AIK BANKA A.D. BELGRADE

Financial Statements
for the Year Ended 31 December 2023

and

Independent Auditors' Report

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

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS AND THE BOARD OF DIRECTORS OF AIK BANKA A.D. BELGRADE

Opinion

We have audited the financial statements of AIK BANKA A.D. BELGRADE (hereinafter: the "Bank"), which comprise the balance sheet as of 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 financial statements, including material accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards").

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the Annual Business Report for the year ended 31 December 2023, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS AND THE BOARD OF DIRECTORS
OF AIK BANKA A.D. BELGRADE (Continued)

Other Information (Continued)

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

- The information provided in the Annual Business Report for the year ended 31 December 2023, is consistent, in all material respects, with the financial statements of the Bank as of and for the year ended 31 December 2023;
- The Annual Business Report has been prepared in accordance with the provisions of the Law on Accounting; and
- The non-financial report of the Bank, which is an integral part of the Annual Business Report, has been prepared in accordance with the applicable legal provisions.

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS AND THE BOARD OF DIRECTORS
OF AIK BANKA A.D. BELGRADE (Continued)

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

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

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

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

Belgrade, 12 March 2024

Ksenija Ristic Kostic
Certified Auditor

Društvo za reviziju BDO d.o.o. Beograd

BALANCE SHEET
As of 31 December 2023
(In RSD thousand)

	Note	31 December 2023	31 December 2022
ASSETS			
Cash and balances with Central Bank	20	74,271,638	75,804,316
Pledged financial assets	21	20,420,056	-
Derivatives	22.1.	114,421	16,972
Securities	23	44,821,602	58,743,672
Loans and placements to banks and other financial institutions	24	68,141,375	31,476,485
Loans and placements to customers	25	227,387,789	231,928,931
Investments in subsidiaries	26.1.	150,064	150,064
Investments in joint ventures	26.2.	12,633,118	-
Intangible assets	27	417,590	567,259
Property, plant and equipment	28, 29	3,911,742	2,824,311
Investment property	30	1,733,280	2,179,371
Current tax assets	31.1.	2,220,054	2,280,879
Deferred tax assets	32	559,504	1,035,562
Non-current assets held for sale and discontinued operations		5,537	5,537
Other assets	33	1,909,462	5,343,915
TOTAL ASSETS		**458,697,232**	**412,357,274**
LIABILITIES AND EQUITY			
Derivatives	22.2.	21,556	7,900
Deposits and other liabilities due to banks, other financial institutions and Central Bank	34	18,905,515	16,789,031
Deposits and other liabilities due to customers	35	338,631,966	309,533,937
Provisions	36	833,553	1,310,203
Current tax liabilities	31.2.	-	4,168,535
Other liabilities	37	4,471,680	3,273,419
TOTAL LIABILITIES		**362,864,270**	**335,083,025**
EQUITY	38		
Share capital		35,987,974	27,195,730
Retained earnings		46,781,335	38,609,706
Reserves		13,063,653	11,468,813
TOTAL EQUITY		**95,832,962**	**77,274,249**
TOTAL LIABILITIES AND EQUITY		**458,697,232**	**412,357,274**

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

These financial statements were approved by the management of AIK Bank A.D. Belgrade on 11 March 2024.

Signed on behalf of AIK Banka A.D. Belgrade by:

AGROINDUSTRIJSKO KOMERCIJALNA BANKA AKCIONARSKO DRUŠTVO "AIK BANKA" BEOGRAD 2

Petar Jovanovic
Executive Board Chairperson

Andrija Vukovic
Executive Board Member

INCOME STATEMENT
For the Year Ended 31 December 2023
(In RSD thousand)

	Note	2023	2022
Interest income	7	24,215,283	9,784,317
Interest expenses	7	(9,639,636)	(2,423,896)
Net interest income	7	**14,575,647**	**7,360,421**
Fee and commission income	8	4,709,330	2,948,126
Fee and commission expenses	8	(1,299,295)	(1,087,605)
Net fee and commission income	8	**3,410,035**	**1,860,521**
Net gains from changes in fair value of financial instruments	9	453,005	37,595
Net gains from derecognition of financial instruments measured at fair value	10	7,693	22,085
Net foreign exchange (losses)/gains and effects of contracted foreign currency clause	11	(141,527)	98,096
Net (losses)/gains from impairment of financial asses not measured at fair value through profit or loss	12	(2,279,039)	405,271
Net gains from derecognition of financial instruments measured at amortised cost	13	123,231	12,511
Other operating income	14	524,351	521,856
Total operating income, net		**16,673,396**	**10,318,356**
Salaries, compensations and other personal expenses	15	(2,701,795)	(1,805,757)
Depreciation and amortisation expense	16	(980,850)	(573,108)
Other income	17	1,228,915	25,829,149
Other expenses	18	(5,213,982)	(3,331,181)
Profit before tax		**9,005,684**	**30,437,459**
Income taxes	19	(639,439)	(4,168,535)
Deferred tax expenses	19	(194,614)	(135,964)
Profit for the year		**8,171,631**	**26,132,960**

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

These financial statements were approved by the management of AIK Bank A.D. Belgrade on 11 March 2024.

Signed on behalf of AIK Banka A.D. Belgrade by:

Petar Jovanovic
Executive Board Chairperson

AGROINDUSTRIJSKO KOMERCIJALNA BANKA AKCIONARSKO DRUŠTVO "AIK BANKA" BEOGRAD 2

Andrija Vukovic
Executive Board Member

STATEMENT OF OTHER COMPREHENSIVE INCOME
For the Year Ended 31 December 2023
(In RSD thousand)

	Note	2023	2022
Profit for the year		**8,171,631**	**26,132,960**
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Actuarial losses	36, 38(iii)	(5,718)	(354)
(Negative)/positive effects of changes in fair value of equity instruments measured at fair value through other comprehensive income		(151)	245,294
Items that will or may be reclassified to profit or loss:			
Positive/(negative) effects of changes in fair value of debt instruments measured at fair value through other comprehensive income		1,882,153	(3,121,193)
Deferred tax (loss)/ gain related to items of other comprehensive income	32.2.	(281,444)	556,138
Other comprehensive income/(loss) for the year, net of tax		**1,594,840**	**(2,320,115)**
Total comprehensive income for the year		**9,766,471**	**23,812,845**

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

These financial statements were approved by the management of AIK Bank A.D. Belgrade on 11 March 2024.

Signed on behalf of AIK Banka A.D. Belgrade by:

Petar Jovanovic
Executive Board Chairperson

AGROINDUSTRIJSKO KOMERCIJALNA BANKA AKCIONARSKO DRUŠTVO "AIK BANKA" BEOGRAD 2

Andrija Vukovic
Executive Board Member

STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31 December 2023
(In RSD thousand)

	Share capital	Share premium	Reserves from profit and other reserves	Revaluation reserves	Retained earnings	Total
Balance as of 1 January 2022	**19,762,595**	**7,433,135**	**13,953,877**	**666,378**	**13,237,614**	**55,053,599**
Profit for the year	-	-	-	-	26,132,960	26,132,960
Transfer from reserves to retained earnings	-	-	-	(831,327)	831,327	-
Profit distribution – dividends paid	-	-	-	-	(1,592,195)	(1,592,195)
Other comprehensive income, net of tax	-	-	-	(2,320,115)	-	(2,320,115)
Balance as of 31 December 2022	**19,762,595**	**7,433,135**	**13,953,877**	**(2,485,064)**	**38,609,706**	**77,274,249**
Balance as of 1 January 2023	**19,762,595**	**7,433,135**	**13,953,877**	**(2,485,064)**	**38,609,706**	**77,274,249**
Transactions with owners directly credited to equity – increase in share capital	2,029,086	6,763,158	-	-	-	8,792,244
Profit for the year	-	-	-	-	8,171,631	8,171,631
Other	-	-	-	-	(2)	(2)
Other comprehensive income, net of tax	-	-	-	1,594,840	-	1,594,840
Balance as of 31 December 2023	**21,791,681**	**14,196,293**	**13,953,877**	**(890,224)**	**46,781,335**	**95,832,962**

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

These financial statements were approved by the management of AIK Bank A.D. Belgrade on 11 March 2024.

Signed on behalf of AIK Banka A.D. Belgrade by:

AGROINDUSTRIJSKO KOMERCIJALNA BANKA AKCIONARSKO DRUŠTVO "AIK BANKA" BEOGRAD 2

Petar Jovanovic
Executive Board Chairperson

Andrija Vukovic
Executive Board Member

STATEMENT OF CASH FLOWS
For the Year Ended 31 December 2022
(In RSD thousand)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from operating activities	**29,083,805**	**13,187,471**
Interest receipts	23,860,650	10,237,608
Fee and commission receipts	4,306,436	2,555,026
Receipts from other operating activities	841,919	312,158
Dividends received and profit sharing	74,800	82,679
Cash used in operating activities	**(15,769,602)**	**(7,843,738)**
Interest paid	(7,494,835)	(1,995,863)
Fee and commission paid	(1,281,324)	(962,747)
Salaries, compensations and other personal expenses	(2,831,443)	(1,812,920)
Taxes, contributions and other duties paid	(378,484)	(244,950)
Payments for other operating expenses	(3,783,516)	(2,827,258)
Net cash flows from operating activities before increase or decrease in financial assets and financial liabilities	**13,314,203**	**5,343,733**
Decrease in financial assets and increase in financial liabilities	**32,352,293**	**6,284,033**
Decrease in securities and other financial assets not held for investments	2,110,952	6,284,033
Increase in deposits and other liabilities due to banks, other financial institutions, Central Bank and customers	30,241,341	-
Increase in financial assets and decrease in financial liabilities	**(37,040,979)**	**(15,208,352)**
Increase in loans and placements to banks, other financial institutions, Central Bank and customers	(37,040,979)	(11,124,328)
Decrease in deposits and other liabilities due to banks, other financial institutions, Central Bank and customers	-	(4,084,024)
Net cash flows from/(used in) operating activities before income taxes	**8,625,517**	**(3,580,586)**
Income taxes paid	(4,841,675)	(1,114,478)
Dividends paid	(194)	(1,592,839)
Net cash flows from/(used) in operating activities	***3,783,648***	***(6,287,903)***
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash from investing activities	**21,679,435**	**18,466,630**
Proceeds from investments in investment securities	21,233,272	12,063,216
Proceeds from sale of intangible assets, property, plant and equipment	30,244	921,774
Proceeds from sale of investment property	412,201	3,362,404
Other inflows from investing activities	3,718	2,119,236
Cash used in investing activities	**(41,583,160)**	**(16,830,045)**
Purchases of investment securities	(6,373,654)	(4,515,984)
Investments in subsidiaries, associates and joint ventures	(33,053,174)	(10,938,483)
Purchases of intangible assets, property, plant and equipment	(2,156,332)	(1,295,550)
Purchases of investment property	-	(76,209)
Other outflows from investing activities	-	(3,819)
Net cash (used in)/from investing activities	***(19,903,725)***	***1,636,585***
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash from financing activities	**9,610,107**	**24,883,478**
Increase in capital	8,792,244	-
Proceeds from borrowings	817,863	4,371,412
Other inflows from financing activities	-	20,512,066
Cash used in financing activities	**(395,427)**	**(373,428)**
Other outflows from financing activities	(395,427)	(373,428)
Net cash from financing activities	***9,214,680***	***24,510,050***
TOTAL CASH INFLOWS	**92,725,640**	**62,821,612**
TOTAL CASH OUTFLOWS	**(99,631,037)**	**(42,962,880)**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(6,905,397)**	**19,858,732**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	**62,874,307**	**43,004,459**
FOREIGN EXCHANGE GAINS	495,109	397,622
FOREIGN EXCHANGE LOSSES	(558,988)	(386,506)
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 20)	**55,905,031**	**62,874,307**

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

These financial statements were approved by the management of AIK Bank A.D. Belgrade on 11 March 2024.

Signed on behalf of AIK Banka A.D. Belgrade by:

Petar Jovanovic
Executive Board Chairperson

AGROINDUSTRIJSKO KOMERCIJALNA BANKA AKCIONARSKO DRUŠTVO
AIK BANKA BEOGRAD 2

Andrija Vukovic
Executive Board Member

NOTES ON THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2023

1. CORPORATE INFORMATION

Agro-industrial Commercial Bank AIK Banka a.d. Belgrade (hereinafter: the "Bank") was established in accordance with the Articles of Association on 10 August 1993. The Bank harmonised its operations and organisational structure with the Law on Banks and Other Financial Organisations in 1995 and was registered with the Commercial Court of Nis as a shareholding company under Decision no. Fi 1291/95 dated 22 June 1995.

At its regular session held on 29 June 2015 the Bank's Shareholder Assembly enacted the Decision on Change of the Registered Seat of the Bank. The change was registered with the Serbian Business Registers Agency under Decision no. BD 57565/2015 dated 2 July 2015. Consequently, Agroindustrijsko komercijalna banka AIK Banka a.d. Nis changed its legal name to Agroindustrijsko komercijalna banka AIK Banka a.d. Belgrade.

As of 31 December 2023, the Bank's sole shareholder with 100% shares was the Broker-Dealer Company "M&V Investments" a.d. Belgrade (31 December 2022: M&V Investments a.d. Belgrade with 100% shares). More details on the shareholder's structure of the Bank are provided in Note 38.

The Bank is registered in the Republic of Serbia to provide banking services of payment transfers and lending and depositary operations performed domestically and abroad. As stipulated by the Law on Banks, the Bank is obligated to operate based on principles of liquidity, safety and profitability.

On 1 March 2022, the Bank acquired 100% of shares in Sberbank Srbija a.d. Belgrade and changed its name into Nasa AIK Banka a.d. Belgrade. In accordance with the Merger Agreement between the Bank, as the Acquirer and Nasa AIK Banka as the transferor, which ceases to exist by merger without conducting the liquidation procedure, 1 December 2022 was defined as a contracted merger date, when this status change was registered with the Business Registers Agency.

On 2 March 2023, the Bank signed a purchase agreement with Eurobank S.A. Athens, Greece on the acquisition of 100% ownership of Eurobank Direktna a.d. Belgrade. On 2 November 2023, after obtaining the consent of the National Bank of Serbia and other competent regulatory bodies, the Bank officially became the sole owner of Eurobank Direktna a.d. Belgrade. The Bank and Eurobank Direktna a.d. Belgrade will continue to operate as two separate banks in the period until the integration, without any changes that would affect the clients and the services that these two banks provide to them at present.

The Bank's headquarter is in Belgrade, at no. 115dj, Mihajla Pupina Street. The Bank operates through its Head Office in Belgrade, 17 branch offices and 2 counters in Belgrade, 4 branches in Novi Sad, 2 branches in Zrenjanin and one branch in the following cities: Lazarevac, Obrenovac, Pancevo, Pozarevac, Smederevo, Sabac, Valjevo, Pirot, Prokuplje, Krusevac, Leskovac, Vranje, Jagodina, Paracin, Zajecar, Bor, Negotin, Kragujevac, Cacak, Gornji Milanovac, Uzice, Prijepolje, Novi Pazar, Kraljevo, Ruma, Indjija, Stara Pazova, Sremska Mitrovica, Vrsac, Subotica, Kikinda, Vrbas, Sombor, which makes the total of 1 Head Office and 60 branches and 2 counters throughout Serbia.

As of 31 December 2023, the Bank had 1,133 employees (31 December 2022: 1,084 employees).

The Bank' tax identification number (fiscal code) is 100618836, and its corporate ID is 06876366.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. Basis of Preparation

The financial statements of the Bank for the year ended 31 December 2023 have been prepared in accordance with International Financial Reporting Standards and International Accounting Standards as issued by the International Accounting Standards Board and Interpretations (collectively "IFRS Accounting Standards"), and regulations of the National Bank of Serbia governing the financial reporting of banks.

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

The accompanying financial statements are presented in the format prescribed by the Decision on Forms and Content of Items in Financial Statement Forms for Banks ("RS Official Gazette", no. 93/2020).

These financial statements have been prepared under the historical cost convention, except for the measurement of the following items:

- financial assets measured at fair value through other comprehensive income;
- financial assets and liabilities measured at fair value through profit and loss;
- derivative financial instruments stated at fair value, and
- investment property measured at fair value.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between the market participants at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Upon estimating the fair value of assets or liabilities, the Bank takes into account characteristics of assets or liabilities that other market participants would also consider upon determining the price of assets or liabilities at the measurement date. Fair value for measurement and/or disclosure purposes in the accompanying financial statements was determined in the aforesaid manner, except for share-based payment transactions, which are in the scope of IFRS 2, leasing transactions, which are in the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as the net realisable value in IAS 2 or value in use in IAS 36.

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

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Observable inputs other than quoted prices included within Level 1, which are observable for the asset or liability, either directly or indirectly.
- Level 3: Unobservable inputs for the asset or liability that reflect the Bank's own assumptions and estimates.

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

The accounting policies and estimates adopted in the preparation of these financial statements are consistent with those followed in the preparation of the Bank's financial statements for the year ended 31 December 2022, except for the adopted new and amended IFRS Accounting Standards disclosed in Note 2.2 from 1 January 2023, where applicable.

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

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

2.2. New and Amended IFRS Accounting Standards that are Mandatorily Effective for the Current Year

The following new and amended standards, which have been issued by the IASB, are mandatorily effective for reporting periods beginning on or after 1 January 2023 and, as such, are applicable for the Bank's accompanying financial statements:

- *IFRS 17 "Insurance Contracts" which supersedes IFRS 4 "Insurance Contracts" and subsequent amendments to IFRS 17 which address concerns and implementation challenges that were identified after IFRS 17 was published in 2017.*

  IFRS 17 introduces a comprehensive and consistent approach to the accounting for insurance contracts. Prior to IFRS 17, significant diversity has existed worldwide relating to the accounting for and disclosure of insurance contracts, with IFRS 4 permitting many previous accounting approaches to be followed. IFRS 17 applies to all types of insurance contracts as well as certain guarantees and financial insurance with discretionary participating features. Financial guarantee contracts are allowed to be within the scope of IFRS 17, if the entity has previously asserted that it regarded them as insurance contracts.

  Since IFRS 17 applies to all insurance contracts issued by an entity (with limited scope exclusions), its adoption may have an effect on non-insurers such as the Bank. The Bank carried out an assessment of its contracts and operations and concluded that it does not have any contracts that meet the definition of an insurance contract under IFRS 17, hence the adoption of IFRS 17 has had no effect on the accompanying financial statements.

- *Amendments to IAS 1 "Presentation of Financial Statements" and IFRS Practice Statement 2 - Disclosure of Accounting Policies.*

  The amendments aim to make accounting policy disclosures more informative by replacing the requirement to disclose "significant accounting policies" with "material accounting policy information". The amendments also provide guidance under what circumstance, the accounting policy information is likely to be considered material and therefore requiring disclosure. Accounting policy information is material if it can reasonably be expected to influence decisions that the primary users of financial statements make on the basis of those financial statements when considered together with other information included in the financial statements.

  IFRS Practice Statement 2 "Making Materiality Judgements" includes guidance and illustrative examples to assist entities in the application of the materiality concept when making judgements about accounting policy disclosures.

  These amendments have no effect on the measurement or presentation of any items in the financial statements of the Bank but may affect the disclosure of accounting policies of the Bank. The above amendments had no significant effect on the disclosure of accounting policies in the accompanying financial statements of the Bank.

- *Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" - Definition of Accounting Estimates*

  The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty.

  The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error. These amendments clarify how entities make the distinction between changes in accounting estimate, changes in accounting policy and prior period errors.

  These amendments had no effect on the accompanying financial statements of the Bank.

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

2.2. New and Amended IFRS Accounting Standards that are Mandatorily Effective for the Current Year (Continued)

- *Amendments to IAS 12 “Deferred Taxes” – Deferred Tax related to Assets and Liabilities Arising from a Single Transaction*

  The amendments narrow the scope of and provide further clarity on the initial recognition exception under IAS 12 and specify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement, having considered the applicable tax law, whether such deductions are attributable for tax purposes to the liability or to the related asset component.

  Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.

  These amendments had no effect on the accompanying financial statements of the Bank.

- *Amendment to IAS 12 “Deferred Taxes” - International Tax Reform – Pillar Two Model Rules*

  In December 2021, the Organisation for Economic Co-operation and Development (OECD) released a draft legislative framework for a global minimum tax of 15% that is expected to be used by individual jurisdictions. The goal of the framework is to reduce the shifting of profit from one jurisdiction to another in order to reduce global tax obligations in corporate structures. In March 2022, the OECD released detailed technical guidance on Pillar Two of the rules.

  On 23 May 2023, the IASB issued the final amendments to IAS 12 (International Tax Reform – Pillar Two Model Rules, in response to stakeholder concerns about the potential implications on income tax accounting, especially accounting for deferred taxes, arising from the Pillar Two model rules. The amendments to IAS 12 were effective immediately.

  The amendments provide a temporary exception to the requirements regarding deferred tax assets and liabilities related to Pillar Two income taxes. The amendments also provide for additional disclosure requirements with respect to an entity’s exposure to Pillar Two income taxes.

  These amendments are not relevant to the Bank and have had no effect on the accompanying financial statements. The currently-enacted income tax rate in the Republic of Serbia is 15% and no changes thereto are expected in the following period.

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

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

2.3. New and Amended IFRS Accounting Standards that are Not Yet Effective and Have Not Been Early Adopted by the Bank

The following amendments to standards have been issued by the IASB with a mandatory effective date in future accounting periods. They have not been early adopted by the Bank and the Bank intends to adopt them when they become effective.

- Amendments to IFRS 16 “Leases” – Lease Liability in a Sale and Leaseback (effective for annual reporting periods beginning on or after 1 January 2024). The amendments are intended to improve the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction in IFRS 16, while it does not change the accounting for leases unrelated to sale and leaseback transactions.
- Amendments to IAS 1 “Presentation of Financial Statements” – Classification of Liabilities as Current or Non-current (effective for annual reporting periods beginning on or after 1 January 2024). The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities as either current or non-current.
- Amendments to IAS 1 “Presentation of Financial Statements” – Non-current Liabilities with Covenants (effective for annual reporting periods beginning on or after 1 January 2024). The amendment clarifies how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. Additional disclosures are also required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period.
- Amendments to IAS 7 “Statement of Cash Flows” and IFRS 7 “Financial Instruments: Disclosures” – Supplier Finance Arrangements (effective for annual reporting periods beginning on or after 1 January 2024). The amendments add disclosure requirements, and “signposts” within existing disclosure requirements, that ask entities to provide qualitative and quantitative information about supplier finance arrangements.
- IFRS S1 “General Requirements for Disclosure of Sustainability-related Financial Information” and IFRS S2 “Climate-related Disclosures” (effective for annual reporting periods beginning on or after 1 January 2024). IFRS S1 and IFRS S2 represent new IFRS sustainability disclosure standards, whereas IFRS S1 includes the core framework for the disclosure of material information about sustainability-related risks and opportunities across an entity’s value chain while IFRS S2 sets out requirements for entities to disclose information about climate-related risks and opportunities. Application of these standards in our country depends on regulatory process and enactment of regulations introducing their mandatory application.
- Amendments to IAS 21 “The Effects of Changes in Foreign Exchange Rates” – Lack of Exchangeability (effective for annual reporting periods beginning on or after 1 January 2025). The amendments contain guidance to specify when a currency is exchangeable and how to determine the exchange rate when it is not.

The Bank is currently assessing the impact of these new accounting standards and amendments. The Bank does not believe that the amendments to IAS 1 will have a significant impact on the classification of its liabilities. The Bank’s management does not expect any other standards issued by the IASB, but are yet to be effective, to have a material impact on the Bank.

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

2.4. Going Concern Assumption

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

At the date of these financial statements the Bank continues to meet its obligations as they fall due and, therefore, continues to apply the going concern basis of preparation.

