assessment, measurement and management of credit risk is carried out on a continuous basis and includes the total portfolio of the bank that is subject to credit risk.

The methodology for impairment according to IFRS 9 was additionally improved in 2023 by applying new macroeconomic forecasting of the probability of default (PD) and updating the calculation of loss given default (LGD).

7.3 Liquidity and Interest Rate Risk

The liquidity risk management system is based on measures and criteria prescribed by the National Bank of Serbia and is focused on short-term and structural liquidity.

The Bank's liquidity risk management activities in 2023 were aimed at measuring, monitoring and reporting on projections of liquidity inflows and outflows, liquidity reserves in various scenarios of regular operations and potential liquidity crises, as well as monitoring and regular reporting to the bank's authorities and the ALCO board on the dynamics of regulatory liquidity indicators (liquidity indicator, narrower liquidity indicator, Liquidity Coverage Ratio - LCR), as well as other liquidity indicators according to the Bank's internal methodology. During 2023, all liquidity indicators, both regulatory and indicators defined by internal acts, related to liquidity risk management were aligned and above the prescribed limits.

The Bank's interest rate risk management system is based on the principles prescribed by the National Bank of Serbia with a focus on analysis, measurement, monitoring and reporting on interest rate risk from the banking book. In the course of 2023, all indicators of the Bank's exposure to interest rate risk were harmonized and within the limits of the defined the Bank's policies and procedures related to interest rate risk management.

7.4 FX Risk

In accordance with the Decision of the National Bank of Serbia on the adequacy of the bank's capital, the Bank is obliged to maintain the indicator of FX risk, as the ratio between the total net open FX position and the capital at the end of each working day, shall not exceed 20% of its capital. During the entire 2023, the Bank had a harmonized indicator of foreign exchange risk with the requirements of the National Bank of Serbia.

7.5 Operational risk

As a result of exposure to operational risks during 2023, the largest number of recorded events in the loss data base relates to lawsuits against the Bank in connection with the collection of a one-time loan processing fee. During 2023, the number of potential losses due to new and withdrawn lawsuits was significantly reduced.

During 2023, the bank continued to assess the operational risks that may arise when introducing new products and from activities entrusted to third parties, as well as assessment of the risk system and internal controls in the bank's key processes.

8. BANKING SUPPORT

8.1 Human Resources

Retail and SME Department will undergo its most significant transformation from an HR perspective in early 2024. In addition to the branch network and SME Department, it will receive not only logistical support but also experts in product development and alternative sales channels with an active role in the process. Furthermore, branches, as sales centers, will be dedicated exclusively to sales and client servicing, relieved of administrative tasks.

The premise of all personnel changes is the mobilization and further development of available human resources, with additional engagement of experts in cases where necessary.

Automation and digitization of business processes are prioritized to enhance efficiency and cost optimization, emphasizing the importance of selecting and developing versatile employees.

In the given circumstances, the greatest HR challenge during 2023 is undoubtedly the integration of different business cultures i.e. the development of a unified corporate culture at Adriatic Bank AD Belgrade and a sense of belonging to it, whose basic principles can be defined as goal-oriented, flexibility, teamwork and dedication to the Bank, which everyone perceives as their organization

Already initiated connections are supposed to evolve in different directions:

- ***A shift from the current vertical structure towards a flatter organizational one,*** should lead to professional growth , increased responsibility, higher engagement levels and better alignment with corporate objectives on an individual level, ultimately resulting in a a positive impact on employees' long-term engagement and commitment to the Bank.

- ***Mapping everyone's skills and fostering a conducive learning environment*** ensuring a flow of knowledge and its seamless dissemination. HR budget for 2024 allocates funds for both, technical and soft skill' development.
- ***Teamwork -*** by executing complex projects and solving complicated problems through collaboration among members from different organizational units. To enhance coordination and create a so-called buffer zone in case of unforeseen events, the position of project manager has been systematized. Their close collaboration with the HR and IT Departments aims to promote cooperation both within individual teams and among different teams whose members are often involved in multiple projects simultaneously, aligning them with their job descriptions. Collaboration has also been established with the HR agency Manpower, although out of 20 external recruitments in the second half of the year, 17 were conducted independently.

- ***Reward Policy -*** in 2024, its development is planned to be directly linked with the Performance Evaluation System, whose applicative solution already exists but whose functionality can yield results with intensive training of all participants, whose competence and objectivity condition its success.
- ***Additional benefits*** - starting from February 2024, employees will have access to free private health insurance, with the option to add family members at an additional cost. In addition to faster and easier access to better healthcare, the purpose of this benefit is to raise awareness about continuous care for both physical and mental health through regular preventive check-ups.
- ***Oragnized social gatherings outside working hours*** allow employees to get to know each other better on topics unrelated to work, making work itself more interesting and easier, especially in stressful situations. In November 2023, a corporate celebration was organized for all employees, providing them with the opportunity to informally socialize and get to know their new colleagues after a long period.

Taking into account the aforementioned, as well as the fact that human capital, along with technological, represents the backbone of development, during 2024, the Human Resources Department, which has been separated from the Legal Department, will have a dynamic and demanding agenda where the development and implementation of HR analytics, primarily measuring employee productivity through various tools, will be highly prioritized.

8.2 Rebranding of the Bank

Considering the needs of modern banking and providing VIP services, as well as the need to create a contemporary working environment for both its employees and clients, in September 2023, the Bank relocated the majority of its operations to a new, exclusive business-residential complex "Skyline" in Belgrade, at Kneza Miloša 88.

This is a business space covering over 1000 m2, designed and adapted on the principle of "open space," which provides users with the most optimal working conditions in line with the requirements and trends in office space furnishing and management.