Main triggers corresponding the going concern basis of the Bank's financial statements are:

- **Liquidity –** The Bank monitors liquidity position on the daily basis. The Russian-Ukrainian conflict and global macroeconomic instability did not have negative impact on the Bank's liquidity position. Liquidity ratios were significantly above regulatory limits throughout the whole 2023. Furthermore, the Bank has all liquidity ratios above the regulatory limits, as disclosed within the Note 4.2.
- **Capital** – The Bank has a very strong capital position and, accordingly, high capital adequacy ratio as disclosed in Note 4.9.
- **Reserves and Profit** – The Bank's capital represents 20.89% of total assets of the Bank, whereas the reserves and profit represent 13.05% of total assets.

2.5. Comparative Information

Comparative information comprises the data from the Bank's audited financial statements as of and for the year ended 31 December 2022.

2.6. Use of Estimates

Preparation of the financial statements in accordance with IFRS Accounting Standards requires the Bank's management to make the best possible estimates and reasonable assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, as well as income and expenses arising during the accounting period. Actual amounts of assets and liabilities may vary from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis, and changes in estimates are recognised in the periods in which they become known.

Areas that require a higher degree of judgment or complexity, or areas where assumptions and estimates are material to the financial statements are disclosed in Note 5.

2.7. Statement of Compliance

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

3. MATERIAL ACCOUNTING POLICIES

The financial statements represent the regular separate financial statements of the Bank.

As of 31 December 2023, the Bank has control over Eurobank Direktna a.d. Belgrade, as disclosed in Note 26.2.

In 2023, as in the prior years, the Bank did not prepare the consolidated financial statements in accordance with Article 32 of Law on Accounting, since the obligor of consolidated financial statements in Serbia is the ultimate parent - M&V Investments a.d. Belgrade.

3.1. Interest Income and Expenses

Interest income and interest expenses are recorded in the income statement on an accrual basis and in accordance with the obligations stipulated by contracts between the Bank and the client. They are recognised in the income statement in the period to which they relate and are calculated using the effective interest method for all interest-bearing financial instruments measured at amortised cost (AC) and fair value through profit or loss.

Interest income on financial assets at fair value through other comprehensive income (FVOCI) under IFRS 9 is also recorded using the effective interest method.

In the case of financial assets that become impaired after initial recognition, interest income is calculated using the effective interest rate to the amortised (net) value of a financial asset. If the asset ceases to be impaired, the basis for calculating interest income again becomes the gross carrying value of the financial asset.

In the case of financial assets purchased or originally impaired at initial recognition (POCI), interest income is calculated using the effective interest rate adjusted for credit risk to the amortised (net) value of a financial asset and never at the gross carrying value of the financial asset.

The effective interest rate is the rate that precisely discounts estimated future payments or receipts over the expected life of the financial instrument or over a shorter period, where appropriate, to the net carrying value of the financial asset or financial liability. In calculation of the effective interest rate, the Bank estimates cash flows taking into account all the contractually agreed terms of the financial instrument but does not consider future credit losses.

Effective interest rate includes all fees and amounts paid or received between the counterparties that form an integral part of the effective interest rate, transaction costs and other premiums or discounts. The effective interest rate calculation includes the following types of the Bank's fees, which by their nature are an integral part of the effective rate: loan application processing fees, fees for processing authorised account overdraft applications, fees for investment project assessment and evaluation, fees for obligatory loan extension, when it is probable that a financial asset will be issued, fees for loan term modification.

Fees that are an integral part of the effective interest rate are deferred and amortised as interest income over the loan term using the effective interest rate.

Interest income and expenses presented within the Bank’s income statement include: interest on financial assets and liabilities measured at AC calculated using the effective interest method, interest on securities measured at FVOCI calculated using the effective interest method, and interest on coupon securities held for trading.

3.2. Fee and Commission Income and Expenses

Fees and commission primarily comprise considerations for banking services of payment transfers in the country and abroad, services per payment cards, issuance of guarantees and letters of credit and other banking services.

Fee and commission income and expenses are recognised on an accrual basis, when such services are rendered.

Fees for issuance of guarantees and letters of credit are deferred and recognised as income proportionately to the outstanding loan maturities, or guarantee and letter of credit validity terms.

3. MATERIAL ACCOUNTING POLICIES (Continued)

3.3. Foreign Exchange Translation

Transactions denominated in foreign currencies are translated into dinars at the official middle exchange rates determined at the Interbank Foreign Exchange Market effective at each transaction date.

Assets and liabilities denominated in foreign currencies, including those in RSD but with a currency clause index, are translated into dinars by applying the official middle exchange rates, as determined at the Interbank Foreign Exchange Market, prevailing at the reporting date (Note 44).

Foreign exchange gains or losses arising upon the translation of balance sheet items denominated in foreign currencies and transactions in foreign currencies are credited or charged as appropriate, to the income statement, as foreign exchange gains or losses and effects of the contracted currency clause (Note 11).

3.4. Dividend Income

Dividend income is recognised when the Bank’s entitlement to dividend receipt is established. Dividend income is presented within other operating income.

3.5. Net Gains/(Losses) from Changes in Fair Value of Financial Instrument

Net gains/(losses) from changes in fair values of the financial instruments comprise the net effects of changes in the fair values of derivatives (other than derivatives designated as risk hedging instruments), as well as of valuation gains/(losses) in fair value of financial instruments measured at fair value through profit or loss (FVTPL).

3.6. Net Gains/(Losses) from Derecognition of Financial Instruments

Net gains/(losses) from derecognition of financial instruments and investments comprise the net effect of derecognition of financial instruments in accordance with IFRS 9.

3.7. Net Gains from Risk Hedges

Net gains from risk hedges include net gains in the value adjustment of financial derivatives designated as risk hedging instruments, as well as in the fair value adjustment of loans, receivables and securities as hedged items, which arise from the risk against which the item is hedged.

3.8. Income Taxes

Income tax expense comprise current taxes and deferred taxes. Current taxes and deferred taxes are recognised in the income statement, except to the extent that they relate to items recognised directly in equity or in other comprehensive income.

Current Income Taxes

Current income tax is an amount calculated by applying the legally prescribed tax rate of 15% (2022: 15%) to profit before taxes, as adjusted for permanent differences that brings down the statutory tax rate to the effective tax rate. The total amount of the income tax payable is determined by applying the legally prescribed tax rate to the taxable base determined in the annual corporate income tax return.

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

3. MATERIAL ACCOUNTING POLICIES (Continued)

3.8. Tax Expenses (Continued)

Deferred Income Tax

Deferred tax liabilities are recognised as at the reporting date for all taxable temporary differences between the carrying values of assets used for financial reporting purposes and their tax bases. The currently enacted tax rates or the substantively enacted rates at the balance sheet date are used to determine the deferred income tax amount.

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

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

Current and deferred tax assets and liabilities are offset when levied by the same tax authority on the same taxable entity, when related to the same tax authority and if there is a legally enforceable right to offset tax liabilities against tax assets.

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

Indirect Taxes and Contributions

Indirect taxes and contributions include property taxes, municipal fees and charges and other taxes and contributions payable pursuant to effective republic and local tax regulations. These taxes and contributions are reported within other expenses.

3.9. Financial Assets and Liabilities

Recognition

The Bank initially recognises financial assets and liabilities as at the settlement date.

A financial asset or liability is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue, except for financial assets and liabilities measured at fair value through profit or loss (FVTPL), whose initial measurement does not include such costs.

Classification

In accordance with IFRS 9 classification and measurement of financial assets depend on the following two main criteria:

(a) the business model within which the asset is held; and
(b) characteristics of the contractual cash flows of financial assets (the so-called SPPI criterion).

The business model reflects the manner in which the Bank manages its financial assets in order to collect the cash flows therefrom, i.e., the business model determines whether the cash flows will result from collection of cash flows, sales of assets or both. The Bank performed detailed analysis and defined the following business models:

(a) hold to collect;
(b) hold to collect and sell; and
(c) other business models (e.g. hold to sell).

In instances of business models “hold to collect” or “hold to collect and sell”, it is assessed whether the cash flows represent solely payments of principal and interest (the Solely Payments of Principal and Interest - SPPI test).

3. MATERIAL ACCOUNTING POLICIES (Continued)

3.9. Financial Assets and Liabilities (Continued)

Classification (Continued)

In accordance with the basic loan arrangement, interest includes the time value of money, the accepted level of counterparty credit risk and other basic lending risks and adequate profit margin. If the contractual terms include risk exposures that are not in line with the basic loan arrangement, such a financial asset is classified and measured at fair value through profit or loss irrespective of the business model to which it belongs.

Based on the performed analysis of the business models and characteristics of the contractual cash flows, in line with IFRS 9 the Bank classifies its financial assets in one of the following three categories:

1) Financial assets at amortised cost (AC);
2) Financial assets at fair value through other comprehensive income (FVOCI); and
3) Financial assets at fair value through profit or loss (FVTPL).

The Bank measures its financial liabilities at amortised cost.

Reclassification

If a change occurs to the model underlying a financial asset management, the financial assets is reclassified. Reclassification is made prospectively, i.e., as of the first day of the following reporting period.

Upon reclassification of a financial asset from the category of measurement at amortised cost to the category of measurement at FVTPL, the asset's fair value is measured at the reclassification date, while any gain or loss on the difference between the previously amortised cost the fair value is recognised in the profit or loss.

In case of a contrary reclassification, from an asset measured at FVTPL to the category of assets measured at amortised cost, the asset's fair value as of the reclassification date will become its gross carrying value.

Upon reclassification of a financial asset from the category of measurement at amortised cost into the category of measurement at FVOCI, the asset's fair value is measured at the reclassification date, while any gain or loss on the difference between the previously amortised cost the fair value is recognized in the other comprehensive income.

In case of a contrary reclassification, from an asset measured at FVOCI to the category of assets measured at amortised cost, the financial asset will be reclassified at its fair value. However, the accumulated gains or losses previously recognised within the other comprehensive income will cease to be recognised within equity and the value of the financial asset will be adjusted by the amount thereof as of the reclassification date. As a result, the financial asset is measured as of the reclassification date as if it had always been measured at amortised cost.

Upon reclassification of a financial asset from the category of measurement at FVTPL to the category of assets measured at FVOCI, the financial asset continues to be measured at fair value.

In case of a contrary reclassification, from an asset measured at FVOCI to the category of assets measured at FVTPL, the financial asset will continue to be measured at fair value. The accumulated gains or losses previously recognised in other comprehensive income are reclassified from equity to the profit or loss.

Modification and Derecognition of Financial Assets

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

3. MATERIAL ACCOUNTING POLICIES (Continued)

3.9. Financial Assets and Liabilities (Continued)

Modification and Derecognition of Financial Assets (Continued)

In such situations, the Bank makes quantitative and qualitative analyses and assesses whether there is a significant difference between the contractual cash flows of the original financial asset and the contractual cash flows of the modified or replacement asset. If there is a significant difference, the contractual rights pertaining to the original financial asset will be considered as expired and the new asset, issued under new terms, is to be recognised.

Accordingly, the reclassification date will be treated as the date of the initial recognition date of such a financial asset upon implementation of the impairment requirements to the modified asset.

In the event of a significant modification of a financial instrument, IFRS 9 stipulates derecognition of the original financial asset and recognition of the new one at fair value at the recognition date.

Derecognition results in a permanent gain or loss, which must be recognised within the profit or loss statement, in the amount of the difference between the amortised cost of the original financial asset and the fair value of the new financial asset net of expected credit losses recognised as impairment allowance of the new financial asset.

Purchased or Originated Credit Impaired Assets (POCI)

A financial asset is credit impaired when one or more events have occurred with adverse effects on the estimated contractual cash flows of the financial asset.

At the moment of initial recognition such financial assets will have no impairment but the lifetime expected credit losses need to be included in the calculation of their effective interest rate. Therefore, the Bank includes the initial expected credit losses into the estimate of the future cash flows upon calculation of the credit-adjusted effective interest rate of the financial assets impaired at initial recognition.

Upon initial recognition, expected credit losses (ECL) for POCI assets are always measured as lifetime ECL. However, at the reporting date, the Bank recognises an extra level of impairment, respecting the change in objective circumstances since the recognition of a financial asset. In other words, at each reporting date, in the income statement the Bank recognises changes in lifetime ECL as gains or losses on impairment.

Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risk and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualifies for derecognition that is created or retained by the Bank is recognised as a separate asset or liability in the balance sheet. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that was previously recognised in other comprehensive income is recognised in profit or loss.

The Bank enters in transactions involving the transfers of its assets recognised on its balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, repurchase transactions.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Bank has a legal right to offset the recognised amounts and it intends either to settle a liability on a net basis or to realise the asset and settle the liability simultaneously.

3. MATERIAL ACCOUNTING POLICIES (Continued)

3.9. Financial Assets and Liabilities (Continued)

Offsetting (Continued)

Income and expenses are presented on net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as those in the Bank's trading activity.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

In case of inactive financial market, the Bank determines fair value using the valuation methodology. Valuation methodologies include transactions on market conditions between the willing, willing parties (if available), reference to the existing fair value of other instruments that are substantially the same, discounted cash flow analysis, and other alternative methods.

The chosen valuation technique makes maximum use of market inputs, relies as little as possible on the Bank's specific estimates, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing of financial instruments.

Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument of based on other available observable market data.

Assets and long positions are measured at bid prices and liabilities and short positions are measured at ask prices. When the Bank has a risk offsetting position, median market prices are used for measuring offsetting or risk-weighted assets, while adjustment to bid or ask prices is applied only to the net open positions. Here the fair value reflects the credit risk of the instrument and includes adjustments reflecting the credit risk of the Bank and the counterparty, where relevant. Fair value assessments based on the valuation models are adjusted for all other factors, such as liquidity risk or uncertainty models, to the extent that the Bank believes that third party market participants may take them into consideration upon determining transaction cost.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is recognised in profit or loss. Otherwise, the difference is not recognised in profit or loss immediately but over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

Impairment of the Financial Assets

In accordance with IFRS 9, upon impairment of the financial instruments existence of objective evidence of impairment is not necessary for recognition of credit losses. Expected credit losses are also recognised for unimpaired financial assets, i.e. the Bank calculates provisions for credit losses for credit exposures except for those already measured at fair value through profit or loss (FVTPL) (including both performing and non-performing financial assets).

Expected credit losses are recalculated at each reporting date in order to reflect changes occurred in the credit risk since the initial recognition of the financial instrument. Such an approach results in sooner identification of credit losses.

3. MATERIAL ACCOUNTING POLICIES (Continued)

3.9. Financial Assets and Liabilities (Continued)

Impairment of the Financial Assets (Continued)

Upon calculating expected credit losses, the Bank uses forward-looking information and macroeconomic inputs, i.e., the Bank considers not only historical information adjusted so as to reflect the effects of the present conditions and information providing objective evidence of the financial assets being impaired for actual losses incurred, but reasonable and supportable information as well, which includes projections of the future economic conditions upon calculation of expected credit losses, both at individual and at collective levels. The amount of provisions for credit losses will increase with deterioration of the projected economic conditions and decrease with their improvement.

The Bank's basic principles and rules upon calculation of provisions under IFRS 9 are as follows:

The Bank calculates 12-month expected credit loss or a lifetime expected credit loss of a financial instrument depending on the significance of the change in its credit risk occurred since the instrument's initial recognition. For these purposes, the Bank uses the following three stages of impairment:

- Stage 1 includes all new financial assets at initial recognition and instruments without significant credit quality deterioration since their initial recognition;
- Stage 2 includes financial instruments with significant credit quality deterioration since their initial recognition yet with no objective evidence of impairment based on credit losses;
- Stage 3 includes financial instruments where objective evidence of impairment exists at the reporting date.

Stages 1 and 2 include only performing financial assets. Stage 3 includes only non-performing financial assets.

In accordance with the foregoing, the Bank calculates an impairment allowance (provision) for a particular instrument in the amount of lifetime expected credit losses if the credit risk of the instrument has increased significantly since its initial recognition or if there is objective evidence of impairment identified (a financial asset classified into Stage 2 or Stage 3, respectively). Impairment allowance is calculated up to the amount of 12-month expected credit losses for all financial instruments with no significant credit risk increase since the initial recognition (financial assets classified into Stage 1).

For impairment allowance calculation purposes, the 12-month expected credit losses are part of the life-time expected credit losses identified and represent cash shortages over the life of an instrument that will occur in the event of default within 12 months from the reporting date or a shorter period, if the expected lifetime of an instrument is shorter than 12 months).

Financial assets are transferred from Stage 1 to Stage 2 when the credit risk has increased significantly since the instruments' initial recognition. The transfer logic is based on quantitative and qualitative criteria and must be applied to all the financial instruments. The deterioration of the instrument's initial classification and the resulting change in life time PD is the key parameter underlying the quantitative criterion of the transfer logic. The additional qualitative criteria that come after applying the quantitative criteria are:

- Forbearance status classification results in automatic classification to Stage 2.
- Reclassification into the red zone of the Watch list process.
- 30 days past due – if a transaction reaches 30 days past due, it should be classified as Stage 2.

In the impairment process, the Bank applies a special treatment to the purchases of already impaired assets from the so-called NPL portfolios and to the approval of new loans to the borrowers with already impaired loans within its portfolio. In accordance with the Standard, such assets are defined as POCI (purchased and originated impaired credit assets) and an additional level of impairment is allocated for them after the passage of a certain time. Positive changes in the lifetime expected credit losses of the instrument are recognised as gains on the impairment of instruments if the expected credit loss in lower than the amount of expected credit losses included in the estimated cash flows upon initial recognition.

3. MATERIAL ACCOUNTING POLICIES (Continued)

3.9. Financial Assets and Liabilities (Continued)

Write-Off and Transfer of Receivables from Balance Sheet to Off-Balance Sheet Items

The Bank (in accordance with the Procedure on the Write-Off and Transfer of Receivables from Balance Sheet to Off-Balance Sheet Items) writes off certain loans and receivables and securities that have been determined as irrecoverable.

3.10. Cash and Balances with the Central Bank

Cash and balances held with the Central Bank comprise cash on hand, the Bank's gyro account balance, other cash funds and the obligatory foreign currency reserve held with the central bank. Cash and balances held with the central bank are stated at amortised cost in the Bank's balance sheet.

Within the Statement of cash flows cash and cash equivalents also encompass balances on accounts held with foreign banks, whereas the obligatory foreign currency reserves held with the Central bank are not included therein.

3.11. Financial Assets Measured at Amortised Cost

This category includes financial assets meeting the two below listed criteria, if they are not designated upon initial recognition as financial assets measured at FVTPL:

- The objective of the business model in which the assets are held is achieved by collecting the contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

After initial recognitions, such assets are measured at amortised cost using the effective interest rate, net of expected credit losses.

Interest income from these instruments is calculated using the effective interest and presented in the income statement. Impairment losses on financial instruments measured at AC are recognised within the income statement under losses on impairment of financial assets.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. They arise when the Bank provides money or services directly to a customer with no intention of trading the receivable. Loans and receivables comprise loans and receivables to banks and customers.

Loans and receivables are initially measured at fair value. Upon initial recognition, based on the analysis of the business model and characteristics of the contractual cash flows, loans and receivables are measured at amortised cost (AC), fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVTPL).

Following the initial recognition and measurement, loans and receivables due from banks and customers are measured at amortised cost and are stated at the amounts outstanding, taking into account all the discounts and premiums granted upon acquisition, net of the impairment allowances.

Income and interest receivable calculated on such instruments are recorded within interest income and interest receivable, respectively. Fees that are part of the effective interest on these instruments are deferred and recognised within the profit or loss statements under interest income over the life of the instrument.

3. MATERIAL ACCOUNTING POLICIES (Continued)

3.11. Financial Assets Measured at Amortised Cost (Continued)

Loans and Receivables (Continued)

Approved RSD loans hedged using a contractual currency clause linked to the RSD/EUR exchange rate, to another foreign currency or consumer price index are converted into dinars at the reporting date in accordance with the terms of the particular loan agreement. The effects of the currency conversion are reported foreign exchange gains and positive currency clause effects, i.e. income and expenses of contracted hedge items.

In accordance with its internally adopted methodology, at each reporting date, the Bank assesses whether there has been a significant increase in credit risk of all of its financial assets and calculated impairment allowance in the amount of lifetime expected credit losses for the financial assets whose credit risk has increased significantly since their initial recognition or if there is objective evidence of their impairment, and, on the other end, in the amount of 12-month expected losses for all those financial assets where the credit risk has not increased significantly since their initial recognition.

For the purposes of the Bank's calculation of impairment allowance, 12-month ECL represent a portion of the lifetime ECL and are in fact losses that will arise if the asset (loan) defaults (if the default status occurs) within 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months), weighted by the probability of default (PD).

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the borrower's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement under the item of Net gains from reversal of impairment/losses on impairment of financial assets not measured at FVTPL.

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

Following their initial recognition, these financial assets at FVOCI are measured at fair value. The fair value of the assets is determined in line with the Bank's internally adopted fair value assessment methodology. Gains or losses on the changes in their fair value of these assets, except for impairment losses and foreign exchange gains/losses, are recognised in other comprehensive income, until derecognition or reclassification of the financial assets. Upon derecognition, the accumulated gains or losses previously recognised within the other comprehensive income are reclassified from equity to profit or loss.

Interest accrued on such assets is recognised under the effective interest method within interest income in the income statement.

The calculated impairment losses (ECL) on these assets are recognised within the other comprehensive income and they do not reduce the carrying value of the financial assets (as is the case with financial assets measured at AC), in other words, the impairment allowance does not affect the carrying value of these assets.

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

Financial assets measured at FVTPL are all those financial assets that are not measured at AC or FVOCI. In line with IFRS 9, such assets are measured at fair value, with the effect of changes in their fair value recorded within profit or loss (income statement).

A financial asset classified into this category is a financial asset held for trading, i.e., an asset acquired primarily with the aim to earn a profit from short-term price fluctuations and/or dealer's margin.

Financial instruments (including shares held for trading) classified in the Bank's trading book are initially recognised at their purchase price. Transaction costs are not included in their value but represent expenses for the period of acquisition. Financial assets held for trading are subsequently valued - adjusted to fair value on a daily basis. Gains and/or losses on sale of financial assets held for trading are recognised within income or expenses for the period.

3. MATERIAL ACCOUNTING POLICIES (Continued)

3.13. Financial Assets Measured at Fair Value through Profit or Loss (FVTPL) (Continued)

Derivative Instruments

Financial derivatives comprise forward and swap transactions. Financial derivatives are initially recognised at cost and are subsequently measured at market value. Market values are obtained using different valuation techniques, including discounted cash flows.

Financial derivatives are accounted for under assets if their market value is positive and under liabilities if their market value is negative.

Unless designated as hedging instruments, derivatives are treated as held for trading and measured at FVTPL under IFRS 9. Fluctuations in market value of financial derivatives are reported in the income statement within Net gains or losses on the changes in the fair value of financial instruments.

3.14. Equity Instruments

All investments in equity instruments are measured at FVTPL under IFRS 9, with the changes in their fair values recognised in the profit or loss (income) statement, except for those equity investments for which the Bank has elected to recognise fair value changes within other comprehensive income (OCI).

Dividend income on the equity instruments for which the Bank has decided to initially recognise fair value changes within OCI, is recognised in income statement. Upon derecognition, gains or losses accumulated within OCI are not reclassified to the income statement. In accordance with IFRS 9, such financial instruments are not tested for impairment.

Under IFRS 9, if an equity instrument is not held for trading, the Bank may make an irrevocable decision, upon initial recognition, to measure such an instrument at FVOCI, with only dividend income recognised within the income statement. Such instruments are not subject to impairment assessment in accordance with IFRS 9.

3.15. Property and Equipment

Recognition and Measurement

Items of property and equipment are initially measured at cost or purchase price.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of such equipment.

Following the initial recognition, property and equipment are measured at cost less accumulated depreciation and aggregate impairment losses.

Gains or losses arising on disposal of property and equipment are calculated as the difference between the sales proceeds and the carrying values of the assets and are presented within other income/expenses.

Subsequent Expenditures

Costs incurred in replacement of a critical part of equipment are capitalised and recognised as an increase of the carrying value of the fixed asset if it is probable that future economic benefits from the said part will flow to the Bank and if its cost can be measured reliably. The carrying value of the replaced part is derecognised.

The regular equipment maintenance and servicing costs are recognised within expenses as incurred.

Depreciation

Depreciation of property and equipment is calculated on the cost, on a straight-line basis, using the following annual rates in order to write off the cost of assets over their estimated useful lives.

3. MATERIAL ACCOUNTING POLICIES (Continued)

3.15. Property and Equipment (Continued)

Depreciation (Continued)

The following depreciation rates were used in the current and previous accounting period:

Buildings	1.30%
Computer equipment	20.00%
Furniture and other equipment	8.00% - 40.00%
Motor vehicles	15.50%

Calculation of depreciation of property and equipment starts in the month following the month when an asset is put into use. Depreciation calculation for disposed assets ceases from the month following the month of asset disposal.

Depreciation methods, useful lives and residual values are reassessed at each financial year-end and adjusted if appropriate.

3.16. Right-of-use Assets

The accounting policies for the recognition and measurement of leases in accordance with IFRS 16 “Leases” applied to the current and prior reporting periods are set out below.

(i) Bank as a Lessee

In accordance with IFRS 16, a lease is defined as a contract or part of a contract that transfers the right to use the property for a specified period of time in exchange for a fee. A qualifying asset is recognised if the following conditions are cumulatively fulfilled:

- if the leased asset can be identified explicitly or implicitly;
- when all material economic benefits from the use of the asset can be realised during the leasing period and
- if the use of the asset can be managed, that is, deciding how and for what purposes the asset will be used throughout the lease period.

The Bank does not apply IFRS 16 requirements on low value assets, short-term leases (up to one year) and intangible assets. These leases are recognised as an expense on a proportional basis in the income statement (Note 18).

When an analysis of a contract determines that the contract is a lease, the asset with the right to use is recognised in the assets and the liability for the leasing in the liabilities of the balance sheet. An asset with a right of use is initially measured at cost, consisting of:

- the initial amount of the lease liability adjusted for all lease payments incurred on or before the lease begins,
- increased by any initial direct costs incurred and the estimated cost of dismantling and removing the asset or restoring the asset or location to its original condition, and
- reduced for received lease incentives.

After the initial recognition, the right-of-use asset is measured at cost reduced for allowance and impairment loss and adjusted for remeasuring of leasing liabilities.

Right-of-use assets are depreciated on a straight-line basis. Depreciation starts from the first day of the month following the month in which the asset becomes available for use.

The lease liability is initially measured at the present net worth of all future lease payments (excluding value added tax), discounted at the interest rate implicit in the lease, and in the absence thereof, at the incremental borrowing rate. The incremental borrowing rate is determined based on the cost of financing a liability of similar duration and similar security to that provided for in the leasing contract.

3. MATERIAL ACCOUNTING POLICIES (Continued)

3.16. Right-of-use Assets (Continued)

(i) Bank as a Lessee (Continued)

Future leasing payments that are included in the value of the lease liability after discounting include:

- fixed payments less any lease incentives received,
- variable leasing payments, that is, index- or rate-dependent payments,
- payments under the residual value guarantee clause of the leased item,
- the purchase price of the redemption option, if there is reasonable possibility for redemption,
- penalties for termination of the contract, if there is reasonable possibility for termination.

After initial recognition, the lease liability is reduced by the lease liability payments made, increased by the accrued interest and adjusted based on:

- changes in future lease payments resulting from a change in the rate or index used to determine the initial lease liability,
- changes in the valuation of the use of the option to purchase the property,
- changes in the amount expected to be paid under the residual value guarantee,
- changes in the lease period.

Adjusting the value of the lease liability also requires adjusting the asset to its right of use. Based on leases, the Bank recognises depreciation expense and interest expense in the income statement.

(ii) Bank as a Lessor

When the Bank appears as a leasing provider, it is assessed whether it is a financial lease or an operating lease. If the Bank estimates that the contract transfers all the risks and benefits arising from the ownership, the lease is classified as financial. Otherwise, it is operating leasing. IFRS 16 does not make any material changes to the accounting treatment of leases with a lessor compared to IAS 17.

3.17. Intangible Assets

Intangible assets are comprised of software, licenses and other intangible assets. Intangible assets acquired by the Bank are stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation of intangible assets is calculated on a straight-line basis in order to write off the assets over their estimated useful lives of five years, unless the assessment of the useful life and the possibility of using the respective investment, taking into account the technological characteristics and efficiency, do not exceed the stated period of use. For intangible assets, the period of use of which is determined by the contract, the depreciation rate is determined based on the period of use from the contract.

Amortisation methods, useful lives and residual values are reassessed at each financial year-end and adjusted as appropriate.

3.18. Investment Property

In accordance with IAS 40 “Investment Property”, investment property is property (land or a building, part of building or both) held by the owner (or lessee) in order to generate rental income or increase the value of equity or both.

Upon acquisition, investment property is measured at cost or purchase price. At initial measurement, all acquisition related costs are included in the cost or purchase price of investment property.

For subsequent measurement of investment property, the Bank uses the fair value model. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Gains or losses arising from the fair value adjustment of investment property are recognised as income or expenses in the period when realised/incurred.

3. MATERIAL ACCOUNTING POLICIES (Continued)

3.19. Impairment of Non-financial Assets

In accordance with the adopted accounting policy, at each balance sheet date, the Bank's management reviews the carrying amounts of the Bank's intangible assets, property, equipment and assets (property) acquired by collecting Bank's receivables. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount, being the higher of an asset's fair value less costs to sell and value in use. Impairment losses, representing a difference between the carrying amount and the recoverable amount of property, plant and equipment and intangible assets, are recognised in the income statement as required by IAS 36 "Impairment of Assets".

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

3.20. Investments in Subsidiaries

Subsidiaries are subordinate entities under the Bank's control, i.e., those where the Bank is exposed, or has rights, to variable returns from its involvement with the investees and has the ability to affect those returns through its power over the investees.

Investments in the Bank's subsidiaries are recorded in these financial statements at cost in accordance with IAS 27. The historical cost method requires that the investments in subsidiaries be recorded at cost (the amount of investment) and periodically (once a year) tested for impairment in line with IAS 36.

If an equity investment is impaired, i.e., if it is determined upon subsequent measurement that its recoverable amount is lower than its cost (or the carrying value), the cost (the carrying value) of the investment is reduced for the impairment allowance to the recoverable amount. Impairment allowance of equity interests held in subsidiaries are recorded within expenses in the current period's income statement.

Income from equity investments is recognised only if a subsidiary has enacted a relevant decision on profit distribution.

Consolidation of the financial statements is carried out using the full consolidation method, which, inter alia, involves the "line-by-line" summation of the same/corresponding items of assets, liabilities, income and expenses with elimination of all the intragroup balances, transactions, income and expenses.

3.21. Inventories

Inventories include repossessed property following the foreclosure (foreclosed assets).

Assets acquired in lieu of debt collection represent properties initially assigned under mortgage liens in favour of the Bank as collaterals for loans' repayment, and which the Bank foreclosed in the process of debt collection.

Such properties are measured at the lower of the carrying values of the respective loans collected from their foreclosure and market prices determined by certified appraisers.

3.22. Managed funds on behalf of third parties

The funds that the Bank manages on behalf of and for the account of third parties for a fee are disclosed within off-balance sheet items (Note 39.2). The Bank bears no risk in respect of repayment of these placements.

3.23. Deposits and Borrowings

Deposits are stated in the amount of deposited funds, which may be increased by interest accrued, depending on the contractual terms agreed between depositors and the Bank.

Deposits and borrowings are initially measured at fair value increased for all directly attributable transaction costs, while they are subsequently measured at amortised cost using the effective interest rate method.

3. MATERIAL ACCOUNTING POLICIES (Continued)

3.24. Provisions, Contingent Liabilities and Contingent Assets

Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation (Note 36).

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 appropriate, the risks specific to the liability.

Contingent Liabilities and Contingent Assets

Contingent liabilities are not recognised in the financial statements. They are disclosed in the notes to the financial statements (Note 39.1), unless the possibility of an outflow of resources embodying economic benefits is remote.

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

3.25. Financial Guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are reported under off-balance sheet items.

3.26. Employee Benefits

In accordance with the regulations effective in the Republic of Serbia, the Bank is obligated to pay contributions to various state social security funds, which guarantee social security insurance benefits to employees. These obligations involve the payment of taxes and contributions on behalf of the employee, by the employer, in the amounts computed by applying the specific, legally prescribed rates, which are withheld from the gross salaries. The Bank also calculates and pays social security contributions charged to the employer.

In accordance with the Labour Law, the Bank is obliged to pay retirement benefits, and in accordance with its acts, it also pays jubilee awards for 10, 20, 30 and 40 years of employment with the Bank.

Long-term liabilities for retirement benefit provisions and jubilee awards in accordance with IAS 19 represent the present value of the expected future payments to employees as determined by actuarial assessment using assumptions disclosed in Note 36(b).

Accumulating compensated absences may be carried forward and used in future periods if the current period's entitlement has not been fully used. The expected cost of accumulated compensated absences is recognised in the amount that is expected to be paid as a result of the unused entitlement that has accumulated as of the balance sheet date. In the instance of non-accumulating compensated absences, no liability or expense is recognised until the time of the absence.

3.27. Equity

The Bank's equity consists of founders' capital, subsequent issue shares, share premium, reserves, fair value reserves, and retained earnings for the current and prior years. The Bank's equity was formed from monetary contributions invested by the Bank's founders. A founder cannot withdraw funds invested in the Bank's equity.

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

3. MATERIAL ACCOUNTING POLICIES (Continued)

3.28. Related Party Disclosures

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

Relations between the Bank and its related parties are regulated at contractual basis. Outstanding balances of receivables and liabilities at the reporting date, as well as transactions occurred during the reporting periods with related parties are disclosed separately in notes to the financial statements (Note 40).

4. RISK MANAGEMENT

A risk is the possibility of negative effects on the Bank’s capital and financial result as a consequence of transactions performed by the Bank and the macroeconomic environment it operates in. The Bank’s long-term goal in risk management is to minimise negative effects on the Bank’s financial result and capital due to its risk exposure.

Risks are an integral part of banking operations and it is impossible to eliminate them completely. It is important however to manage risks in such a manner that they are reduced to the levels acceptable for all stakeholders: capital owner i.e. shareholders, creditors, depositors and regulators.

The risk management process implies continued risk identification, measurement, i.e. assessment, undertaking risk mitigation measures, risk monitoring and control, i.e. establishing the risk exposure limit system, as well as reporting on risks in line with the Bank’s internal acts and the decisions of the regulators. An adequate risk management system is one of the key elements in ensuring the stability of the Bank’s operations.

Risk monitoring and control are primarily based on establishing the procedures and limit system. The established limits reflect the Bank’s business strategy and market environment, as well as the risk level that the Bank is willing to accept. The Bank permanently monitors and measures the capacity of the acceptable risk exposure level, taking into account the total exposure to all types of risks and activities.

The Bank continuously monitors all changes in law and bylaw regulations and international standards, analyses the effect on the risk level and undertakes measures for the timely harmonisation of its operations with the current regulations.

Risk Management System

The Bank has established a comprehensive and reliable risk management system defined by:

- Risk management strategy,
- Capital management strategy and plan,
- Risk management policy,
- Individual risks’ management procedures,
- Methodologies by which the Bank defines in detail the methods and approaches used in managing individual risks; and
- Other internal acts of the Bank.

The risk management strategy defines the risk management principles for the purpose of ensuring an adequate assessment of all the risks the Bank is exposed or may be exposed to in its operations, and the adequate capital necessary for supporting the realisation of the Bank’s strategic goals, in line with the Bank’s Business Policy and Strategy.

4. RISK MANAGEMENT (Continued)

Risk Management System (Continued)

The risk management strategy defines:

- All the risks that the Bank is or may be exposed to in its operations;
- The long-term goals in risk management, as established by the Bank's Business Policy and Strategy, as well as risk inclination and tolerance determined in line with those goals;
- Basic principles of risk assumption and management;
- Basic principles of the internal capital adequacy assessment process;
- Obligation of regular reporting to the Bank's bodies and the National Bank of Serbia about risk management;
- The criteria for determining the Bank's non-performing loans the basic principles of managing such assets, as well as the highest acceptable level of non-performing loans.

In the Risk Management Policy, the Bank determines the basic principles of risk management, and in particular defines the organisation of the risk management process, the basis for the Bank's risk profile assessment, i.e. risk identification and measurement, measures for individual risk mitigation and monitoring, the internal risk management control system, the establishment of the individual risk limit system, as well as actions in the event of exceeding the defined limits, the manner and methodology for implementing the internal capital adequacy assessment process, establishes the framework and frequency of the stress testing of individual types of risks. In addition, Risk Management Policy determines the obligation of regular reporting to the Bank's bodies and the National Bank of Serbia regarding risk management.

In the risk management procedures, the Bank further defines the process or risk identification, measurement, i.e. assessment, as well as the procedure for risk mitigation, monitoring and control, reporting about the risks the Bank is exposed to, as well as the competencies and responsibilities of the Bank's organisational parts in the risk management system.

Moreover, in a separate procedure, the Bank defines activities, rules for the employees' actions, authorities and responsibilities in relation to:

- Management of placements in arrears from the corporate, public and financial sectors with up to 90 days overdue; and
- Non-performing placements of the Bank to corporate customers related to restructuring of their placements, i.e. to all non-performing customers (corporate and retail) related to enforced collection.

Through individual methodologies, the Bank prescribes in detail the methods and approaches applied for measuring exposure to individual risks.

Competencies

The Bank has established a comprehensive and reliable risk management system that is fully integrated into all the Bank's business activities and that ensures that the Bank's risk profile is in line with the Bank's defined risk appetite.

For the purpose of adequate risk management, the Bank has formed an adequate organisational structure that corresponds to the scope, type and complexity of the operations it performs and with the aim of preventing conflicts of interest risk-taking function (front office) is separated from the risk management function (middle office) and supporting activities (back office). This organisational structure enables the achievement of the determined goals and principles of risk management in practice.

The risk management process includes the following participants:

The Bank's Shareholders Assembly – adopts the Bank's Business Policy and Strategy that define the Bank's business goals for a minimum period of three years, adopts the Bank's financial statement and decides on the use and distribution of the realised profit i.e. covering losses. In addition, the Assembly decides on increasing capital i.e. capital investments in other entities in the financial sector or other corporate customers, as well as about the amount of investments in fixed assets and investment property.

4. RISK MANAGEMENT (Continued)

Competencies (Continued)

The Bank's Board of Directors is competent and responsible for establishing a unique risk management system and control over that system, adopting the Risk Management Strategy and Policy, the Capital Management Strategy and Plan, and the Methodology for Internal Capital Requirements Assessment, establishing the internal control system, adopting the Liquidity Contingency Plan and the Bank Recovery Plan, as well as other activities stipulated by the Law on Banks. Moreover, the Board of Directors controls the work of the Executive Board.

The Executive Board is competent and responsible for implementing the Bank's Business Policy and Strategy according to the three-year strategic plan, the Risk Management Strategy and Policy, the Capital Management Strategy and Plan, the Internal Control System Policy, the adoption and analysis of the efficiency of individual risk management procedures that further define the process of risk identification, measurement (assessment), mitigating, monitoring and control, as well as reporting on the risks that the Bank is exposed to. The Bank's Executive Board regularly reports to the Board of Directors about the efficiency of the adopted Policy and risk management procedures.

The Audit Committee is competent and responsible for adopting the proposed Bank's Strategy and Policy in relation to risk management and implementing the internal control system submitted to the Board of Directors for consideration and adoption. Moreover, this Committee is in charge of analysing and controlling the application and adequate implementation of the adopted internal acts: The Risk Management Strategy and Policy and the Internal Control System Policy. At least once a month, the Board of Directors reports on its activities and established irregularities, and proposes ways to eliminate them.

The Asset and Liability Committee monitors the Bank's risk exposure arising from the structure of its balance sheet liabilities, receivables and off-balance sheet items and proposes measures for managing market risks, interest rate risk and liquidity risk.

The Risk Committee is responsible for monitoring the Bank's exposure to credit risk, liquidity risk, interest rate risk, market risks, operational risk, country risk, concentration, investment risk and other risks, and it proposes measures for managing those risks to the Bank's Executive Board. The Risk Committee meets as prescribed by the Rules of Procedure.

The Client Monitoring Committee is responsible for monitoring the placement quality at the level of individual clients and observing the increased credit risk, i.e. for monitoring the receivables from clients in arrears and clients with a probability of increased credit risk. The role of this Committee is to consider potentially non-performing clients and placements, as well as to undertake certain activities in order to improve the status of these placements/clients. The Committee is also in charge of monitoring the status of previously proposed measures and decisions at the Committee's sessions. The Client Monitoring Committee meets at least once a month and more frequently if necessary.

The Bank's credit committees decide on loan requirements/placements within the frameworks determined in the Bank's acts, and analyse the Bank's exposure to credit, interest rate and market risks. The Bank's Board of Directors makes the Decision on forming credit committees and appointing the members of the following credit committees:

- Credit Committee for Corporate and Finance Sector clients; and
- Credit Committee for Retail and SBB clients.

The credit risk management divisions (the Corporate, Public and Finance Sector Credit Risk Management Division and the Retail and SBB Sector Credit Risk Management Division) identify, measure i.e. assess and manage the credit risk of performing clients in the corporate segment, the public and financial sector, i.e. the segment of retail and small and medium enterprises.

The Monitoring Division monitors, analyses, controls and reports on receivables from potentially problematic clients that are managed by the sales departments in the segments or corporate, public sector, financial institutions, retail and small clients, and it also monitors, controls and reports on the contracted collaterals, the importance of appraisal reports and insurance policies for mortgaged real estate, the validity of data related to the contracted collaterals entered in the *Collateral Management System (applications for collateral recording and management)*, the status of the contracted subsequent conditions with the Bank's credit clients, etc.

4. RISK MANAGEMENT (Continued)

Competencies (Continued)

The Risk Controle Sector proposes the risk management strategy, policy, procedures and methodologies for adoption. This Sector is responsible for implementing and maintaining risk-related methodologies and procedures from the aspect of ensuring the independent risk control process. This Sector also ensures the complete inclusion of risks in the measurement and reporting system of the risks that the Bank is exposed to in its operations. The Risk Controlling Sector comprises two departments:

- Credit Risk Controlling; and
- Market, Liquidity and Operational Risk Controlling.

The Workout Sector – in order to implement the strategy for addressing NPLs, which is an integral part of the Bank's risk management strategy, the Bank set up this Sector within its organisation as a separate organisational unit for NPL management so that it is functionally and organisationally separated from the organisational units whose scope of activity includes risk-taking. The main function of the Sector is to manage the collection of non-performing customers – corporate and retail, entrepreneurs and registered agricultural estates, and to manage the early collection of natural persons' placements in arrears.

The Finance Sector is in charge of maintaining books of accounts, the preparation and issue of financial statements and reporting to the National Bank of Serbia and other external users. Furthermore, *it carries out analysis and control* providing the appropriate support to all participants in the process of planning available internal capital, as well as in preparing the Bank's Financial Plan, which is taken as the basis for planning available internal capital.

The Treasury Sector is responsible for managing assets and liquidity, as well as the Bank's assets and liabilities. Moreover, it participates in the liquidity risk management, interest rate and foreign currency position of the Bank. The operations of this Sector are organised through the work of two units: Trading, Sales and Financial Institutions Relations and Asset/Liability and Liquidity Management.

The Operations Sector, through its operational activities, performs a support function, by managing the Bank's operations in the areas of business support, payment operations, credit and deposit administration.

The Internal Audit Department is responsible for the continued monitoring of the implementation of risk management policies and procedures, as well as for the regular assessment of the adequacy, reliability and effectiveness of the internal control system and the compliance function of the Bank.

The Compliance Sector is obligated to identify and monitor compliance risks in the Bank's operations, as well as to manage those risks that particularly relate to the risk of money laundering and terrorist financing, the risk of sanctions by the regulator, the risk of financial losses and reputation risk. The basic function of this Sector is the implementation of an ongoing, adequate and efficient control of the Bank's compliance in a manner that enables indicating the existing and potential compliance risks and management of such risks in order to achieve the highest standards in the Bank's operations.

In its regular course of business, the Bank is particularly exposed to the following risks: credit risk and associated risks, liquidity risk, interest rate risk, market risks, operational risk, exposure risk i.e. concentration risk, investment risk and country risk.

4.1. Credit Risk

Credit risk is the risk of negative effects on the Bank's financial result and capital arising from borrowers' inability to settle overdue liabilities to the Bank.

During 2023, activities aimed at the complete integration of the Bank with Nasa AIK Banka were finalised, which was followed by a period of improving the process of credit risk management and risk-weighted receivables management.

Through its internal Credit Policy, loan approval procedures and methodologies, the Bank has defined criteria for approving loans, modifying terms of use and the settlement of loans approved, the rescheduling and restructuring of receivables etc. The Credit Policy defines general terms of business with the Bank's clients, as well as fundamentals of crediting the corporate, public, retail and SBB sector and risk management for all the aforementioned segments.

The loan approval process depends on the borrower type, loan type, loan characteristics and purpose and the collateral obtained, etc.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

In order to implement the policy of optimum credit risk exposure, the Bank assesses the creditworthiness, i.e. the financial situation and creditworthiness of each borrower upon loan application submission and subsequently, when the same borrower applies for another loan or as part of regular and continuous borrower performance monitoring.

Assessment of the borrower's financial situation and creditworthiness, historical regularity in liability settlement and the assessment of the value of offered collateral on an individual level, i.e. for each individual loan, is performed within the Bank's organisational unit where the application for loan approval has been submitted, while the ultimate credit risk assessment per loan requested is conducted by the Corporate, Public and Finance Sector Credit Risk Management Division or the Retail and SBB Sector Credit Risk Management Division, depending on the segment the borrower belongs to.

A loan proposal is made based on the assessment of the information from the borrower's financial statements, information on debt from data obtained from the borrowers themselves and from the Credit Bureau, information on account liquidity, information on the business relations of the borrower with the customers and suppliers provided by the borrower along with other supporting documents, information from the borrower's business plan, etc.

In such analysis, the Bank complies with the requirements of the regulations of the National Bank of Serbia, as well as with its internal procedures in order to assess potential risks that may arise from the inability of the borrowers to fulfil their liabilities due to the Bank.

In order to mitigate credit risk, the Bank demands certain collaterals upon loans approval. The amount and type of the required collateral depend on the assessed credit risk for each borrower individually. Terms for securitising loan repayment are defined based on analyses of the borrower's creditworthiness, the type and extent of credit risk exposure, loan maturity and loan amount.

The Bank manages credit risk at an individual loan level, individual borrower level, as well as at the Bank's entire loan portfolio level.

Credit risk monitoring at an individual borrower level is based on obtaining updated information on the borrower's financial situation and creditworthiness and the value of the collateral, while credit risk monitoring at the portfolio level is performed through the analysis of the change within a group of borrowers with a similar risk level and characteristics in order to determine and manage the balances and quality of assets.

Credit risk monitoring at an individual receivable level, i.e., the level of the individual borrower/group of related entities is performed within the Corporate and Public Sector, the Retail and SME Sector, Credit Risk Management Corporate, Public and Finance sector, Credit Risk Management Retail and SME, Workout and the Monitoring Sector.

Credit risk monitoring on the loan portfolio level is performed by the Monitoring Sector, as well as within the Credit Risk Controlling Sector.