With the change in ownership structure and business name, the Bank successfully implemented the "rebranding" project. Among other things, the project included branding of the business premises of administrative buildings and all branches, by installing new Bank signage within the interior and exterior.

The new brand and visual identity have already made the Bank recognizable to existing and new clients as a synonym for safe and modern banking and will continue to do so in the future.

In order to improve the quality and reliability of its services for clients, the Bank replaced existing ATMs with new and modern devices at all of its branch locations in Belgrade, Novi Sad, Niš, Čačak, and Šabac.

In order to enhance its market positioning and promotion, during Savings Week in November 2023, the Bank implemented a successful marketing campaign encompassing internet, billboard, and media - TV advertising. The reactions and effects of the campaign were extremely positive, with the general consensus that the campaign was well-received, creative, and effective, undoubtedly contributing significantly to the visibility and attractiveness of the Bank and its services, both within the target audience and overall within the banking sector of Serbia.

8.3 Research and Development

The development of the Bank is based on continuous improvement of product range and the implementation of new technologies. A key element of this process is market research, which serves as the basis for launching new products, along with constant monitoring of the development and application of new technologies in banking processes.

Additionally, the Bank is currently working on developing a new digital channel for mobile and web banking for individuals called "Digital Edge". This channel will allow customers easy access to their accounts and transactions via mobile devices and the internet, enhancing their experience in using banking services.

Furthermore, the Bank plans to implement Google Pay and Apple Pay, enabling customers to use their mobile devices for payments in a fast, secure, and convenient manner. These initiatives are part of a broader strategy of the Bank's digital transformation, aimed at providing modern and convenient solutions to its customers, in line with trends and standards in the banking industry.

8.4 Digitalisation

The efficiency, adaptability, and expertise of our IT Department were among the significant factors that contributed to the Bank's business success during 2023. Improvements in the organizational structure strengthened the foundations for progress in digitalization and automation of business processes, while adhering to standards.

Aligned with the overall bank strategy, the IT strategy maintains its focus on digital channels, the development of digital products, as well as the automation of both sales and post-sales processes.

The significant role of the IT Department particularly stood out in late August 2023, during the successful rebranding of the bank, which involved updating key systems and digital resources, including the CORE system, regulatory reports, applications, and the website. As part of the new business vision, a multi-year lease of one of the most modern business spaces – Skyline – was realized, where IT played a crucial role in ensuring a smooth transition and business process continuity.

In the field of information security, continuous improvement is being pursued, with a focus on employee education, data protection, and defense against cyber attacks, forming the basis for the protection of our systems. Investments in new tools, upgrades of existing systems, and specialized training, such as those for managing firewall devices, further contribute to strengthening our information security.

With plans for numerous projects aimed at further digitalization, the IT sector will play a key role in the Bank's transformation. In 2024, our goal is to focus on continuous improvements, more efficient process optimization, and expanded digitalization, all aimed at enhancing the experience and satisfaction of our clients.

8.5 Compliance

Maintaining compliance with legal and regulatory requirements is a fundamental obligation and integral part of the Bank's business strategy. This obligation extends through all levels and dimensions of our operations, including the Management and Executive Boards, as well as the leadership, which jointly play a key role in establishing and implementing efficient procedures and systems. The goal is to ensure complete compliance with regulatory frameworks, thereby ensuring the stability and integrity of our business.

The risk of non-compliance, which could adversely affect the Bank's financial results and capital, exists in various segments of our operations, particularly in operational areas. It has been identified as a risk of potential sanctions, financial losses, and damage to the Bank's reputation due to non-compliance with regulatory requirements, professional standards, good business practices, and ethical norms. To address these challenges, we have established a systematic and comprehensive approach to managing this risk, applying the highest level of attention and responsibility.

At the core of our compliance policy lies the principle that all Bank activities are conducted with integrity, transparency, and in accordance with the law. The leadership and governing bodies are dedicated to ensuring that each employee is informed about regulatory requirements relevant to their area of work and acts accordingly. This approach ensures the protection of both the Bank's interests and the interests and assets of our clients.

The compliance function, organized as a separate department within the Compliance and AML Department, is tailored to the size and specifics of our business. Compliance is ensured through a developed system of internal controls, in line with established policies, programs, and procedures, which clearly define authorities and responsibilities in risk control.

Our compliance function dynamically supports the operational segments of the Bank, continually adjusting its control mechanisms in line with business development and the Bank's strategy, thereby ensuring continuous protection and compliance at all levels.

8.6 Environmental Protection

The Bank, as a newcomer to the market, is firmly committed to establishing a new operational process system, implementing environmental protection measures in accordance with the regulations of the Republic of Serbia, and striving for the rational use of natural resources by undertaking additional activities for environmental preservation. In line with this, one of the first steps in 2023 is the relocation of the Bank to a new prestigious business space, the "Skyline AFI Tower," one of the few buildings in Serbia awarded the "Gold LEED Certificate," which is obtained for exceptional contribution to environmental sustainability, confirming our commitment to the highest global standards of green construction.

Preserving nature is crucial for the sustainability of our business and society as a whole, so we apply measures that reduce the negative impact on the environment, promoting efficient resource use and supporting initiatives for sustainable development. In accordance with these values, projects that could endanger the environment in the long term are not in line with the Bank's business policy. Following the established strategy, the Bank directs its efforts towards defining internal acts, initiatives, and projects that will enhance environmental protection and through which we strive for the development of innovative banking products that support various aspects of environmental protection.

Belgrade, March 2024

Signed on behalf of Adriatic Bank A.D. BEOGRAD

ADRIATIC BANK A.D. BEOGRAD
ADRIATIC BANK
1

Marko Ćorić
Financial Control Manager

Đorđe Lukić
Chairman of the Executive Board