At the credit portfolio level, the Risk Controlling Division/the Credit Risk Controlling assesses/calculates the impairment of on-balance sheet assets and probable loss on off-balance sheet items at least quarterly, i.e. recognises and measures expected credit losses in accordance with the International Accounting Standards and the International Financial Reporting Standards (IFRS 9).

The Bank also classifies its on- and off-balance sheet assets on a quarterly basis in accordance with the National Bank of Serbia Decision on the classification of on-balance sheet assets and off-balance sheet items.

In addition to loans, the Bank issues guarantees and letters of credit to its customers and has potential liabilities in this respect to make payments to third parties. In this way, the Bank is exposed to risks associated with the credit risk, which may be overcome or mitigated trough control procedures and processes used for credit risk.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Credit Risk Measurement and Assessment

Credit risk is assessed and measured by applying quantitative and qualitative criteria based on which debtors and their placements are classified into appropriate risk categories, in accordance with:

- The Bank's methodology for the classification of balance sheet assets and off-balance sheet items,
- Methodologies for identifying and measuring the credit risk arising from the impact of changes in the dinar exchange rate on the financial position of the borrower; and
- The Bank's methodology for assessing impairment of balance sheet assets and provision for off-balance sheet items in accordance with the IFRS 9.

According to the internally defined methodology for the classification of on balance sheet assets and off-balance sheet items regulated by the Decision of the National Bank of Serbia on the classification of balance sheet assets and off-balance sheet items, the Bank performs a credit risk assessment based on the following basic criteria:

- The timeliness, i.e. delay in the performance of obligations to the bank (current and in the last year);
- Estimates of the financial position, i.e. creditworthiness of the debtor; and
- Quality of collaterals.

Based on the above criteria, debtors' claims are classified into one of the following categories: A, B, V, G or D.

Loans and Receivables Impairment Assessment

The Bank assesses on-balance and off-balance sheet receivables for impairment in accordance with its accounting policy and the Methodology for Assessing Impairment of Balance Sheet Assets and Provision for Off-Balance Sheet Items under IFRS 9 (hereinafter: “Impairment Methodology“).

In accordance with the requirements of the IFRS 9, the Bank has defined criteria for the staging of its on-balance sheet assets and off-balance sheet items (Stages 1, 2 and 3) depending on the level of credit risk increase since the initial recognition, as well as the criteria for transfers of assets/receivables from one stage to another.

Off-balance exposures are included in the EAD calculation with the application of credit conversion factors (CCF) defined in the Decision on capital adequacy issued by National Bank of Serbia.

At least once in three months, for all its financial instruments, the Bank must:

- assess the asset quality and determine whether there is objective evidence of impairment, and
- assess whether there has been a significant increase in the credit risk since the initial recognition and calculate the amount of impairment per expected credit losses (ECL.

In the process of impairment assessment, the Bank applied internal ratings for client classification by credit risk level. The internal rating model defines the level of the individual client’s credit quality and, accordingly, the appropriate level of probable non-performance of obligations.

The Bank uses the rating scale that includes 26 rating categories, 25 representing non-default status of obligor, while one category marks default status.

The expert rating model has been developed for clients with specific characteristics for which the Bank was unable to develop an adequate statistical PD model, such as the specialised lending, etc., primarily due to the lack of a statistically relevant total number of clients and/or an insignificant number of defaults among these clients.

The Bank has applied expert ratings for the following portfolios: local self-government, public enterprises, financial institutions, newly-established enterprises and specialised financing.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Loans and Receivables Impairment Assessment (Continued)

EAD-Exposure at default includes balance sheet and off-balance sheet exposure

The exposure at default is calculated as the sum of both on-balance sheet and off-balance sheet exposures. Off-balance exposures at the moment of default are included in the EAD calculation with the application of credit conversion factors (CCF) defined in the Decision on capital adequacy issued by National Bank of Serbia.

PD – Probability of Default

For the purpose of calculating impairment, the probability of default occurrence (PD) is assessed using transition matrices that show debtors' transitions from different performing ratings to default in the period between two dates. The starting point is migration matrices calculated by the Bank in terms of annual client migrations by ratings to the default category (per number) for each month in the past 6 years from the calculation date. In order to calculate PD, TTC (*Through the cycle*) matrix is multiplied by the number of the remaining years until loan maturity.

Effect of Macroeconomic Trends

For the purposes of determining the forward looking component of PD, the Bank uses the Z-shift approach.

When developing the model for determining independent macroeconomic variables, the Bank used statistical models and linear regression models. By analysing the assumptions, the variables that have a significant impact on the movement of the default rate were determined.

In order to define credit risk losses based on IFRS 9, the Bank calculates various macroeconomic scenarios and their probabilities of occurrence. On this occasion, the Bank uses the error distribution method, defining the error distribution through which the probability of a certain error value is estimated.

Three different macroeconomic scenarios and the probabilities of their occurrence are calculated. The basic scenario participates with 60%, the pessimistic one with 30%, while the optimistic one participates with 10%. The calculations are based on historically realised and predicted values of GDP for the current year and two years ahead, and on the basis of data published by the IMF. GDP growth, as a macroeconomic variable, showed the best predictive ability for all types of portfolios.

The GDP values used and the corresponding probabilities are presented in the table below:

	Scenario		
	Pessimistic scenario	Basic scenario	Optimistic scenario
GDP [%]	2.43	3.58	6.37

In addition, in order to adhere to the principle of prudency, and bearing in mind significant macroeconomic trends during 2023, the Bank included an additional layer of protection of 5% in the calculation of impairment for credit risk.

LGD – Loss Given Default

The LGD parameter represents a loss estimation on individual financial instrument level, under the assumption of default, i.e. non-performance status. When estimating credit losses, the Bank wants to reflect the possibility of the collection of cash flows from both the regular cash flows and from collaterals and other security instruments that are directly connected to the financial instrument.

The Bank generally applies the separate calculation concept for the LGD: for the secured portion of the receivables ("LGD secured") and for the unsecured portion of the receivables ("LGD unsecured"), depending on the degree of collateralisation of an individual loan for impairment calculation for receivables in Stages 1 and 2. The LGD unsecured for project financing and collateral-based financing is equivalent to 100%.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Loans and Receivables Impairment Assessment (Continued)

Objective Evidence of Impairment and Significant Increase in Credit Risk

Upon assessing the expected credit losses for the purpose of impairment allowance calculation, the Bank assesses all its individual financial instruments (at the loan facility level) to determine whether there has been a significant increase in credit risk or default, and performs the following staging accordingly:

- Stage 1 includes all the new financial assets at the moment of initial recognition and assets with no significant deterioration of credit quality since initial recognition at the reporting date;
- Stage 2 includes financial assets with a significant increase in credit risk since initial recognition, but without objective evidence of impairment based on the credit losses; and
- Stage 3 includes financial assets with objective evidence of impairment at the reporting date.

Default, i.e., a default status (failure to settle liabilities), is defined as a material delay in liability settlement of at least 90 days at the individual financial instrument level. Default may also be identified before the 90 days past due if other quantitative and/or qualitative criteria are identified that indicate that there is objective evidence of the impairment of a financial asset. For such purposes, the Bank defined a list of indicators to consider in order to be able to identify the default status.

If the Bank’s client is in days past due for less than 90 days, default is assigned to the loan portion if the Bank finds that the debtor’s ability to repay the debt has deteriorated and that the debt repayment in its full amount has been questioned. The above-mentioned assessment is performed based on the following criteria:

- If the client’s financial position indicates that there is no repayment capacity for the due performance of liabilities, within the days past due up to 90 days, or that the debt repayment in its full amount has been endangered;
- If other creditors have initiated an enforcement procedure over the client’s property, significant for the client’s business; and
- If the client has filed a Reorganisation plan prepared in advance to the competent court, and
- If a bankruptcy procedure has been initiated against the client.

A non-performing receivable is one based on which the debtor is in arrears for more than 90 days or based on the payment of interest or principal, according to which interest on the debt in the three-month amount (or higher) is capitalised, refinanced or delayed, and based on which the debtor is in arrears for less than 90 days, but the Bank has assessed that the debtor’s ability to repay the debt has deteriorated and that the debt repayment in its full amount has been questioned. Other receivables are categorised as performing.

Identification of a Significant Increase in Credit Risk

Stage 2 includes receivables with a significant increase in credit risk in comparison to initial recognition. Criteria of a significant increase in credit risk are:

- Materially significant default longer than 30 and up to 90 days,
- Relative deterioration of lifetime PD above the threshold of 200% for corporate customers and 250% for retail customers, on the reporting date compared to the placement approval date,
- The receivable was restructured due to financial difficulties (label FPE),
- Receivable from a customer who is classified in the red EWS (early warning signs) zone in accordance with customer monitoring procedures, and
- The client monitoring committee made a decision to move the receivable/client from Stage 1 to Stage 2.

Customers with a rating of R8 or better are considered low credit risk customers at the reporting date and cannot be classified in Stage 2 based on the PD relative change criteria.

Receivables from banks and the state: Deterioration of the rating of an external rating agency, which leads to a transition from one of the investment ratings (Aaa-Baa3) to one of the non-investment ratings (Ba-C).

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Loans and Receivables Impairment Assessment (Continued)

According to its Methodology for Impairment Assessment, the Bank calculates impairment allowance in the amount of lifetime expected credit losses (ECL) if the credit risk of a particular financial instrument has significantly increased since the instrument's initial recognition or there is objective evidence of impairment identified (financial assets in Stage 2 and Stage 3), or in the amount of the 12-month ECL for all financial instruments whose credit risk has not significantly increased since initial recognition (financial assets in Stage 1).

Impairment Calculation – Stage 1

For impairment allowance calculation purposes, the 12-month expected credit losses are part of the lifetime expected credit losses identified and represent cash shortages over the life of an instrument that will occur in the event of default within 12 months from the reporting date, weighted by the probability of such default.

Impairment Calculation – Stage 2

Expected losses here represent probability-weighted estimates of credit losses that will arise over the expected life of a financial instrument.

Impairment Calculation – Stage 3

For the impairment allowance calculation, all the exposures in Stage 3 entail: all exposures with the identified non-performance status – default status.

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

Furthermore, the Bank shall allocate additional impairment for POCI exposures, if there has been a deterioration of objective circumstances since the recognition of the financial asset. Objective circumstances must be based on all relevant facts essential for the collection of these receivables. This includes possible collection scenarios that take into account the potential source of collection and the period in which collection can be expected.

1) *Individual Impairment Assessment*

When calculating impairment, the Bank views part of the clients on an individual basis. Individually significant exposure – exposure exceeding 18,000,000 RSD at the corporate client level, or 12,000,000 RSD at the retail client level.

Since, under the relevant standard, expected credit losses (ECL) represent probability-weighted estimates of credit losses, the Bank considers multiple possible collection scenarios upon estimating expected future cash flows: collateral foreclosure, collection from regular cash flows, loan restructuring and rescheduling, bankruptcy of the borrower, sale of receivables, settlement and everything else that is deemed relevant.

Upon the definition of those scenarios, the Bank's starting point is the collection strategy defined by the Workout Sector, the Credit Risk Management Corporate, Public and Finance sector, and the Credit Risk Management Retail and SME in collaboration with the competent Bank’s sales sectors/departments based on, inter alia, conclusions and measures determined by the Client Monitoring Committee.

In defining the probability (percentage) of certain scenarios, the Bank relies on the historical realisation and collection of NPLs, as well as individual exposure specificities and all other available information and data that may be relevant in estimating the probability of a certain collection strategy realisation.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Loans and Receivables Impairment Assessment (Continued)

2) *Collective Impairment Assessment*

All other exposures are subject to the collective impairment assessment, which entails grouping the remaining financial instruments in Stage 3 per the following sub-segments:

1. Corporate customers
2. Retail customers – individuals
3. Financial institutions
4. Exposures to governments and government agencies and institutions

Within each of the above-listed sub-segments, the Bank further classifies borrowers into rating groups from R1 to R26, according to the Bank’s internal rating model. Clients with the rating R26 are clients with a default status.

The Approach to the Exposures to the States and Financial Institutions

Since the Bank does not possess an adequate history of migrations and defaults for exposures to governments and government agencies and institutions, upon the assessment of the impairment allowance and default risk of the financial instruments of governments and those of governmental agencies and financial institutions, it relies on the data of an external credit rating agency (Moody’s).

For banks without a rating assigned by Moody’s, the Bank uses as input the ratings of the countries of their domicile.

Impairment Allowance Calculation and Provisioning per Country

The Bank incorporates the country risk into the level of the allocated impairment for credit risk, through the correction of the client's rating, which cannot be more favourable than the risk level of the home country, while respecting the currency structure of the exposure.

Impairment Calculation for Placements Secured by High Value Collateral

The Bank will apply an impairment rate of 0.5% for placements to the corporate segment and retail housing loans, for placements secured by high value collateral in cases when the respective receivables do not receive impairment.

This principle applies to all loans to the above-mentioned segments except those that are assessed individually. The amount of exposure to which the said percentage applies consists of the sum of the balance sheet exposure and the off-balance sheet exposure multiplied by the conversion factor.

Provisions for Off-balance Sheet Items

The assessment of provisions for off balance sheet items is performed in the same manner as for balance sheet items, expect for the application of credit conversion factors (CCF). The Bank is using CCF as defined by the Decision on capital adequacy.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Maximum Credit Risk Exposure

The table below represents the maximum credit risk exposure without collaterals or other credit enhancements. The exposure is based on the carrying amounts from the balance sheet as of 31 December 2023 and 2022.

In case of financial instruments measured at fair value (market value), the amounts presented relate to the current credit risk exposure, but not the maximum credit risk exposure that may arise in the future as a result of fair value adjustments.

Breakdown of the Bank's Assets

In RSD thousand
31 December 2023

	Gross exposure	Allowance for impairment	Net exposure
I Balance sheet items	**424,018,142**	**(8,201,106)**	**415,817,036**
Cash and balances with Central Bank	74,281,428	(9,790)	74,271,638
Derivatives	114,421	-	114,421
Securities	44,868,868	(47,266)	44,821,602
Loans and placements to banks and other financial institutions	68,482,275	(340,900)	68,141,375
Loans and placements to customers	235,095,372	(7,707,583)	227,387,789
Other assets	1,175,778	(95,567)	1,080,211
II Off-balance sheet items	**67,023,959**	**(146,348)**	**66,877,611**
Guarantees issued, unsecured letters of credit and acceptances	62,590,939	(127,068)	62,463,871
Irrevocable commitments per credit lines	4,433,020	(19,280)	4,413,740
Total	**491,042,101**	**(8,347,454)**	**482,694,647**

In RSD thousand
31 December 2022

	Gross exposure	Allowance for impairment	Net exposure
I Balance sheet items	**407,946,166**	**(5,566,083)**	**402,380,083**
Cash and balances with Central Bank	75,833,126	(28,810)	75,804,316
Derivatives	16,972	-	16,972
Securities	58,865,297	(121,625)	58,743,672
Loans and placements to banks and other financial institutions	31,692,662	(216,177)	31,476,485
Loans and placements to customers	237,011,621	(5,082,690)	231,928,931
Other assets	4,526,488	(116,781)	4,409,707
II Off-balance sheet items	**61,025,812**	**(284,074)**	**60,741,738**
Guarantees issued, unsecured letters of credit and acceptances	51,800,468	(214,715)	51,585,753
Irrevocable commitments per credit lines	9,225,344	(69,359)	9,155,985
Total	**468,971,978**	**(5,850,157)**	**463,121,821**

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Portfolio Quality

The table below summarises the quality of **gross portfolio** based on the Bank's internal rating as of **31 December 2023**:

In RSD thousand
31 December 2023

Rating	Placements to customers			Placements to banks			Balance sheet assets exposed to credit risk	-balance sheet items exposed to credit risk			Total
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
R1	211,284	18,574	-	1,080,046	-	-	1,309,904	35,894	-	-	1,345,798
R2	206,830	-	-	-	-	-	206,830	38,800	-	-	245,630
R3	747,242	10,364	-	-	-	-	757,606	53,194	-	-	810,800
R4	5,110,054	25,009	-	-	-	-	5,135,063	93,462	-	-	5,228,525
R5	4,347,033	61,160	-	-	-	-	4,408,193	134,246	-	-	4,542,439
R6	4,129,045	80,097	-	-	-	-	4,209,142	1,129,424	62	-	5,338,628
R7	5,450,390	118,207	-	-	-	-	5,568,597	4,351,753	1,620	-	9,921,970
R8	10,687,101	138,478	-	1,449	-	-	10,827,028	23,373,292	2,124	-	34,202,444
R9	9,820,373	198,294	-	-	-	-	10,018,667	7,435,075	12,082	-	17,465,824
R10	32,505,199	364,308	-	1,470,690	-	-	34,340,197	9,734,700	403,155	-	44,478,052
R11	16,355,202	7,546,464	-	-	-	-	23,901,666	5,956,612	71,270	-	29,929,548
R12	10,220,050	5,813,522	-	-	-	-	16,033,572	1,389,078	70,856	-	17,493,506
R13	10,613,255	181,383	-	644,711	-	-	11,439,349	3,238,760	1,336,841	-	16,014,950
R14	12,214,299	537,553	-	-	-	-	12,751,852	2,110,108	20,702	-	14,882,662
R15	17,687,352	321,875	-	-	29,931	-	18,039,158	608,851	386,838	-	19,034,847
R16	16,441,821	1,536,351	-	-	-	-	17,978,172	1,878,555	28,328	-	19,885,055
R17	14,485,399	1,926,047	-	-	-	-	16,411,446	927,968	88,923	-	17,428,337
R18	7,068,431	2,470,679	-	-	-	-	9,539,110	253,852	35,946	-	9,828,908
R19	10,766,860	1,165,091	-	2,254	-	-	11,934,205	262,945	466,262	-	12,663,412
R20	3,807,661	582,030	-	-	-	-	4,389,691	147,446	10,478	-	4,547,615
R21	599,565	1,380,038	-	-	-	-	1,979,603	11,331	112,467	-	2,103,401
R22	353,494	535,608	-	-	-	-	889,102	197,102	2,771	-	1,088,975
R23	56,525	2,036,062	-	-	202	-	2,092,789	50	591	-	2,093,430
R24	26,249	368,827	-	-	-	-	395,076	1,272	1,297	-	397,645
R25	17,229	5,165,904	-	-	436,228	-	5,619,361	-	288,998	-	5,908,359
R26	-	-	8,565,152	-	-	-	8,565,152	-	-	222,002	8,787,154
Aaa - Aa3	-	-	-	1,308,910	-	183,205	1,492,115	-	-	-	1,492,115
A1-A3	-	-	-	9,679,401	-	-	9,679,401	57	-	-	9,679,458
Baa1-Baa3	-	-	-	2,292,720	-	-	2,292,720	-	4,226	-	2,296,946
Ba1-Ba3	13,425	-	6,927	51,163,902	-	88,625	51,272,879	-	-	-	51,272,879
B1-B3	-	-	-	98,337	-	-	98,337	92,293	-	-	190,630
Caa1 and lower	-	-	-	-	-	1,664	1,664	-	-	-	1,664
Total	**193,941,368**	**32,581,925**	**8,572,079**	**67,742,420**	**466,361**	**273,494**	**303,577,647**	**63,456,120**	**3,345,837**	**222,002**	**370,601,606**

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Portfolio Quality (Continued)

The table below summarises the quality of **gross portfolio** based on the Bank’s internal rating as of **31 December 2022**:

In RSD thousand
31 December 2022

Rating	Placements to customers			Placements to banks			Balance sheet assets exposed to credit risk	-balance sheet items exposed to credit risk			Total
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
R1	1,549,986	17,887	-	39,124	-	-	1,606,997	81,015	-	-	1,688,012
R2	970,882	15,489	-	-	-	-	986,371	57,732	-	-	1,044,103
R3	1,408,983	22,676	-	885,341	-	-	2,317,000	159,050	3	-	2,476,053
R4	3,412,489	26,188	-	-	-	-	3,438,677	140,641	89	-	3,579,407
R5	3,621,894	73,241	-	383,456	-	-	4,078,591	179,471	31	-	4,258,093
R6	4,572,989	103,902	-	-	-	-	4,676,891	1,068,804	5	-	5,745,700
R7	17,677,236	174,044	-	1,579,952	-	-	19,431,232	7,468,903	481	-	26,900,616
R8	7,920,869	253,617	-	3,775	467	-	8,178,728	12,110,161	4,601	-	20,293,490
R9	9,640,291	299,723	-	147	-	-	9,940,161	5,979,082	38,692	2,000	15,959,935
R10	32,697,569	742,115	1,559	-	-	-	33,441,243	8,514,897	1,300,109	-	43,256,249
R11	15,855,102	8,139,732	-	-	-	-	23,994,834	1,715,822	1,244,909	-	26,955,565
R12	12,415,789	401,309	705	559,304	-	-	13,377,107	9,303,426	19,464	100	22,700,097
R13	15,674,640	424,071	-	6,862	-	-	16,105,573	2,008,816	45,330	-	18,159,719
R14	13,233,803	471,222	-	44,782	4	-	13,749,811	3,060,979	69,409	-	16,880,199
R15	16,848,552	536,789	-	2,242	-	-	17,387,583	1,581,188	17,052	-	18,985,823
R16	6,652,246	662,306	-	20,181	25	-	7,334,758	2,297,841	47,954	-	9,680,553
R17	14,563,330	761,365	-	286,744	-	-	15,611,439	756,936	91,859	-	16,460,234
R18	2,121,999	1,787,025	-	-	-	-	3,909,024	27,894	5,344	-	3,942,262
R19	8,398,452	3,332,471	-	-	-	-	11,730,923	337,499	1,748	-	12,070,170
R20	10,373,019	3,205,233	3,196	-	-	-	13,581,448	141,965	999	100	13,724,512
R21	801,843	675,687	4,408	-	-	-	1,481,938	116,770	14,729	-	1,613,437
R22	1,848,761	1,053,630	24,136	-	-	-	2,926,527	40,948	6,890	7,514	2,981,879
R23	3,563,551	541,966	2,653	-	203	-	4,108,373	208,601	442,432	-	4,759,406
R24	161,033	225,230	411	-	-	-	386,674	8,237	448	-	395,359
R25	743,097	1,486,957	2,651	-	-	-	2,232,705	5,218	530	-	2,238,453
R26	-	-	4,788,336	-	-	653,014	5,441,350	-	-	283,411	5,724,761
Aaa - Aa3	-	-	-	834,212	-	-	834,212	-	-	-	834,212
A1-A3	-	-	-	10,629,533	-	-	10,629,533	57	-	-	10,629,590
Baa1-Baa3	-	-	732	3,052,091	-	-	3,052,823	-	-	-	3,052,823
Ba1-Ba3	20,554	-	-	12,443,309	1,296	37,739	12,502,898	-	-	-	12,502,898
B1-B3	-	-	-	228,859	-	-	228,859	7,626	-	-	236,485
Total	**206,748,959**	**25,433,875**	**4,828,787**	**30,999,914**	**1,995**	**690,753**	**268,704,283**	**57,379,579**	**3,353,108**	**293,125**	**329,730,095**

Changes in exposure levels are mostly due to the merger of the portfolio of Nasa AIK Banka.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Allowance for Impairment

The tables below present movements in the allowance for impairment during the year by the classes of assets:

In RSD thousand

Loans and placements to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Allowance for impairment as of 31 December 2022	**(2,213,166)**	**(1,840,230)**	**(1,007,422)**	**(21,872)**	**(5,082,690)**
Movements in the allowance for impairment					
– Transfer to Stage 1	(1,802,646)	(268,429)	(51,500)	(8,232)	(2,130,807)
– Transfer to Stage 2	(369,276)	(1,231,658)	(25,555)	(8,682)	(1,635,171)
– Transfer to Stage 3	(41,244)	(340,143)	(930,367)	(2,405)	(1,314,159)
– POCI	-	-	-	(2,553)	(2,553)
Increase due to changes in the credit risk	(595,493)	(148,386)	(163,844)	-	(907,723)
Decrease due to changes in the credit risk	409,649	114,909	134,643	-	659,201
Newly acquired/originated assets	(6,652,523)	(3,356,880)	(3,150,869)	(414,024)	(13,574,296)
Decrease due to derecognition	7,144,741	2,854,444	647,706	-	10,646,891
Write-offs and transfer to off-balance sheet items	-	-	702,129	-	702,129
Other changes	(20,067)	(16,982)	(116,266)	(201)	(153,516)
FX differences	1,128	627	665	1	2,421
Allowance for impairment as of 31 December 2023	**(1,925,731)**	**(2,392,498)**	**(2,953,258)**	**(436,096)**	**(7,707,583)**

Loans and placements to customers	Stage 1	Stage 2	Stage 3	POCI	Total
Allowance for impairment as of 31 December 2021	**(2,129,668)**	**(430,824)**	**(1,019,250)**	**(1,370)**	**(3,581,112)**
Movements in the allowance for impairment					
– Transfer to Stage 1	(1,909,981)	(106,533)	(42,117)	-	(2,058,631)
– Transfer to Stage 2	(212,234)	(282,038)	(12,267)	-	(506,539)
– Transfer to Stage 3	(7,453)	(42,253)	(964,866)	-	(1,014,572)
– POCI	-	-	-	(1,370)	(1,370)
Increase due to changes in the credit risk	(174,183)	(80,112)	(150,395)	-	(404,690)
Decrease due to changes in the credit risk	285,806	11,877	107,117	-	404,800
Newly acquired/originated assets	(3,655,067)	(2,781,301)	(938,718)	(143)	(7,375,229)
Decrease due to derecognition	4,395,052	1,829,659	553,550	870	6,779,131
Changes in model	20,581	(95,394)	17,910	(11,975)	(68,878)
Write-offs, transfer to off-balance sheet items and sales	(277,767)	243,537	587,901	(9,257)	544,414
FX differences	6,098	818	22,906	3	29,825
Effects of Nasa AIK Banka merger	(684,018)	(538,490)	(188,443)	-	(1,410,951)
Allowance for impairment as of 31 December 2022	**(2,213,166)**	**(1,840,230)**	**(1,007,422)**	**(21,872)**	**(5,082,690)**

In 2023, changes in allowances for impairment by risk level are the consequences of the following business changes:

- The effect of macroeconomic factors to the retail customers portfolio;
- Deterioration of the financial condition of certain customers and transfer to worse risk levels; and
- Additional impairment of POCI clients.

NOTES ON THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2023

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Allowance for Impairment (Continued)

In RSD thousand

Loans and placements to banks and other financial institutions	Stage 1	Stage 2	Stage 3	POCI	Total
Allowance for impairment 31 December 2022	**(20,797)**	**(1,314)**	**(194,066)**	**-**	**(216,177)**
Movements in the allowance for impairment					
– Transfer to Stage 1	(20,797)	-	(14)	-	(20,811)
– Transfer to Stage 2	-	(18)	-	-	(18)
– Transfer to Stage 3	-	(1,296)	(194,052)	-	(195,348)
Newly acquired/originated assets	(358,856)	(135,657)	(20,896)	-	(515,409)
Decrease due to derecognition	356,768	1,264	18,031	-	376,063
Write-offs, transfer to off-balance sheet items and sales	-	-	6,818	-	6,818
FX differences	7,753	51	1	-	7,805
Allowance for impairment 31 December 2023	**(15,132)**	**(135,656)**	**(190,112)**	**-**	**(340,900)**

Loans and placements to banks and other financial institutions	Stage 1	Stage 2	Stage 3	POCI	Total
Allowance for impairment as of 31 December 2021	**(20,607)**	**-**	**(1,346)**	**-**	**(21,953)**
Movements in the allowance for impairment					
– Transfer to Stage 1	(20,603)	-	-	-	(20,603)
– Transfer to Stage 2	(1)	-	-	-	(1)
– Transfer to Stage 3	(3)	-	(1,346)	-	(1,349)
Newly acquired/originated assets	(119,505)	(1,232)	(9,009)	-	(129,746)
Decreases due to derecognition	119,865	129	11,870	-	131,864
Write-offs, transfer to off-balance sheet items and sales	-	-	-	-	-
Effects of Nasa AIK Banka merger	(312)	(2)	(195,581)		(195,895)
FX differences	(238)	(209)	-	-	(447)
Allowance for impairment as of 31 December 2022	**(20,797)**	**(1,314)**	**(194,066)**	**-**	**(216,177)**

In RSD thousand

Securities	Stage 1	Stage 2	Stage 3	POCI	2023 Total
Allowance for impairment as of 31 December 2022	**(10,985)**	**(145)**	**(110,495)**	**-**	**(121,625)**
Movements in the allowance for impairment					
– Transfer to Stage 1	(10,985)	-	-	-	(10,985)
– Transfer to Stage 2	-	(145)	-	-	(145)
– Transfer to Stage 3	-	-	(110,495)	-	(110,495)
Newly acquired/originated assets	(6,168)	(18)	-	-	(6,186)
Decrease due to derecognition	14,121	54	96	-	14,271
Write-offs, transfer to off-balance sheet items and sales	(173)	-	66,447		66,274
Allowance for impairment as of 31 December 2023	**(3,205)**	**(109)**	**(43,952)**	**-**	**(47,266)**

Securities	Stage 1	Stage 2	Stage 3	POCI	2022 Total
Allowance for impairment as of 31 December 2021	**(14,823)**	**-**	**(110,496)**	**-**	**(125,319)**
Movements of the allowance for impairment					
– Transfer to Stage 1	(14,823)	-	-	-	(14,823)
– Transfer to Stage 3	-	-	(110,496)	-	(110,496)
Newly acquired/originated assets	(17,031)	(145)	-	-	(17,176)
Decrease due to derecognition	20,871	-	1	-	20,872
Other changes	(2)	-	-	-	(2)
Allowance for impairment as of 31 December 2022	**(10,985)**	**(145)**	**(110,495)**	**-**	**(121,625)**

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Allowance for Impairment (Continued)

In RSD thousand

Other assets	Stage 1	Stage 2	Stage 3	POCI	2023 Total
Allowance for impairment as of 31 December 2022	**(12,881)**	**(277)**	**(103,623)**	**-**	**(116,781)**
Movements in the allowance for impairment					
– Transfer to Stage 1	(8,789)	(70)	(6,313)	-	(15,172)
– Transfer to Stage 2	(3,882)	(193)	(100)	-	(4,175)
– Transfer to Stage 3	(210)	(14)	(97,210)	-	(97,434)
Newly acquired/originated assets	(49,437)	(14,203)	(85,925)	-	(149,565)
Decrease due to derecognition	51,091	24,269	34,700	-	110,060
Write-offs	-	-	13,160	-	13,160
FX differences	-	-	-	-	-
Other changes	(2,518)	(11,007)	72,127	(11,043)	47,559
Allowance for impairment as of 31 December 2023	**(13,745)**	**(1,218)**	**(69,561)**	**(11,043)**	**(95,567)**

Other assets	Stage 1	Stage 2	Stage 3	POCI	2022 Total
Allowance for impairment of 31 December 2021	**(11,838)**	**(1,574)**	**(84,335)**	**-**	**(97,747)**
Movements in the allowance for impairment					
–Transfer to Stage 1	(11,722)	(1,529)	(511)	-	(13,762)
–Transfer to Stage 2	(79)	(33)	(66)	-	(178)
–Transfer to Stage 3	(37)	(12)	(83,758)	-	(83,807)
Effects of changes in credit risk	8	(1)	(41)	-	(34)
Newly acquired/originated assets	(36,403)	(679)	(43,603)	-	(80,685)
Decreases due to derecognition	35,106	2,089	42,642	-	79,837
Effects of Nasa AIK Banka merger	(302)	(135)	(63,620)	-	(64,057)
Write-offs, FX differences, other changes	548	23	45,334	-	45,905
Impairment allowance as of 31 December 2022	**(12,881)**	**(277)**	**(103,623)**	**-**	**(116,781)**

In RSD thousand

Cash and balances with Central Bank	Stage 1	Stage 2	Stage 3	POCI	2023 Total
Allowance for impairment as of 31 December 2022	**(28,810)**	**-**	**-**	**-**	**(28,810)**
Movements in the allowance for impairment		-	-	-	
– Transfer to Stage 1	(28,810)	-	-	-	(28,810)
Newly acquired/originated assets	(38,034)	-	-	-	(38,034)
Decrease due to derecognition	57,045	-	-	-	57,045
FX differences	9	-	-	-	9
Allowance for impairment as of 31 December 2023	**(9,790)**	**-**	**-**	**-**	**(9,790)**

Cash and balances with Central Bank	Stage 1	Stage 2	Stage 3	POCI	2022 Total
Allowance for impairment as of 31 December 2021	**(4,735)**	**-**	**-**	**-**	**(4,735)**
Movements in the allowance for impairment					
– Transfer to Stage 1	(4,735)	-	-	-	(4,735)
Newly acquired/originated assets	(10,215)	-	-	-	(10,215)
Decrease due to derecognition	7,668	-	-	-	7,668
Changes in model	(20,718)				(20,718)
Effects of Nasa AIK Banka merger	(620)	-	-	-	(620)
FX differences	(190)	-	-	-	(190)
Allowance for impairment as of 31 December 2022	**(28,810)**	**-**	**-**	**-**	**(28,810)**

NOTES ON THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2023

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Allowance for Impairment (Continued)

In RSD thousand

Off-balance sheet assets	Stage 1	Stage 2	Stage 3	POCI	2023 Total
Provision as of 31 December 2022	**(137,797)**	**(88,294)**	**(57,983)**	**-**	**(284,074)**
Movements in provisions					
– Transfer to Stage 1	(136,913)	(32,711)	(56)	-	(169,680)
– Transfer to Stage 2	(861)	(55,581)	(31)	-	(56,473)
– Transfer to Stage 3	(22)	(1)	(57,898)	-	(57,921)
Newly acquired/originated assets	(354,406)	(33,001)	(62,784)	-	(450,191)
Decrease due to derecognition	400,947	91,107	95,626	-	587,680
FX differences	215	22	-	-	237
Provision as of 31 December 2023	**(91,040)**	**(30,165)**	**(25,143)**	**-**	**(146,348)**

Off-balance sheet assets	Stage 1	Stage 2	Stage 3	POCI	2022 Total
Provision as of 31 December 2021	**(143,027)**	**(1,777)**	**(2,562)**	**-**	**(147,366)**
Movements provisions:					
– Transfer to Stage 1	(137,101)	(1,139)	(388)	-	(138,628)
– Transfer to Stage 2	(5,420)	(620)	-	-	(6,040)
– Transfer to Stage 3	(506)	(18)	(2,174)	-	(2,698)
Newly acquired/originated assets	(243,586)	(78,783)	(5,544)	-	(327,913)
Decrease due to derecognition	335,434	3,152	1,448	-	340,034
Changes in model	(14,740)	(4,053)	1,167	-	(17,626)
Effects of Nasa AIK Banka merger	(72,611)	(6,832)	(52,470)	-	(131,913)
FX differences and other changes	733	(1)	(22)	-	710
Provision as of 31 December 2022	**(137,797)**	**(88,294)**	**(57,983)**	**-**	**(284,074)**

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Loans and placements to customers, banks and other financial institutions by risk level

In RSD thousand
31 December 2023

	Exposure				Allowance for impairment			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Corporate	146,805,298	28,753,664	5,305,480	180,864,442	(1,514,845)	(1,929,725)	(1,143,191)	(4,587,761)
Entrepreneurs	1,879,697	595,136	190,455	2,665,288	(33,732)	(41,034)	(87,893)	(162,659)
Total corporate	**148,684,995**	**29,348,800**	**5,495,935**	**183,529,730**	**(1,548,577)**	**(1,970,759)**	**(1,231,084)**	**(4,750,420)**
Cash loans	25,193,428	2,266,757	2,250,602	29,710,787	(272,125)	(372,054)	(1,835,764)	(2,479,943)
Credit cards	1,685,004	136,984	73,700	1,895,688	(21,168)	(13,128)	(57,492)	(91,788)
Current accounts-overdraft	581,142	27,140	27,784	636,066	(3,700)	(3,006)	(22,185)	(28,890)
Housing loans	17,509,528	543,750	654,683	18,707,961	(78,903)	(29,568)	(223,577)	(332,048)
Agricultural loans	273,795	258,494	62,415	594,704	(2,305)	(8,413)	(10,059)	(20,777)
Other	51	-	33	84	-	-	(33)	(33)
Total retail	**45,242,948**	**3,233,125**	**3,069,217**	**51,545,290**	**(378,201)**	**(426,169)**	**(2,149,110)**	**(2,953,480)**
Total	**193,927,943**	**32,581,925**	**8,565,152**	**235,075,020**	**(1,926,778)**	**(2,396,928)**	**(3,380,194)**	**(7,703,900)**
Placements to banks	**67,742,420**	**466,361**	**273,494**	**68,482,275**	**(15,132)**	**(135,656)**	**(190,112)**	**(340,900)**
Other – not covered by models	**13,425**	**-**	**6,927**	**20,352**	**(26)**	**-**	**(3,657)**	**(3,683)**

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Loans and placements to customers, banks and other financial institutions by risk level

In RSD thousand
31 December 2022

	Exposure				Allowance for impairment			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Corporate	151,669,752	20,742,375	2,915,241	175,327,368	(1,723,808)	(1,407,568)	(399,630)	(3,531,006)
Entrepreneurs	3,779,162	308,793	94,407	4,182,362	(46,640)	(14,372)	(15,465)	(76,477)
Total corporate	**155,448,914**	**21,051,168**	**3,009,648**	**179,509,730**	**(1,770,448)**	**(1,421,940)**	**(415,095)**	**(3,607,483)**
Cash loans	29,091,356	3,019,002	1,176,429	33,286,787	(320,396)	(297,387)	(464,083)	(1,081,866)
Credit cards	2,112,519	192,072	63,155	2,367,746	(15,321)	(8,355)	(17,194)	(40,870)
Current accounts-overdraft	666,634	25,313	17,453	709,400	(5,561)	(1,464)	(5,732)	(12,757)
Housing loans	18,931,708	864,925	511,905	20,308,538	(89,841)	(117,264)	(81,507)	(288,612)
Agricultural loans	454,489	255,328	49,465	759,282	(11,386)	(13,611)	(23,723)	(48,720)
Other	22,784	26,067	-	48,851	(172)	(1,441)	-	(1,613)
Total retail	**51,279,490**	**4,382,707**	**1,818,407**	**57,480,604**	**(442,677)**	**(439,522)**	**(592,239)**	**(1,474,438)**
Total	**206,728,404**	**25,433,875**	**4,828,055**	**236,990,334**	**(2,213,125)**	**(1,861,462)**	**(1,007,334)**	**(5,081,921)**
Placements to banks	**30,999,914**	**1,995**	**690,753**	**31,692,662**	**(20,797)**	**(1,314)**	**(194,066)**	**(216,177)**
Other – not covered by models	**20,555**	**-**	**732**	**21,287**	**(41)**	**-**	**(728)**	**(769)**

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

The Bank classified the risk categories based on the receivables' classification in line with the Decision of the National Bank of Serbia on the classification of balance sheet assets and off-balance sheet items. The receivables classified in categories A and B are considered as low; the receivables classified in categories V and G are included in medium risk, while high risk covers the receivables classified in category D.

The tables below analyse an overview of exposure trends by the classes of assets and risk levels:

			In RSD thousand 31 December 2023
Cash and balances with Central Bank	**Stage 1**	**Stage 2**	**Stage 3**
Low	74,281,428	-	-
Total gross carrying value	**74,281,428**	**-**	**-**
Allowance for impairment	**(9,790)**	**-**	**-**

			In RSD thousand 31 December 2022
Cash and balances with Central Bank	**Stage 1**	**Stage 2**	**Stage 3**
Low	75,833,126	-	-
Total gross carrying value	**75,833,126**	**-**	**-**
Allowance for impairment	**(28,810)**	**-**	**-**

			In RSD thousand 31 December 2023
Securities	**Stage 1**	**Stage 2**	**Stage 3**
Low	43,966,035	24	-
Medium	840,396	3,194	-
High	15,266	-	43,953
Total gross carrying value	**44,821,697**	**3,218**	**43,953**
Allowance for impairment	**(3,205)**	**(109)**	**(43,952)**

			In RSD thousand 31 December 2022
Securities	**Stage 1**	**Stage 2**	**Stage 3**
Low	53,952,686	4,607,087	-
Medium	179,093	-	-
High	15,935	-	110,496
Total gross carrying value	**54,147,714**	**4,607,087**	**110,496**
Allowance for impairment	**(10,985)**	**(145)**	**(110,495)**

			In RSD thousand 31 December 2023
Loans and placements to banks and other financial institutions	**Stage 1**	**Stage 2**	**Stage 3**
Low	67,736,685	29,931	273,453
Medium	-	202	-
High	5,735	436,228	41
Total gross carrying value	**67,742,420**	**466,361**	**273,494**
Allowance for impairment	**(15,132)**	**(135,656)**	**(190,112)**

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

In RSD thousand
31 December 2022

Loans and placements to banks and other financial organisations	Stage 1	Stage 2	Stage 3
Low	29,638,697	1,991	655,982
Medium	977,761	4	34,740
High	383,456	-	31
Total gross carrying value	**30,999,914**	**1,995**	**690,753**
Allowance for impairment	**(20,797)**	**(1,314)**	**(194,066)**

In RSD thousand
31 December 2023

Loans and placements to customers	Stage 1	Stage 2	Stage 3	POCI
Low	143,163,533	21,955,324	2,873,663	39,030
Medium	48,403,408	9,823,672	1,633,272	129,809
High	2,337,962	758,398	3,293,546	683,755
Total gross carrying value	**193,904,903**	**32,537,394**	**7,800,481**	**852,594**
Allowance for impairment	**(1,925,731)**	**(2,392,498)**	**(2,953,258)**	**(436,096)**

In RSD thousand
31 December 2022

Loans and placements to customers	Stage 1	Stage 2	Stage 3	POCI
Low	149,521,235	19,330,719	591,264	76,461
Medium	55,587,897	5,111,717	1,873,335	371,112
High	1,639,827	991,439	1,011,842	904,773
Total gross carrying value	**206,748,959**	**25,433,875**	**3,476,441**	**1,352,346**
Allowance for impairment	**(2,213,166)**	**(1,840,230)**	**(1,007,422)**	**(21,872)**

In RSD thousand
31 December 2023

Other assets	Stage 1	Stage 2	Stage 3	POCI
Low	888,478	29,386	9,639	60
Medium	80,155	1,296	3,586	35
High	69,732	869	80,876	11,666
Total gross carrying value	**1,038,365**	**31,551**	**94,101**	**11,761**
Allowance for impairment	**(13,745)**	**(1,218)**	**(69,561)**	**(11,043)**

In RSD thousand
31 December 2022

Other assets	Stage 1	Stage 2	Stage 3	POCI
Low	4,263,600	1,207	1,407	5
Medium	87,745	5,910	4,368	106
High	40,463	183	109,424	12,070
Total gross carrying value	**4,391,808**	**7,300**	**115,199**	**12,181**
Allowance for impairment	**(12,881)**	**(277)**	**(103,623)**	**-**

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Off-balance sheet assets			In RSD thousand 31 December 2023
	Stage 1	**Stage 2**	**Stage 3**
Low	48,265,394	1,503,932	126,252
Medium	14,929,545	1,333,841	2,263
High	261,181	508,064	93,487
Total gross carrying value	**63,456,120**	**3,345,837**	**222,002**
Provisions	**(91,040)**	**(30,165)**	**(25,143)**

			In RSD thousand 31 December 2022
Off-balance sheet assets	**Stage 1**	**Stage 2**	**Stage 3**
Low	43,307,515	2,702,847	131,489
Medium	13,690,314	616,806	61,268
High	381,750	33,455	100,368
Total gross carrying value	**57,379,579**	**3,353,108**	**293,125**
Provisions	**(137,797)**	**(88,294)**	**(57,983)**

Loans with Renegotiated (Modified) Initially Agreed Terms

Loans with renegotiated initially agreed terms are loans rescheduled and/or restructured (forborne) due to the borrowers' deteriorated financial situation or difficulties in servicing liabilities at their due date. Restructuring loan agreements stipulate terms significantly different from those originally defined and contracted and all the receivables (or their major portion) are replaced by a new loan.

Significantly different terms are deemed in particular to be the following: extension of the repayment due date for the principal and interest, reduction of the interest rate or amount receivable (write-off of part of the principal referring to the derecognition of that part in the balance sheet, write-off of part of the calculated interest), change in the due date for principal and/or interest, change in the valuation manner and other changes facilitating the borrower's position.

Loan restructuring (forbearance) is only acceptable to the Bank if it refers to loans that are otherwise not likely collectable and if the loan restructuring according to the financial consolidation program enables, within a period acceptable to the Bank, significant improvement in the financial situation of the borrower, with a high probability of loan collection in the agreed amount and the newly defined maturity, and additional collaterals or security – in the form of co-sureties adhering to debt or in the form of a pledge lien registered over the movable and immovable property of third parties, improving the quality of assets.

Upon loan restructuring, the Bank performs financial analysis of the borrowers, and if it estimates that, after restructuring, the borrower will generate sufficient cash flows for principal and interest repayment, the Bank decides to proceed with the loan restructuring procedure. The following table presents the gross exposure of restructured and rescheduled placements.

				In RSD thousand
	Restructured		**Rescheduled**	
	31 December 2023	**31 December 2022**	**31 December 2023**	**31 December 2022**
Corporate customers	7,296,244	8,195,152	244,414	5,629
Retail customers	2,738,781	5,206,413	5,984	10,834
Total	**10,035,025**	**13,401,565**	**250,398**	**16,463**

The decrease in the restructured loans is the result of the regular loan repayment.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Concentration Risk

The Bank manages concentration risk by establishing a system of limits to the exposures with the same or similar risk factors (industry sectors/activities, geographic regions, single borrowing entities or groups of related entities, collaterals, etc.).

Loans and placements to customers, banks and other financial institutions by sectors, net

In RSD thousand

	31 December 2023	31 December 2022
Finance and insurance	68,141,375	29,882,304
Public enterprises	24,122,080	26,568,624
Corporate clients	136,761,247	128,664,042
Entrepreneurs	2,502,625	4,105,840
Public sector	331,271	1,326,501
Retail clients	47,364,320	54,808,258
Foreign entities	15,248,557	16,985,204
Private households and registered agricultural producers	572,460	443,858
Other clients	485,229	620,785
Balance as of	**295,529,164**	**263,405,416**

Loans and placement to customers, banks and other financial institutions by geographic regions, net

In RSD thousand

31 December 2023	Serbia	Europe	Other	Total
Loans and placements to banks and other financial institutions	53,256,703	13,792,937	1,091,735	68,141,375
Loans and placements to customers	212,139,233	14,953,167	295,389	227,387,789
Total	**265,395,936**	**28,746,104**	**1,387,124**	**295,529,164**

31 December 2022	Serbia	Europe	Other	Total
Loans and placements to banks and other financial institutions	14,646,977	15,922,588	906,920	31,476,485
Loans and placements to customers	216,539,076	15,135,212	254,643	231,928,931
Total	**231,186,053**	**31,057,800**	**1,161,563**	**263,405,416**

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Concentration Risk (Continued)

Loans and placements to customers by industries

In RSD thousand

	31 December 2023			31 December 2022		
Industry	**Gross exposure**	**Share**	**Allowance for impairment**	**Gross exposure**	**Share**	**Allowance for impairment**
Retail	51,545,285	22%	(2,953,480)	57,480,582	24%	(1,474,415)
Manufacturing industry	33,728,569	14%	(1,304,948)	32,645,954	17%	(661,621)
Wholesale and retail trade, repair of motor vehicles and motorcycles	30,801,486	13%	(578,925)	39,145,016	14%	(734,757)
Construction	22,481,366	10%	(674,516)	15,357,522	9%	(184,750)
Real estate	21,880,987	9%	(739,416)	19,397,225	8%	(525,158)
Supply of electricity, gas, steam and air conditioning	18,833,998	8%	(240,971)	20,663,902	6%	(361,561)
Information and communication	15,034,872	6%	(314,317)	10,736,444	5%	(127,434)
Transportation and storage	14,578,192	5%	(315,376)	12,120,227	5%	(436,728)
Mining	6,108,008	3%	(52,372)	4,589,415	2%	(11,795)
Agriculture, forestry and fishing	4,433,964	2%	(134,926)	4,986,131	2%	(71,824)
Accommodation and catering	4,292,031	2%	(102,504)	5,898,305	2%	(248,575)
Administration and ancillary activities	3,834,892	2%	(116,046)	5,050,915	2%	(97,676)
Finance and insurance	2,688,373	1%	(48,593)	1,496,511	1%	(8,741)
Professional, scientific, innovative and technical activities	1,511,677	1%	(33,088)	2,630,885	1%	(41,647)
Water supply, wastewater management, control of waste disposal processes and similar activities	1,232,003	1%	(23,095)	1,135,658	1%	(24,336)
Arts, entertainment and recreation	1,229,132	1%	(54,147)	1,379,767	1%	(57,849)
Public administration and defence, compulsory social security	303,921	0%	(2,050)	1,295,085	0%	(2,979)
Education	269,360	0%	(2,763)	347,311	0%	(1,394)
Health and social protection	159,650	0%	(8,797)	508,037	0%	(7,237)
Other service activities	147,606	0%	(7,253)	146,729	0%	(2,213)
TOTAL	**235,095,372**	**100%**	**(7,707,583)**	**237,011,621**	**100%**	**(5,082,690)**

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Collaterals

For the purpose of protection against credit risk, in addition to the regular monitoring of the customer business operations, the Bank's most common practice is to obtain collaterals to secure the collection of receivables and minimize credit risk.

As a standard type of loan collateral, the Bank demands and receives from clients contractual authorizations for account withdrawals and bills of exchange, whereas, additional collaterals agreed upon include the following: mortgages assigned over property; pledge liens assigned over movable assets; partial or full loan coverage with deposits; obtaining guarantees from another bank or a legal entity, adequate securities, arranging co-surety or debt adherence whereby another legal entity becomes a co-debtor; and when housing loans are at issue, insurance of the National Mortgage Insurance Corporation.

If the Bank arranges for a mortgage or pledge lien, assigned over property or movable assets, the Bank always demands an appraisal performed by a certified independent appraiser in order to minimize the potential risks.

In the following breakdown, the value of collaterals is presented as the fair value of collaterals so that it is shown only up to the extent of the gross loan amount (when the collateral value exceeds the loan amount). In instances of collateral values below the gross loan amounts, the fair value of the collateral is stated.

The values of collaterals and guarantees received in order to mitigate credit risk exposure inherent in the loans approved to customers are provided in the tables below:

					In RSD thousand 31 December 2023
	Mortgages	**Guarantees**	**Deposits**	**Other**	**Total**
Corporate customers	79,616,448	3,918,087	15,306,538	42,078,317	140,919,390
Entrepreneurs	585,702	-	128,045	103,854	817,601
Total corporate	**80,202,150**	**3,918,087**	**15,434,583**	**42,182,171**	**141,736,991**
Cash loans	344,286	-	475,921	-	820,207
Credit cards	-	-	286,479	-	286,479
Current account overdrafts	-	-	4	-	4
Housing loans	17,701,323	-	96,586	14,370	17,812,279
Agricultural loans	248,470	-	12,555	1,801	262,826
Other	463,225	-	94,297	709	558,231
Total retail	**18,757,304**	**-**	**965,842**	**16,880**	**19,740,026**
Total	**98,959,454**	**3,918,087**	**16,400,425**	**42,199,051**	**161,477,017**

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Collaterals (Continued)

In RSD thousand
31 December 2022

	Mortgages	Guarantees	Deposits	Other	Total
Corporate customers	70,868,404	4,683,728	13,463,819	31,363,655	120,379,606
Entrepreneurs	738,236	365,173	142,829	2,836	1,249,074
Total corporate	**71,606,640**	**5,048,901**	**13,606,648**	**31,366,491**	**121,628,680**
Cash loans	305,973	-	537,307	-	843,280
Credit cards	-	-	292,383	-	292,383
Current account overdrafts	-	-	4,010	-	4,010
Housing loans	18,796,021	-	127,559	4,608	18,928,188
Agricultural loans	349,775	-	23,806	-	373,581
Other	139,034	-	35,620	-	174,654
Total retail	**19,590,803**	**-**	**1,020,685**	**4,608**	**20,616,096**
Total	**91,197,443**	**5,048,901**	**14,627,333**	**31,371,099**	**142,244,776**

Note: A portion of the housing loans covered with properties is insured with the National Mortgage Insurance Corporation (December 2023: RSD 5,177,488 thousand and December 2022: RSD 4,770,830 thousand).

Other collaterals include pledge liens assigned over goods, receivables, equipment, shares and precious metals.

The loan amount relative to the revalued amount of the property held as collateral is monitored as the loan to value ratio (LTV ratio.

Overview of housing loans by LTV ratio range

In RSD thousand

	31 December 2023	31 December 2022
<50%	9,537,181	6,762,414
51% - 70%	5,654,848	5,831,296
71% - 100%	8,845,883	7,297,114
100% - 150%	374,668	452,281
>150%	293,157	163,828
Other	-	299,502
Total	**24,705,737**	**20,806,435**
Average LTV ratio	*50%*	*48%*

Assets acquired in the process of debt collection (repossessed assets following the foreclosure on loans)

Assets representing security instruments (collaterals) acquired by the Bank in the process of debt collection are provided in the table below:

In RSD thousand

	31 December 2023	31 December 2022
Commercial buildings (Note 33(b))	720,132	760,678
Equipment (Note 33(b))	7,417	20,102
Non-current assets held for sale	5,537	5,537
Total	**733,086**	**786,317**

4. RISK MANAGEMENT (Continued)

4.2. Liquidity Risk

Liquidity risk is the risk of adverse effects on the Bank's financial result and equity due to its inability to settle its overdue liabilities arising from:

- The withdrawal of the existing sources of financing, i.e. inability to obtain new sources of funding (liquidity risk of sources of funding) or
- Difficulties in converting assets into liquid assets due to market disruptions (market liquidity risk).

Liquidity risk is manifested as a daily mismatch of the inflows and outflows, a maturity mismatch of assets and liabilities, a mismatch of RSD and foreign currency inflows and outflows, i.e., assets and liabilities, a mismatch of cash and non-cash flows or a disproportion in the amounts and structures of balance sheet and off-balance sheet assets and liabilities or components thereof. In that regard, the Bank's liquidity involves consideration of the total liquidity in several ways (long-term and short-term, market liquidity risk, funding concentration risk, risk of financing costs, transfer risk, liquidity in cash operations, liquidity in non-cash operations, in RSD and foreign exchange operations, etc.).

In order to minimise liquidity risk, the Bank:

- Diversifies sources of funds by currency and maturity;
- Establishes and maintains sufficient liquidity reserves;
- Manages daily liquidity and funds, monitors RSD and foreign currency account balances;
- Monitors and makes forecasts of future cash flows and liquidity; and
- Periodically tests the Liquidity Crisis Plan.

The liquidity risk management process is implemented through the identification, measurement, mitigation, monitoring and control of, as well as reporting on the liquidity risk.

The basic method of measuring liquidity risk entails the assessment and comparison of all future cash inflows and outflows per balance sheet and off-balance sheet items at different time intervals, in order to determine potential liquid asset shortages, both in the regular course of business and in stress events, i.e. liquidity crises. For the purposes of monitoring and measuring liquidity risk, the Bank has established the processes of:

- Daily planning and monitoring of the realization of all planned inflows and outflows of funds, in RSD and in aggregate for all foreign currencies;
- Monitoring the balances and changes in balances of assets and liabilities over their outstanding maturities and per significant currencies, individually and in aggregate for all currencies; and
- Measurement and monitoring of the liquidity coverage ratio on a daily basis and the net stable funding ratio for reporting purposes of the Group that the Bank belongs to (AEC Limited, Cyprus).

Liquidity risk measurement is performed through the calculation and monitoring of liquidity ratios and the monitoring of departures of the Bank's actual ratios from the internally defined and regulatory limits. In order to protect itself against liquidity risk and for its measurement, the Bank performs a ratio analysis, a GAP analysis and stress testing. Stress testing examines the effects of three types of scenarios: idiosyncratic, market and combined with two variants of severity (adverse and extreme), whereby the results of the combined adverse scenario and the survival period in the event of its occurrence are presented for the purposes of ILAAP (the internal liquidity adequacy assessment process).

Liquidity risk is mitigated through the diversification, transfer, reduction and/or avoidance of risks that may arise from the Bank's liquidity risk exposure. In order to minimize liquidity risk, the Bank uses long-term and short-term protection measures against liquidity risk. In addition, the Bank analyses the behaviour of the depositors and identifies sources of funds that are stable under various circumstances, as well as those that will be gradually drawn with the problems arising and those that will be drawn down as soon as the first problem signals appear. Accordingly, the Bank reduces its reliance on sources of funds that are unstable or volatile.

4. RISK MANAGEMENT (Continued)

4.2. Liquidity Risk (Continued)

The Bank aligns its operations with the regulatory prescribed liquidity ratios, which were well above the prescribed limits in 2023, as presented below:

	Current liquidity ratio		Narrow liquidity ratio		Liquidity coverage ratio (LCR)	
	31/12/2023	31/12/2022	31/12/2023	31/12/2022	31/12/2023	31/12/2022
As of	3.13	3.42	2.05	2.83	165%	163%
Average for the year	3.35	2.54	2.01	2.28	202%	152%
MAX	4.00	3.70	2.89	3.36	236%	204%
MIN	2.70	1.77	1.43	1.69	165%	123%
Regulatory limit	**1.00**		**0.70**		**100%**	

In the process of liquidity risk measurement, the Bank uses GAP analysis by grouping on balance sheet and off-balance sheet items per time brackets according to the contractually defined maturity dates, i.e. expected time for generating cash flows that may be manifest as inflows or outflows. When preparing the internal liquidity GAP report, the Bank considers the overall assets, liabilities and off-balance sheet items giving rise to potential outflows of funds and allocates these into several time buckets.

In 2023, the Bank continued to improve the liquidity risk management process, taking into account the continuous harmonisation with its Group's standards.

In 2023, the Bank complied with RAS and internally defined limits and targets of liquidity risk. Liquidity risk was within restricted ranges and actively managed by undertaking preventive measures in order to minimise the liquidity risk exposure.

At least annually, the Bank tests the Liquidity Contingency Plan and checks the survival period and the way of accessing available or potential liquidity sources, particularly the sources not used in the ordinary course of business.

The Liquidity Contingency Plan contains procedures for the early detection of possible problems regarding the Bank's liquidity, including early warning signs, the names and functions of the persons responsible for problem identification and the persons that need to be informed thereof.

A breakdown of the maturity structure of monetary assets and monetary liabilities as of 31 December 2023 and 2022 is provided in the following tables. The monetary items are grouped by outstanding maturity. The Bank applied a rather conservative assumption on the transaction deposits and demand deposits, which, accordingly, were allocated to the time bucket of up to one-month maturity.

4. RISK MANAGEMENT (Continued)

4.2. Liquidity Risk (Continued)

In RSD thousand
31 December 2023

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total
Cash and balances with Central Bank	74,271,638	-	-	-	-	-	74,271,638
Derivatives	58,164	56,257	-	-	-	-	114,421
Securities	2,619,401	1,685,987	227,590	1,334,623	33,556,746	5,397,255	44,821,602
Loans and placements to banks and other financial institutions	60,492,697	418,795	442,965	156,281	774,588	5,856,049	68,141,375
Loans and placements to customers	15,660,011	13,073,425	22,845,185	45,092,458	96,634,833	34,081,877	227,387,789
Other assets	78,179	156,745	-	6	780,478	64,803	1,080,211
TOTAL ASSETS	**153,180,090**	**15,391,209**	**23,515,740**	**46,583,368**	**131,746,645**	**45,399,984**	**415,817,036**
Derivatives	21,556	-	-	-	-	-	21,556
Deposits and other liabilities due to banks, other financial institutions and Central Bank	5,491,861	1,789,770	2,429,466	4,186,227	5,008,191	-	18,905,515
Deposits and other liabilities due to customers	174,682,638	37,848,536	25,282,276	67,980,013	32,005,062	833,441	338,631,966
Other liabilities	3,162,684	206,491	118,989	220,785	742,921	19,810	4,471,680
TOTAL LIABILITIES	**183,358,739**	**39,844,797**	**27,830,731**	**72,387,025**	**37,756,174**	**853,251**	**362,030,717**
Net liquidity gap as of 31 December 2023	**(30,178,649)**	**(24,453,588)**	**(4,314,991)**	**(25,803,657)**	**93,990,471**	**44,546,733**	**53,786,319**
Cumulative net liquidity gap as of 31 December 2023	**(30,178,649)**	**(54,632,237)**	**(58,947,228)**	**(84,750,885)**	**9,239,586**	**53,786,319**	**-**

NOTES ON THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2023

4. RISK MANAGEMENT (Continued)

4.2. Liquidity Risk (Continued)

In RSD thousand
31 December 2022

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total
Cash and balances with Central Bank	75,804,316	-	-	-	-	-	75,804,316
Derivatives	13,223	3,749	-	-	-	-	16,972
Securities	11,200,057	1,473,113	248,452	5,613,961	28,565,283	11,642,806	58,743,672
Loans and placements to banks and other financial institutions	22,490,955	576,214	365,648	35,246	1,019,083	6,989,339	31,476,485
Loans and placements to customers	10,772,700	14,501,149	27,208,338	41,088,893	106,500,108	31,857,743	231,928,931
Other assets	2,882,240	54,867	328	-	115,930	1,356,342	4,409,707
TOTAL ASSETS	**123,163,491**	**16,609,092**	**27,822,766**	**46,738,100**	**136,200,404**	**51,846,230**	**402,380,083**
Derivatives	7,900	-	-	-	-	-	7,900
Deposits and other liabilities due to banks, other financial institutions and Central Bank	7,650,571	1,701,895	1,227,872	1,096,573	5,112,120	-	16,789,031
Deposits and other liabilities due to customers	175,570,209	27,116,662	19,755,176	37,258,554	48,872,909	960,427	309,533,937
Other liabilities	2,157,741	68,225	63,295	104,195	862,764	17,199	3,273,419
TOTAL LIABILITIES	**185,386,421**	**28,886,782**	**21,046,343**	**38,459,322**	**54,847,793**	**977,626**	**329,604,287**
Net liquidity gap as of 31 December 2022	**(62,222,930)**	**(12,277,690)**	**6,776,423**	**8,278,778**	**81,352,611**	**50,868,604**	**72,775,796**
Cumulative net liquidity gap as of 31 December 2022	**(62,222,930)**	**(74,500,620)**	**(67,724,197)**	**(59,445,419)**	**21,907,192**	**72,775,796**	**-**

Liquidity risk reporting includes internal and external reporting, which is performed on a daily basis according to the established schedule and in compliance with the system in place.

4. RISK MANAGEMENT (Continued)

4.3. Market Risks

Market risks are the possibility of negative effects on the Bank's financial result and capital arising from changes in the value of balance sheet and off-balance sheet items of the Bank arising from price movements on the market. Market risks in the narrow sense include foreign exchange risks for all banking operations, equity price risk per items in the trading book and commodity risk. In the wider context, market risk also includes the risk of changes in interest rates within the banking book.

The objective of market risk management entails the maintenance of the level of exposure to the aforesaid risks acceptable to the Bank and the simultaneous maximizing of financial performance through establishing market positions in respect of existing and new products. For adequate market risk management, the Bank has established an organizational structure suitable for the volume, type and complexity of its operations, and ensured the separation of functions assuming the risk from those in charge of support and control.

In 2023 the Bank complied with the internally and externally defined foreign exchange risk exposure limits.

As of 31 December 2023, the Bank had corporate shares with a total market value of RSD 0.72 billion in its trading book. The Bank calculated capital requirements for the equity price risk from Q4 2018 until Q3 2023 in line with the National Bank of Serbia's Decision on Capital Adequacy of Banks, and thus, it met the requirements for including the said items in the calculation of credit risks in line with the aforementioned Decision.

In 2023 the Bank was not exposed to the commodity price risk as it did not possess items in kind.

4.3.1. Foreign Exchange Risk

Foreign exchange risk is the possibility of negative effects on the Bank's financial result and equity due to fluctuations in exchange rates. The bank is exposed to foreign exchange risk through all positions denominated in foreign currency, dinar-denominated positions indexed to a foreign currency clause, and positions in gold.

The process of foreign exchange risk management entails identifying, measuring, minimizing, monitoring, control and foreign exchange risk reporting. The Bank identifies its exposure to the foreign exchange risk by means of open positions in a certain currency and for all currencies it operates with in aggregate. The Bank's open foreign currency position is the difference between foreign currency assets and liabilities in a particular currency, as well as between RSD assets and liabilities indexed to a currency clause (including the absolute value of the net open positions in gold).

The measurement of foreign exchange risk involves an assessment of the Bank's exposure using the regulatory limits (foreign exchange risk ratio) and internally defined methods. The basis of the measurement and assessment of the Bank's exposure to the foreign exchange risk is the calculation of the foreign currency position per all individually significant currencies and all other currencies aggregated. Foreign exchange risk monitoring includes projections of foreign exchange risk in order to reduce the Bank's exposure thereto. Such projections allow defining precautionary measures for reducing the Bank's exposure to the foreign exchange risk. Foreign exchange risk measurement and monitoring is performed on a daily basis with mandatory detailed reporting on the foreign exchange risk ratio in accordance with the Bank's internal procedures in the following instances:

- The difference between two consecutive foreign exchange risk ratios is 2 percentage points;
- The sum of five consecutive absolute differences between consecutive foreign exchange risk ratios exceeds 5 percentage points.

In 2023 the Bank's foreign exchange risk ratio was within the internally and legally prescribed limits:

	31 December 2023	31 December 2022
As of	0.43%	1.13%
MAX	8.30%	14.07%
MIN	0.02%	0.02%
Regulatory limit	Maximum 20%	Maximum 20%

In order to ensure efficient foreign exchange risk control, the Bank pays close attention to the compliance of the foreign exchange ratio, monitors the foreign currency position and departures from the internally and regulatory limits.

4. RISK MANAGEMENT (Continued)

4.3. Market Risks (Continued)

4.3.1. Foreign Exchange Risk (Continued)

The tables below present the Bank's exposure to foreign exchange risk, i.e. the net open foreign exchange position per currencies as of 31 December 2023 and 2022:

In RSD thousand
31 December 2023

	EUR	USD	CHF	Other currencies	Foreign currency total
Cash and balances with Central bank	27,704,201	497,129	1,176,011	40,207	29,417,548
Securities	6,840,222	-	-	-	6,840,222
Loans and placements to banks and other financial institutions	13,904,357	2,107,431	534,242	453,329	16,999,359
Loans and placements to customers	156,768,607	504,772	137,280	-	157,410,659
Other assets	188,213	8,114	-	3	196,330
TOTAL ASSETS	**205,405,600**	**3,117,446**	**1,847,533**	**493,539**	**210,864,118**
Deposits and other liabilities due to banks, other financial institutions and Central Bank	5,929,614	671,461	173,407	271,765	7,046,247
Deposits and other liabilities due to customers	189,267,887	5,872,636	7,249,802	526,305	202,916,630
Provisions	104,871	209	-	342	105,422
Other liabilities	1,264,306	93,726	7,467	23,073	1,388,572
TOTAL LIABILITIES	**196,566,678**	**6,638,032**	**7,430,676**	**821,485**	**211,456,871**
Off-balance sheet items - net spot position	(8,578,287)	3,516,489	5,585,326	263,624	787,152
Long foreign currency position	260,635	-	2,183	8,024	270,842
Short foreign currency position	-	4,097	-	72,346	76,443
Net open foreign exchange position as of 31 December 2023	**260,635**	**(4,097)**	**2,183**	**(72,346)**	**270,842**

4. RISK MANAGEMENT (Continued)

4.3. Market Risks (Continued)

4.3.1. Foreign Exchange Risk (Continued)

In RSD thousand
31 December 2022

	EUR	USD	CHF	Other currencies	Foreign currency total
Cash and balances with Central bank	27,230,231	491,940	710,893	81,941	28,515,005
Securities	8,220,270	-	-	-	8,220,270
Loans and placements to banks and other financial institutions	18,176,317	1,507,169	648,889	877,872	21,210,247
Loans and placements to customers	146,843,007	863,072	156,582	-	147,862,661
Other assets	1,259,930	8,679	182	23,214	1,292,005
TOTAL ASSETS	**201,729,755**	**2,870,860**	**1,516,546**	**983,027**	**207,100,188**
Deposits and other liabilities due to banks, other financial institutions and Central Bank	10,198,658	463,240	44,979	17,094	10,723,971
Deposits and other liabilities due to customers	173,223,132	9,312,885	7,562,788	953,673	191,052,478
Provisions	41,654	1,390	-	-	43,044
Other liabilities	1,400,620	85,028	1,893	5,432	1,492,973
TOTAL LIABILITIES	**184,864,064**	**9,862,543**	**7,609,660**	**976,199**	**203,312,466**
Off-balance sheet items - net spot position	(16,239,767)	6,981,692	6,089,090	8,207	(3,160,778)
Long foreign currency position	625,924	-	-	18,045	643,969
Short foreign currency position	-	9,991	4,024	3,010	17,025
Net open foreign exchange position as of 31 December 2022	**625,924**	**(9,991)**	**(4,024)**	**18,045**	**643,969**

4. RISK MANAGEMENT (Continued)

4.3. Market Risks (Continued)

4.3.1. Foreign Exchange Risk (Continued)

The Bank performs regular foreign exchange risk stress testing in order to estimate the impact of extraordinary circumstances and stress events on the Bank's financial result, equity and foreign exchange risk ratio.

The table below shows the impact of changes in the exchange rates on the foreign exchange ratio and open foreign currency position:

		31 December 2023
	Foreign exchange ratio (%)	**Open foreign currency position (000 RSD)**
RSD depreciation (10%)	0,48%	297.926

Foreign exchange risk reporting includes internal and external reporting performed on a daily basis.

For the purpose of further monitoring and the assessment of foreign exchange risk, from the beginning of 2020 the Bank also started applying the VaR (value-at-risk) model of the open foreign exchange position monitored on a daily basis. VaR represents the measure of the maximum expected loss that the Bank can incur under normal market conditions, during a certain period for a defined confidence level (probability). The three basic parameters taken into account when assessing VaR are: time period, probability (confidence interval) and currency.

The Bank applies the following parameters in the assessment of VaR:

- Period of time – one day;
- Probability (confidence interval) – 99%; and
- Currency (all currencies in which the Bank has an open foreign exchange position).

The Bank calculates the VaR of the open foreign exchange position on a daily basis (taking into account the net long or short position in each currency) on the one hand, and the realized profit/loss compared to the previous day, depending on the rate of exchange fluctuations. On the other hand, the Bank has also established the internal limit system – "VaR limit".

The internal limit for monitoring the VaR of an open foreign exchange position is set as an absolute amount, whereby it is monitored that the maximum estimated loss based on the calculated VaR of the open foreign exchange position does not exceed the set limit.

4.3.2. Interest Rate Risk

Interest rate risk is the probability of negative effects on the Bank's financial result and equity through items of the banking general ledger due to adverse interest rate fluctuations. Movements in interest rates directly affect the generation of interest income due to mismatching between the aggregate interest-bearing assets and interest-bearing liabilities or fixed prices of interest-bearing instruments.

The types of interest risk are as follows:

- Risk of time mismatch between maturity and repricing (repricing risk);
- Yield curve risk due to changes in the yield curve shape (yield curve risk);
- The basis risk, to which the Bank is exposed due to different reference interest rates for interest rate sensitive items with similar maturity or repricing characteristics (basic risk); and
- Optionality risk, to which the Bank is exposed due to contractually agreed option terms, such as loans with an option of early repayment, deposits with an option of early withdrawal, etc. (optionality risk).

The process of interest rate risk management consists of identification, measurement, minimizing, monitoring, control and interest rate risk reporting.

The Bank identifies, measures and manages interest rate risk on a monthly basis for all significant currencies in the banking book.

4. RISK MANAGEMENT (Continued)

4.3. Market Risks (Continued)

4.3.2. Interest Rate Risk (Continued)

The identification of interest rate risk relates primarily to the identification of the form of the interest rate risk that the Bank is exposed to, extent of exposure to each individual form of interest rate risk and establishing opportunities for the measurement of each individual form of interest rate risk.

Interest rate risk measurement entails measuring the impact of the changes in interest rates on the financial performance and economic value of the equity of the Bank. The bank uses the following techniques for interest rate risk measurement: GAP analysis, EVE and NII methodologies and stress testing. Stress testing is used to measure the sensitivity of the economic value of equity (standard shock and six scenarios of interest rate changes), as well as changes in net interest income against Bank's equity.

Interest rate risk monitoring primarily includes analysis of the balances, movements and trends in the Bank's interest rate risk exposure. The Bank manages the interest rate risk using the defined limits and prescribed protection measures against interest rate risk.

Minimizing interest rate risk means maintaining this risk at a level that is acceptable for the Bank's risk profile.

The Bank defines the internal limits to interest rate risk exposure based on the internal interest rate GAP report. These internal limits include the limits of EVE sensitivity to the standard interest rate shock, EVE sensitivity in case of six scenarios, limits of changes in net interest income against interest rate changes, and the disparity coefficient limit.

The table below provides an overview of the aforesaid internal limits and stress testing effects as of 31 December 2023 and 2022:

	Limits	31 December 2023	31 December 2022
Disparity coefficient	0.9-1.5	1.27	1.23
Relative equity impact (EVE)	15%	(2.58%)	(4.05%)
EVE sensitivity (6 scenarios)	14%	(4.14%)	(5.54%)
NII changes	5%	1.86%	1.88%

Interest risk exposure is perceived based on the report on interest GAP, which includes an overview of the monetary assets and liabilities as presented in the tables below:

4. RISK MANAGEMENT (Continued)

4.3. Market Risks (Continued)

4.3.2. Interest Rate Risk (Continued)

The Bank's interest rate risk exposure as of 31 December 2023 and 2022 is provided in the tables below:

In RSD thousand
31 December 2023

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total interest-bearing	Non-interest-bearing	Total
Cash and balances with Central Bank	61,570,627	-	-	-	-	-	61,570,627	12,701,011	74,271,638
Derivatives	-	-	-	-	-	-	-	114,421	114,421
Securities	2,187,135	485,795	-	1,150,199	33,086,062	5,885,895	42,795,086	2,026,516	44,821,602
Loans and placements to banks and other financial institutions	60,082,424	422,819	450,373	153,444	-	5,985,944	67,095,004	1,046,371	68,141,375
Loans and placements to customers	61,736,902	91,314,219	8,019,434	19,885,391	39,786,233	5,821,227	226,563,406	824,383	227,387,789
Other assets	-	-	-	-	-	-	-	1,080,211	1,080,211
TOTAL ASSETS	**185,577,088**	**92,222,833**	**8,469,807**	**21,189,034**	**72,872,295**	**17,693,066**	**398,024,123**	**17,792,913**	**415,817,036**
Derivatives	-	-	-	-	-	-	-	21,556	21,556
Deposits and other liabilities due to banks, other financial institutions and Central Bank	5,118,422	6,466,613	2,386,035	4,173,839	302,929	-	18,447,838	457,677	18,905,515
Deposits and other liabilities due to customers	159,407,295	55,580,646	24,762,102	64,274,417	31,113,513	656,571	335,794,544	2,837,422	338,631,966
Other liabilities	-	-	-	-	-	-	-	4,471,680	4,471,680
TOTAL LIABILITIES	**164,525,717**	**62,047,259**	**27,148,137**	**68,448,256**	**31,416,442**	**656,571**	**354,242,382**	**7,788,335**	**362,030,717**
Net gap as of 31 December 2023	**21,051,371**	**30,175,574**	**(18,678,330)**	**(47,259,222)**	**41,455,853**	**17,036,495**	**43,781,741**	**10,004,578**	**53,786,319**
Cumulative net gap as of 31 December 2023	**21,051,371**	**51,226,945**	**32,548,615**	**(14,710,607)**	**26,745,246**	**43,781,741**	**43,781,741**	**10,004,578**	**53,786,319**

4. RISK MANAGEMENT (Continued)

4.3. Market Risks (Continued)

4.3.2. Interest Rate Risk (Continued)

In RSD thousand
31 December 2022

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total interest-bearing	Non-interest-bearing	Total
Cash and balances with Central Bank	43,613,167	-	-	-	-	-	43,613,167	32,191,149	75,804,316
Derivatives	-	-	-	-	-	-	-	16,972	16,972
Securities	8,822,059	5,507,461	-	5,413,688	23,958,660	12,005,357	55,707,225	3,036,447	58,743,672
Loans and placements to banks and other financial institutions	22,523,894	1,034,965	382,042	31,803	567,538	6,768,686	31,308,928	167,557	31,476,485
Loans and placements to customers	28,985,650	37,823,142	5,682,434	25,893,629	79,878,097	52,484,445	230,747,397	1,181,534	231,928,931
Other assets	-	-	-	-	-	-	-	4,409,707	4,409,707
TOTAL ASSETS	**103,944,770**	**44,365,568**	**6,064,476**	**31,339,120**	**104,404,295**	**71,258,488**	**361,376,717**	**41,003,366**	**402,380,083**
Derivatives	-	-	-	-	-	-	-	7,900	7,900
Deposits and other liabilities due to banks, other financial institutions and Central Bank	7,009,603	309,496	427,679	3,356,632	5,619,398	-	16,722,808	66,223	16,789,031
Deposits and other liabilities due to customers	153,347,830	31,946,698	13,430,368	46,876,351	57,747,298	4,832,240	308,180,785	1,353,152	309,533,937
Other liabilities	-	-	-	-	-	-	-	3,273,419	3,273,419
TOTAL LIABILITIES	**160,357,433**	**32,256,194**	**13,858,047**	**50,232,983**	**63,366,696**	**4,832,240**	**324,903,593**	**4,700,694**	**329,604,287**
Net gap as of 31 December 2022	**(56,412,663)**	**12,109,374**	**(7,793,571)**	**(18,893,863)**	**41,037,599**	**66,426,248**	**36,473,124**	**36,302,672**	**72,775,796**
Cumulative net gap as of 31 December 2022	**(56,412,663)**	**(44,303,289)**	**(52,096,860)**	**(70,990,723)**	**(29,953,124)**	**36,473,124**	**36,473,124**	**36,302,672**	**72,775,796**

4. RISK MANAGEMENT (Continued)

4.3. Market Risks (Continued)

4.3.2. Interest Rate Risk (Continued)

In the process of interest rate risk measurement, the Bank uses GAP analysis encompassing all interest-bearing balance and off-balance sheet items in accordance with:

- Re-fixing the interest rate (in instances of variable interest rates) – all assets and liabilities maturing prior to the date of re-fixing the interest rate are grouped in time brackets based on the remaining maturity. In instances of administrative interest rates (e.g. key policy rate, discount rate) for which the re-fixing date is not known, classification into appropriate time brackets is performed based on historical data analysis; and
- Remaining maturities of respective items (in case of fixed interest rates) – classification in the time brackets is performed according to the repayment schedule.

One of the segments of interest rate risk management entails considering interest rate risk exposure under stress circumstances. The Bank performs stress testing on a monthly basis in order to identify and measure interest rate risk under extraordinary circumstances, by analysing the possible impact on the Bank’s financial result and equity. The results of the conducted stress testing are considered against the internally set limits for their impact on the economic value of equity (EVE) and NII. There were no limit breaches in 2023.

4.3.3. Price Risk

As of 31 December 2023, the Bank had equity corporate shares with the total market value of RSD 0.72 billion in its Trading book. Given that the value of the Bank's Trading book items did not exceed RSD 1.8 billion for more than three consecutive working days in a calendar month and that at no point did the said value exceed RSD 2.4 billion (Article 310, Paragraph 4 of the National Bank of Serbia’s Decision on Capital Adequacy of Banks), the Bank did not calculate the capital requirement for general and specific price risks as of 31 December 2023.

The Bank's Trading book was in compliance with the Bank’s internally defined limits during 2023.

As of 31 December 2023, the Bank did not calculate the capital requirement for general and specific price risk based on equity securities.

The Bank did not contract any forward transactions.

4.4. Operational Risk

Operational risk is the possibility of negative effects on the Bank’s financial result and equity due to employee oversights, inadequate procedures and processes in the Bank, the inadequate management of information and other systems in the Bank, as well as unforeseen external events. Operational risk includes legal risk.

The operational risk management process also covers risks connected to the processing of personal data, such as accidental or unlawful destruction, loss, alteration, unauthorized disclosure or access to personally identifiable information that is transferred, stored or otherwise processed.

Operational risks are identified for all significant products, service outsourcing, processes, systems and external factors. Operational risk identification throughout the Bank is performed through a combination of mapping operational risks, the performance of self-assessment and risk control, as well as the collection of information on events deemed to constitute operational risks.

The Bank monitors operational risk events per the following business lines: corporate financing, trading and sales, broker-dealer operations with retail customers, banking operations involving corporate customers, banking operations involving retail customers, payment transfers, agency services and asset management services.

The Bank classifies identified events into predefined categories of events giving rise to losses: internal and external fraud, omissions in relations with employees and the system of safety at work, omissions and irregularities in relations with customers, in respect of the products and operating procedures, damage to tangible assets, interruptions in operations and errors in the Bank’s systems, omissions in the performance of transactions and deliveries and process management in the Bank.

4. RISK MANAGEMENT (Continued)

4.4. Operational Risk (Continued)

The Bank performs both quantitative and qualitative measurements of its operational risk exposure. The measurement includes risk assessment, risk early warning indicators, scenario analysis and the collection of information and data on operational risk events.

The Bank measures/assesses operational risk exposure taking into account the possibility (frequency) of such risk occurrence, as well as its potential effects on the Bank's financial result, with a particular focus on events assessed as unlikely to occur, but assumed or known to potentially be able to cause significant material losses should they do occur. Upon the measurement and assessment of operational risk, the Bank particularly estimates whether it is or may be exposed to this type of risk with regard to the introduction of new products, activities, processes and systems and whether and how its outsourced activities (if any) may affect the operational risk level.

The control, monitoring of and reporting on the identified and assessed sources of risk, as well as undertaking measures to alleviate the possible adverse effect of these risks are an integral part of the operational risk management process.

The Bank's Board of Directors has adopted the Business Continuity Plan, as well as the Disaster Recovery Plan, while the Executive Board is responsible for their implementation, the training and testing of employees and introducing the employees to their roles and responsibilities in the event of an emergency.

In order to ensure the continuity of its operations, the Bank has determined the key activities (including third party activities), resources and systems required for conducting business processes, critical times for certain processes, and risks that may disrupt the continuity of operations, while its Recovery Strategy defines the key goals that the Bank needs to achieve in the event of interrupted operations.

The Bank's capital requirement for operational risk as of 31 December 2023 and 2022 amounted to RSD 2.56 billion and RSD 2.96 billion, respectively.

4.5. Investment Risk

The Bank's investment risks include risks of the Bank's investments in other legal entities and capital expenditures, where:

- The Bank's investment in a single non-financial-sector entity may not exceed 10% of its own assets (the Bank's acquisition of shares or equity interest in a non-financial entity); and
- The sum of the total Bank's investments in non-financial entities and capital expenditures may not exceed 60% of the Bank's equity; this restriction, however, does not apply to the acquisition of shares for further sale within 6 months of the acquisition date.

The Bank's exposure to the investment risk was within the prescribed limits during 2023, whereas as of 31 December 2023, it was 9.27% of regulatory capital.

4.6. Exposure Risk

The risk of the Bank's exposure to the same or similar risk source or the same or similar risk type – concentration risk – refers to the Bank's large exposure to a single party or a group of related parties of over 10% of its equity, which is the sum of the Bank's stake capital and supplementary capital up to one third of its stake capital and in accordance with the National Bank of Serbia's Decision on Risk Management by Banks. The Bank's exposures to a single party or a group of related parties cannot exceed 25% of the Bank's capital, and the aggregate sum of all exposures cannot exceed 400% of the Bank's capital calculated in the above-explained manner.

The Bank controls the exposure risk using pre-defined exposure limits that enable loan portfolio diversification and the use of tangible and intangible collaterals in accordance with the National Bank of Serbia's Decision on the Capital Adequacy of Banks.

The aggregate sum of the Bank's large exposures as of 31 December 2023 was 138.14% of regulatory capital.

4. RISK MANAGEMENT (Continued)

4.7. Country Risk

Country risk is the risk that relates to:

- The risk of the country of origin of an entity that the Bank enters into a business transaction; and
- The risk of the occurrence of negative effects on the Bank's financial result and equity due to its inability to collect receivables from the said entity/entities caused by political, economic and social circumstances in the country of origin of the said entity/entities.

Country risk includes:

- Political and economic risk (the Bank's inability to collect receivables due to limitations stipulated by government regulations of the borrower's country of origin or due to other general and systemic circumstance in the given country); and
- Transfer risk (inability to collect receivables denominated in a currency that is not the official currency of the borrower's country of origin due to limitations of liability settlement towards creditors from other countries in a specific currency, which are stipulated by government regulations of the borrower's country of origin).

The Bank manages country risk by defining and monitoring the exposure limits, which are determined individually as per the customer's country of origin. The Bank uses internationally defined and recognized standards for country risk assessment and measurement. In order to secure its operations from country risk, the Bank applies the Risk Management Policy and the Country Risk Management Procedure.

The Bank's exposure to country risk in 2023 was monitored in accordance with Bank's internal procedures.

4.8. Capital Management

The Bank has established a risk management system in accordance with the volume and structure of its business activities and the capital management is aimed at the achievement of the Bank's business strategy goals.

The Bank defines its business strategy goals and periods for their realization in its Business Policies and Business Strategy with a three-year strategic plan.

The calculation of the amount of capital and the capital adequacy ratio is performed in accordance with Basel III Standard.

The key objectives of capital management are:

- Maintaining the minimum amount of capital of EUR 10 million in RSD equivalent at the official median exchange rate of the National Bank of Serbia at the date of calculation;
- Maintaining the minimum levels of the Bank's regulatory capital adequacy ratios in accordance with the National Bank of Serbia's Decision on Capital Adequacy of Banks, maintaining trust in the safety and stability of its operations,
- Achieving business and financial plans that can support the expected increase in loans, future sources of funds and their usage, and
- Implementing its dividend policy.

The Bank's strategic objective is to maintain capital adequacy ratios at a level above the prescribed minimum (4.5% for the common equity Tier 1 capital adequacy ratio, 6% for the Tier 1 capital adequacy ratio and 8% for the capital adequacy ratio) and minimum at a level that allows coverage of the requirement for the combined capital buffer in accordance with the National Bank of Serbia's Decision on Capital Adequacy of Banks.

As of 31 December 2023, the Bank calculated the common equity Tier 1 capital adequacy ratio, the Tier 1 capital adequacy ratio and the capital adequacy ratio in accordance with the National Bank of Serbia's Decision on the Capital Adequacy of Banks.

4. RISK MANAGEMENT (Continued)

4.9. Capital Adequacy Ratio

	In RSD thousand 31 December 2023
Basic share capital (common equity)	60,008,680
Supplementary capital	2,619,570
Equity	**62,628,250**
Credit risk-weighted assets	263,784,736
Risk-weighted assets based on market risk exposure	-
Risk-weighted assets based on operational risk exposure	32,021,050
Risk-weighted assets based on credit risk adjustment	48,905
Common equity Tier 1 capital adequacy ratio (min. 4.5%)	***20.28%***
Tier 1 capital adequacy ratio (min. 6%)	***20.28%***
Capital adequacy ratio (min. 8%)	***21.17%***

	31 December 2022
Basic share capital (common equity)	54,753,766
Supplementary capital	2,228,827
Equity	**56,982,593**
Credit risk-weighted assets	245,756,299
Risk-weighted assets based on market risk exposure	4,766,450
Risk-weighted assets based on operational risk exposure	37,058,183
Risk-weighted assets based on credit risk adjustment	26,517
Common equity Tier 1 capital adequacy ratio (min. 4.5%)	***19.04%***
Tier 1 capital adequacy ratio (min. 6%)	***19.04%***
Capital adequacy ratio (min. 8%)	***19.81%***

In 2023, the capital adequacy ratio was above the prescribed regulatory limit of 8% increased by additional capital buffers, and it was influenced by capital base strengthening through profit distribution to the regulatory capital and capital increase, as well as the acquisition of the subsidiary.

The amount and structure of the Bank's capital always need to provide coverage of the minimum capital requirements and internal capital requirements regarding the risks that the Bank is exposed to in its operations, in compliance with the Risk Management Strategy and Policy.

By implementing the Capital Management Strategy and Plan, the Bank performs the process of internal capital adequacy assessment, i.e. determines the amount of internal capital in accordance with its risk-weighted portfolio, thereby computing the capital requirements for risks that it has identified as materially significant.

The Bank's Capital Management Strategy and Plan ensures that at all times the Bank has at its disposal such a level and such a structure of internal capital so as to provide the Bank's compliance with all its legal obligations, maintenance of the trust of its shareholders and depositors in the security and stability of its operations, realisation of the Bank's business and financial plans, which can support the expected growth of the Bank's loans and investments, future sources of funds and their deployment, dividend policy and all changes to the prescribed minimum amount of capital.

4. RISK MANAGEMENT (Continued)

4.9. Capital Adequacy Ratio (Continued)

The Bank’s Capital Management Strategy and Plan contains:

- Organization of the internal capital management process, which includes the competencies and responsibilities of the Bank’s bodies and boards: Bank’s Assembly, Board of Directors, Executive Board, other Bank’s committees and competent divisions and departments: Risk Control Department, Treasury, Compliance Division, Planning and Analysing Division and Internal Audit Unit;
- Procedures for planning adequate internal capital levels;
- Definition of Bank’s capital – stake capital, supplementary capital and deductible items;
- Internal capital adequacy assessment process (described in detail in the Methodology for Internal Capital Requirement Assessment);
- Calculation of the capital requirements for credit risk (determining credit risk-weighted assets, capital requirements for settlement risk and counterparty risk);
- Calculation of the capital requirements for market risks and operational risks;
- Main principles of the internal capital adequacy assessment process;
- Available internal capital management, and
- Business continuity plan in case of the occurrence of unforeseen events that could affect the amount of the Bank’s internal capital.

5. USE OF ESTIMATES AND JUDGMENTS

The preparation and presentation of the financial statements in accordance with IFRS Accounting Standards requires the Bank’s management to make judgments, estimates and assumptions that affect the application of the accounting policies and amounts of assets and liabilities and income and expenses presented in the financial statements. Actual results may vary from these estimates. Estimates and assumptions are subject to constant review and are based on previous (historical) experience and other factors, including anticipation of future events deemed reasonable under the current circumstances. Revised accounting estimates are recognized in the period in which the revisions were made, as well as in those future periods affected by the revisions of the estimates.

Assumptions and other sources of uncertainty estimate on the balance sheet date that have a significant risk of causing a material adjustment to items in the financial statements within the next financial year are provided below.

5.1. Key Sources of Estimate Uncertainty

Provisions for Credit Losses

Impairment of assets carried at amortised cost is estimated in the manner described in the accounting policy in Note 3.9. - Identification and Measurement of Impairment of the Financial Assets

A separate counterparty element in the overall impairment provision is applied to financial assets subject to individual-level impairment assessment, and is based on the management’s best estimate of the present value of expected future cash flows. Upon estimating such cash flows, the management makes estimates on the financial standing of the counterparty and on the net realizable value of the existing collateral. Each impaired asset is assessed in terms of quality and output strategy, where the Bank’s Credit Risk Function independently approves the estimate of the cash flows considered to be recoverable.

Provisions assessed on a group level cover credit losses inherent in the portfolios of loans and receivables and securities held to maturity sharing similar credit risk characteristics due to the objective evidence of impaired items that are no yet identifiable. Upon estimating the need for forming group-level provisions for losses, the management takes into accounts factors such as loan quality, size of the portfolio, risk concentration and economic factors.

In order to estimate the required provision, the management makes assumptions to define the manner for modelling losses inherent in the portfolio and determine the necessary inputs, based on historical experience and current economic circumstances. The accuracy of provision depends on the estimated cash flows for individual counterparty provisions, as well as on the assumptions and inputs of the model used in determining the amount of group-level provision.

5. USE OF ESTIMATES AND JUDGMENTS (Continued)

5.1. Key Sources of Estimate Uncertainty (Continued)

Fair Value Assessment

Determining the fair value of financial assets and liabilities for which there is no observable market price requires uses estimation techniques described in the accounting policy in Note 3.9. - Fair Value Measurement. Fair values of financial instruments which are rarely traded and the prices of which are not very transparent are less objective and require estimating to a greater extent, depending on the liquidity, concentration, uncertainty of the market factors, assumptions on pricing and other risks related to the specific instruments.

Retirement Benefits

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

As these plans are long-term ones, significant uncertainties influence the outcome of the assessment. Additional information is disclosed in Note 36(b) to the financial statements.

5.2. Key Accounting Estimates in the Application of the Bank's Accounting Policies

Measurement of Financial Instruments

The Bank's accounting policy on the fair value measurement is disclosed in Note 3.9.

The Bank measures fair value of financial assets using the following fair value hierarchy of the quality of the inputs used in measurement of the inputs used in measurement:

- Level 1: Quoted prices (unadjusted) on active markets for identical instruments.
- Level 2: Valuation techniques based on inputs that are not quoted prices for identical instruments but are information available and determinable either directly (e.g. prices) or indirectly (e.g. derived from prices). This level includes instruments measured using the official active market prices of instruments with similar characteristics, official market prices of identical instruments or instruments with similar characteristics in a market deemed less active or using other measurement techniques with all significant inputs directly or indirectly available on the market.
- Level 3: Valuation techniques that use unavailable and undeterminable inputs. This level includes all instruments the fair values of which are assessed based on unavailable or unobservable input data, which therefore have significant effects on the instrument's fair value measurement. Such instruments are measured based on the official market prices for instruments with the similar characteristics, where significant adjustment or assumptions are required to reflect the differences between the instruments.

Fair values of financial assets and financial liabilities traded in an active market are based on the market prices. The Bank determines the fair values of all other financial instruments using valuation techniques.

Valuation techniques include the net present value and discounted cash flows, comparison to similar instruments for which observable market prices are available and other methods. Assumptions and inputs used in valuation techniques include risk-free and key policy interest rates, credit spreads and other factors used in estimating discount rates, prices of bonds or equity, foreign exchange rates, equity and equity price indexes and the expected instability of prices and correlations. The objective of the use of valuation techniques is to determine the fair value that reflects the price of a financial instrument at the reporting date, which would be determined by market participants in an arm's length transaction.

The Bank uses generally accepted models for determining the fair values of regular and common financial instruments such as interest and currency swaps, for which exclusively observable inputs are used, requiring less estimates and assumptions to be made by the management. Observable model inputs are mostly available on the market of the quoted debt and equity instruments, trading derivatives and simple derivatives such as interest rate swaps.

5. USE OF ESTIMATES AND JUDGMENTS (Continued)

5.2. Key Accounting Estimates in the Application of Bank's Accounting Policies (Continued)

Measurement of Financial Instruments (Continued)

Availability of observable market prices and model inputs reduces the need for estimates and assumptions made by management and reduces uncertainty associated with determining fair value. Availability of observable market prices and inputs varies depending on the products and market; it is prone to changes caused by various events and general conditions prevailing in the future markets.

Assessment whether the Bank has Control over Legal Entities

In accordance with the requirements of IFRS 10 "Consolidated Financial Statements" and IFRS 12 "Disclosure of Interests in Other Entities", the Bank reassesses whether it truly exercises control over its investee and considers all the facts, events, and circumstances indicating that there may have been a change in one or more of the three elements of control. The Bank also considers changes that affect its exposure to or rights to variable returns from its involvement with the investee.

The Bank's initial assessment of control does not change merely due to the occurrence of different market conditions (e.g., change in the returns from the investee triggered by market conditions), unless such changes in market conditions cause changes in one or more of the three elements of control or the entire relationship with the investee has changed.

Under IFRS 10, control over an investee is achieved when the investor has exposure, or rights, to variable returns from its involvement with the investee and has the ability the ability to use its power over the investee to affect the amount of returns. Hence, the investor controls the investee only and only if the all of the following criteria are met:

(a) Power over the investee;
(b) Exposure or rights to variable returns from its involvement with the investee, and
(c) The ability to use its power over the investee to affect the amount of returns.

Taking into consideration the requirements of the aforesaid standards, and based on its own assessment, the Bank determined that it had acquired control over an investee in 2023, but it is not required to prepare consolidated financial statements as of 31 December 2023, since it fulfils the requirements of IFRS 10.4 and Article 32 of the Law on Accounting.

Useful Life of Intangible Assets, Property, Plant and Equipment

The determination of the useful lives of intangible assets, property, plant and equipment is based on historical experience with similar assets, as well as the anticipated technical development and changes affected by numerous economic and industrial factors.

The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions.

Right-of-use Assets and Lease Liabilities

IFRS 16 requires certain estimates, primarily related to lease term and the determination of the incremental borrowing rate used for the measurement of lease liabilities.

It is necessary to remeasure lease liability upon certain events occurred (changes in lease term, future payments due to change in index or rate applied to calculate those payments). The lessee recognises the amount of remeasured lease liability as adjustment of value of a right-of-use asset.

6. FINANCIAL ASSETS AND LIABILITIES – ACCOUNTING CLASSIFICATION AND FAIR VALUE

The following tables provide a breakdown of financial instruments measured at fair value at the end of the reporting period per fair value hierarchy levels based on which fair value measurement is categorized:

In RSD thousand
31 December 2023

	Level 1	Level 2	Level 3	Total assets/liabilities at fair value
Assets				
Derivatives	-	-	114,421	114,421
Securities measured at fair value through profit or loss	1,925,651	-	-	1,925,651
Securities measured at fair value through other comprehensive income	-	42,441,681	-	42,441,681
Total assets	**1,925,651**	**42,441,681**	**114,421**	**44,481,753**
Liabilities				
Derivatives	-	-	21,556	21,556
Total liabilities	**-**	**-**	**21,556**	**21,556**

In RSD thousand
31 December 2022

	Level 1	Level 2	Level 3	Total assets/liabilities at fair value
Assets				
Derivatives	-	-	16,972	16,972
Securities measured at fair value through profit or loss	3,529,272	-	-	3,529,272
Securities measured at fair value through other comprehensive income	-	54,579,367	-	54,579,367
Total assets	**3,529,272**	**54,579,367**	**16,972**	**58,125,611**
Liabilities				
Derivatives	-	-	7,900	7,900
Total liabilities	**-**	**-**	**7,900**	**7,900**

Level 1 includes financial instruments traded on the stock exchange, while Level 2 includes securities the fair values of which are assessed based on the internally developed models that are based on the information from auctions on the secondary securities market. Fair values of assets determined based on the prices from the stock market for instruments with similar characteristics are allocated to Level 3.

6. FINANCIAL ASSETS AND LIABILITIES – ACCOUNTING CLASSIFICATION AND FAIR VALUE (Continued)

The carrying values and fair values of financial assets and liabilities not measured at fair value are presented in the tables below:

In RSD thousand
31 December 2023

	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets					
Loans and placements to customers	227,387,789	232,699,694	-	-	232,699,694
Securities measured at amortised cost	454,270	452,132	-	-	452,132
Financial liabilities					
Deposits and other liabilities due to customers	338,631,966	341,839,388	-	-	341,839,388

In RSD thousand
31 December 2022

	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets					
Loans and placements to customers	231,928,931	241,828,120	-	-	241,828,120
Securities measured at amortised cost	635,033	660,156	-	-	660,156
Financial liabilities					
Deposits and other liabilities due to customers	309,533,937	310,396,541	-	-	310,396,541

The methodology and assumptions used for calculating fair values of the aforesaid financial assets and liabilities not stated at fair value in the financial statements are as follows:

Assets whose fair values approximate their carrying values

For highly liquid financial assets and liabilities with short-term maturities (up to a year) it is assumed that their carrying values approximate their fair values. This assumption is also used for demand deposits, savings deposits without a defined maturity and all financial instruments at variable interest rates.

Fixed rate financial instruments

The fair value of financial assets and liabilities at fixed interest rates carried at amortized cost is assessed by comparing the market interest rates upon initial recognition to the current interest rates prevailing on the market for financial assets with similar characteristics.

The estimated fair values of financial instruments at fixed interest rates are based on the cash flows discounted using the interest rate prevailing on the money market for financial instruments with similar credit risk characteristics and maturities.

Financial assets held to maturity, loans and deposits include a portion of the fixed interest rate portfolio, which gives rise to the differences between their carrying values and fair values.

7. INTEREST INCOME AND EXPENSES

Interest income and expenses according to financial instrument classes are presented below:

	2023	In RSD thousand Year Ended 31 December 2022
Interest income		
Loans and placements to customers	17,653,745	7,964,284
Loans and placements to banks	799,505	185,170
Deposits held with the National Bank of Serbia	524,396	85,454
Securities:		
- Repo transactions	3,258,413	35,583
- Republic of Serbia's RSD bonds	1,658,286	935,122
- Republic of Serbia's RSD bills	-	71,092
- Corporate RSD bonds	75,615	230,358
- Republic of Serbia's foreign currency bonds	203,600	233,393
Promissory notes	41,723	43,861
Total	**24,215,283**	**9,784,317**
Interest expenses		
Borrowings from banks	(75,540)	-
Borrowings from customers	(412,391)	(65,628)
Deposits from customers	(8,233,276)	(1,975,947)
Deposits from banks	(470,414)	(55,977)
Securities	(432,807)	(284,434)
Lease liabilities (Note 37.1)	(14,650)	(8,388)
Other interest expenses	(558)	(33,522)
Total	**(9,639,636)**	**(2,423,896)**
Net interest income	**14,575,647**	**7,360,421**

8. FEE AND COMMISSION INCOME AND EXPENSES

	2023	In RSD thousand Year Ended 31 December 2022
Fee and commission income		
Payment card transactions	1,492,557	1,007,547
Payment transaction services	1,644,682	1,033,692
Fees on issued guarantees	663,943	302,627
Realised foreign exchange gains	593,508	427,161
Other fees and commissions	314,640	177,099
Total	**4,709,330**	**2,948,126**
Fee and commission expenses		
Payment card transactions	(987,690)	(695,786)
Payment transaction services	(213,208)	(166,962)
Realised foreign exchange losses	(71,362)	(124,526)
Other fees and commissions	(27,035)	(100,331)
Total	**(1,299,295)**	**(1,087,605)**
Net fee and commission income	**3,410,035**	**1,860,521**

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

		In RSD thousand Year Ended 31 December
	2023	**2022**
Changes in fair value of held-for-trading securities	292,971	65,618
Changes in fair value of investment units	54,968	32,924
Changes in fair value of derivatives	105,066	(60,947)
Net gains	**453,005**	**37,595**

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

		In RSD thousand Year Ended 31 December
	2023	**2022**
Losses on sale of securities measured at fair value through profit or loss	(2,791)	(139,619)
Gains on sale of securities measured at fair value through other comprehensive income	10,484	161,704
Net gains	**7,693**	**22,085**

11. NET FOREIGN EXCHANGE (LOSSES)/GAINS AND EFFECTS OF CONTRACTED FOREIGN CURRENCY CLAUSE

		In RSD thousand Year Ended 31 December
	2023	**2022**
Foreign exchange gains		
Foreign exchange gains	3,706,098	2,733,168
Positive effects of contracted foreign currency clause	237,129	421,935
Total foreign exchange gains	**3,943,227**	**3,155,103**
Foreign exchange losses		
Foreign exchange losses	(3,654,152)	(2,565,129)
Negative effects of contracted foreign currency clause	(430,602)	(491,878)
Total foreign exchange losses	**(4,084,754)**	**(3,057,007)**
Net foreign exchange (losses)/gains	**(141,527)**	**98,096**

12. NET (LOSSES)/GAINS FROM REVERSAL OF IMPAIRMENT LOSSES ON FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) (Charged)/Credited to the Income Statement

		In RSD thousand Year Ended 31 December
	2023	**2022**
Impairment losses - financial assets measured at amortised cost		
Cash and balances with Central Bank (Note 20)	(38,034)	(30,933)
Securities measured at amortised cost (Note 23)	(6,186)	(17,176)
Loans and placements to banks (Note 24)	(515,409)	(129,746)
Loans and placements to customers (Note 25)	(13,822,818)	(7,443,997)
Other assets (Note 33)	(149,565)	(80,719)
	(14,532,012)	**(7,702,571)**
Provisions for off-balance sheet items (Note 36(c))	**(450,191)**	**(345,539)**
Losses from impairment of financial assets measured at FVOCI (Note 38(ii))	**(38,163)**	**(195,901)**
Write-off of irrecoverable receivables		
Loans and placements to customers	(1,354)	(13)
Other assets	(26,878)	-
	(28,232)	**(13)**
Losses from modification of financial instruments	**(667,966)**	**(784)**
Total losses	**(15,716,564)**	**(8,244,808)**
Reversal of impairment losses		
Cash and balances with Central Bank (Note 20)	57,045	7,668
Securities measured at amortised cost (Note 23)	14,271	20,872
Loans and placements to banks (Note 24)	376,063	131,864
Loans and placements to customers (Note 25)	10,646,891	6,779,131
Other assets (Note 33)	110,060	79,837
	11,204,330	**7,019,372**
Release of provision for off-balance sheet items (Note 36 (c))	**587,680**	**340,034**
Reversal of impairment losses on financial assets measured at FVOCI (Note 38(ii))	**145,388**	**78,889**
Recovery of receivables previously written-off		
Loans and placements to customers	1,452,135	1,211,274
Other assets	16,945	-
	1,469,080	**1,211,274**
Gains from modification of financial instruments	**31,047**	**510**
Total gains	**13,437,525**	**8,650,079**
Net (losses)/gains from the impairment of financial assets and credit risk-weighted off-balance sheet items	**(2,279,039)**	**405,271**

During the last quarter of 2023 the Bank recorded the effect of an insignificant modification in the total amount of RSD 666,344 thousand, as a result of the implementation of the National Bank of Serbia's Decision on Temporary Measures for Banks in relation to Retail Housing Loans ("RS Official Gazette", no. 78/2023).

12. NET (LOSSES)/GAINS FROM REVERSAL OF IMPAIRMENT LOSSES ON FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

(b) Movements in the Allowance for Impairment and Provisions for Credit Risk-weighted Off-balance Sheet Items during the Year

In RSD thousand

	Cash and balances with Central Bank (Note 20)	Securities at amortized cost (Note 23.3.)	Loans and placements to banks (Note 24)	Loans and placements to customers (Note 25)	Other assets (Note 33)	Off-balance sheet assets (Note 36(c))	Total
Balance as of 1 January 2022	**4,735**	**125,319**	**21,953**	**3,581,112**	**122,009**	**147,366**	**4,002,494**
Effects of Nasa AIK Banka merger	620	-	195,895	1,410,951	64,057	131,913	1,803,436
Impairment losses	30,933	17,176	129,746	7,443,997	80,719	345,539	8,048,110
Reversal of impairment losses and release of provision	(7,668)	(20,872)	(131,864)	(6,779,131)	(79,837)	(340,034)	(7,359,406)
Impairment of interest on impaired loans	-	-	-	44,595	-	-	44,595
Write-offs and derecognition of financial instruments	-	-	-	(29,825)	-	-	(29,825)
Transfer to off-balance sheet items	-	-	-	(589,009)	(45,888)	-	(634,897)
FX differences, other	190	2	447	-	(4)	(710)	(75)
Balance as of 31 December 2022	**28,810**	**121,625**	**216,177**	**5,082,690**	**141,056**	**284,074**	**5,874,432**
Balance as of 1 January 2023	**28,810**	**121,625**	**216,177**	**5,082,690**	**141,056**	**284,074**	**5,874,432**
Impairment losses	38,034	6,186	515,409	13,822,818	149,565	450,191	14,982,203
Reversal of impairment losses and release of provision	(57,045)	(14,271)	(376,063)	(10,646,891)	(110,060)	(587,680)	(11,792,010)
Impairment of interest on impaired loans	-	-	-	106,613	-	-	106,613
Write-offs and derecognition of financial instruments	-	(66,447)	-	(36,103)	(12,773)	-	(115,323)
Transfer to off-balance sheet items	-	-	(6,818)	(666,026)	-	-	(672,844)
FX differences	(9)	-	(7,805)	(2,421)	(387)	(237)	(10,859)
Other	-	173	-	46,903	(46,998)	-	78
Balance as of 31 December 2023	**9,790**	**47,266**	**340,900**	**7,707,583**	**120,403**	**146,348**	**8,372,290**

13. NET GAINS FROM DERECOGNITION OF FINANCIAL INSTRUMENTS MEASURED AT AMORTISED COST

	In RSD thousand Year Ended 31 December 2023	2022
Net gains from derecognition of financial instruments - sales of loans	121,124	14,250
Net gains/(losses) from derecognition of financial instruments - other effects	2,107	(1,739)
Net gains	**123,231**	**12,511**

14. OTHER OPERATING INCOME

		In RSD thousand Year Ended 31 December
	2023	**2022**
Rental income	47,988	124,904
Reimbursed cost	393,946	290,393
Dividend income	74,800	82,678
Other operating income	7,617	23,881
Total	**524,351**	**521,856**

Rental income in 2023 in the amount of RSD 47,988 thousand (2022: RSD 124,904 thousand) completely relates to the income from the lease of investment property to third parties (Note 30).

Income from reimbursed cost in 2023 in the amount of RSD 393,946 thousand (2022: RSD 290,393 thousand) mostly relates to the operating costs reimbursement in the amount of RSD 297,779 thousand (2022: RSD 209,078 thousand).

In 2023, dividend income amounting to RSD 74,800 thousand related to dividends received from Nova Ljubljanska Banka d.d. Ljubljana, Slovenia, in the amount of RSD 73,537 thousand and from Intesa Sanpaolo SPA in the amount of RSD 1,263 thousand. Dividend income in 2022 related to dividends received from Nova Ljubljanska Banka d.d. Ljubljana, Slovenia, in the amount of RSD 74,962 thousand and from Intesa Sanpaolo SPA in the amount of RSD 7,716 thousand.

15. SALARIES, COMPENSATIONS AND OTHER PERSONAL EXPENSES

		In RSD thousand Year Ended 31 December
	2023	**2022**
Salaries	1,462,265	941,359
Compensations	222,421	125,717
Payroll taxes and contributions	974,559	609,544
Other personal expenses for temporary jobs	38,842	39,995
Provisions for employee benefits (Note 36(b))	3,708	119,196
Release of provisions for employee benefits (Note 36(b))	-	(30,054)
Total	**2,701,795**	**1,805,757**

16. DEPRECIATION AND AMORTISATION EXPENSE

		In RSD thousand Year Ended 31 December
	2023	**2022**
Amortisation of intangible assets (Note 27)	333,662	243,741
Depreciation of buildings (Note 28)	532	2,278
Depreciation of equipment and other assets (Note 28)	224,769	107,210
Depreciation of right-of-use assets (Note 29)	421,887	219,879
Total	**980,850**	**573,108**

17. OTHER INCOME

	2023	In RSD thousand Year Ended 31 December 2022
Release of provision for litigations (Note 36(a))	216,556	11,302
Gains on sale of property, plant and equipment and small inventory	54,490	274,627
Liabilities waived	124,419	19,991
Income from collected purchased receivables	610,502	86,739
Other income	91,915	25,436,152
Valuation gains on property (Note 30 and Note 33(b))	131,033	338
Total	**1,228,915**	**25,829,149**

Gains on sale of property, plant and equipment and small inventory realised in 2023 in the total amount of RSD 54,490 thousand mostly relate to the gains on sale of investment property in the amount of RSD 34,297 thousand (Note 30), sale of equipment in the amount of RSD 13,363 thousand and sale of buildings in the amount of RSD 3,377 thousand (Note 28), as well as the gains on sale of foreclosed assets in the amount of RSD 3,453 thousand (Note 33(b)).

Gains on sale of property, plant and equipment and small inventory realized in 2022 in the total amount of RSD 274,627 thousand mostly related to the gains on sale of investment property in the amount of RSD 195,091 thousand and sale of buildings in the amount of RSD 75,465 thousand.

The difference between the carrying value of the equity investment in acquired Nasa AIK Banka, i.e. the acquisition cost and the amortised fair value of the acquired net assets of this bank on the acquisition date, i.e. 1 December 2022, has been recognised as income, i.e. a bargain purchase gain in 2022.

18. OTHER EXPENSES

	2023	In RSD thousand Year Ended 31 December 2022
Cost of material	152,607	131,136
Rental costs and other costs related to leased business premises	191,258	140,102
Telecommunications and postage services	825,458	415,880
Other services	45,796	21,865
Property maintenance	673,453	331,162
Marketing and advertising fees	102,827	99,262
Donations and sponsorships	76,696	33,408
Entertainment	52,048	24,908
Audit and expertise costs	400,295	141,885
Insurance premiums	943,374	622,330
Membership fees	6,114	4,564
Lawyer, appraiser and expert fees	236,334	135,349
Court and other fees	52,906	45,427
Broker and Central Depository fees	44,364	113,105
Security costs	91,885	84,550
Other non-material costs	329,074	202,114
Taxes and contributions	105,909	116,888
Re-invoiced costs	29,684	35,943
Provisions for litigations (Note 36a)	275,795	25,690
Losses on sale of property	333	251,993
Other expenses	321,695	321,343
Valuation losses on property	256,077	32,277
Total	**5,213,982**	**3,331,181**

18. OTHER EXPENSES (Continued)

Valuation losses on property in 2023 in the amount of RSD 256,077 thousand (2022: RSD 32,277 thousand) include negative effects of investment property valuation in the amount of RSD 193,209 thousand (2022: RSD 28,724 thousand) (Note 30) and impairment of repossessed property following the foreclosure in the amount of RSD 62,868 thousand (2022: RSD 3,553 thousand) (Note 33(b)).

19. INCOME TAXES

19.1. Components of Income Taxes

		In RSD thousand
	2023	**2022**
Current income tax expense	639,439	4,168,535
Deferred tax expense (Note 32.2)	194,614	135,964
Total income tax expense	**834,053**	**4,304,499**

19.2. Numerical Reconciliation of Income Tax Recognised in the Income Statement and Profit for the Year before Tax

		In RSD thousand
	2023	**2022**
Profit before tax	**9,005,684**	**30,437,459**
Income tax at the statutory tax rate (15%)	**1,350,853**	**4,565,619**
Tax effects of non-deductible expenses/income	(12,901)	(178,605)
Tax effects of the net capital gains/losses	(2,160)	39,347
Tax effects of interest income on debt securities issued by the Republic of Serbia	(696,353)	(140,268)
Effects of other temporary differences	194,614	18,406
Total tax expense reported in the income statement	**834,053**	**4,304,499**
Effective tax rate	***9.26%***	***14.14%***

Corporate income tax payable determined in the 2023 tax return amounts to RSD 639,439 thousand and it was fully offset against monthly advance tax payments made during 2023. Since the amount of the calculated corporate income tax payable is lower than the amount of advance tax payments, the Bank recognised current tax assets in the amount of RSD 2,220,054 thousand (Note 31) as of 31 December 2023.

20. CASH AND BALANCES WITH CENTRAL BANK

In RSD thousand

	31 December 2023	31 December 2022
In RSD:		
Gyro account	37,348,299	39,769,197
Cash on hand	7,502,646	7,515,639
Other funds	40	5,108
Accruals per funds held with the Central Bank	9,044	9,927
	44,860,029	**47,299,871**
In foreign currency:		
Cash on hand	5,199,111	5,743,420
Required foreign currency reserve held with the National Bank of Serbia	24,222,288	22,789,835
	29,421,399	**28,533,255**
Total	**74,281,428**	**75,833,126**
Less: Allowance for impairment	(9,790)	(28,810)
Balance as of	**74,271,638**	**75,804,316**
Adjustments to cash and cash equivalents for the purpose of preparing the Statement of Cash Flows		
Foreign currency accounts with foreign banks (Note 24)	5,854,935	9,840,943
Accruals per funds held with the Central Bank	(9,044)	(9,927)
Required foreign currency reserve held with the National Bank of Serbia	(24,222,288)	(22,789,835)
	(18,376,397)	**(12,958,819)**
Cash and cash equivalents reported in the Statement of Cash Flows	**55,905,031**	**62,874,307**

Movements in the allowance for impairment during the year were as follows:

In RSD thousand

	2023	2022
Balance as of 1 January	**(28,810)**	**(4,735)**
Effects of Nasa AIK Banka merger	-	(620)
Charge for the year (Note 12)	(38,034)	(30,933)
Reversal of impairment losses (Note 12)	57,045	7,668
FX differences	9	(190)
Balance as of 31 December	**(9,790)**	**(28,810)**

For the purpose of the Statement of Cash Flows, cash and cash equivalents include: cash at the gyro account held with the National Bank of Serbia, cash on hand in RSD and foreign currencies, cash at accounts held with foreign banks and cash at the account held with the Central Securities Depository and Clearing House.

Banks allocate the required dinar reserve on their gyro accounts held with the National Bank of Serbia. The required dinar reserve is the minimum RSD reserve set aside in accordance with the National Bank of Serbia's Decision on Required Reserves of Banks with the National Bank of Serbia ("RS Official Gazette", no. 76/2018 and 77/2023).

The Bank is obliged to calculate and set aside the required dinar reserve against the average daily balance of the liabilities in RSD during the preceding calendar month applying the rate of 7% to liabilities with maturity of up to 2 years, i.e. within 730 days, and 2% to liabilities with maturity of over 2 years, i.e. over 730 days (2022: 5% and 0%).

In addition, the required dinar reserve includes 46% and 38% of the RSD equivalent of the calculated required foreign currency reserve (2022 38% and 30%).

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

20. CASH AND BALANCES WITH CENTRAL BANK (Continued)

The calculated required dinar reserve that was to be maintained on the gyro account from 18 December 2023 to 17 January 2024 amounted to RSD 29,895,756 thousand (from 18 December to 17 January 2023: RSD 19,577,738 thousand) and was in compliance with the Decision of the National Bank of Serbia.

Pursuant to the Decision on Banks' Required Reserves with the National Bank of Serbia, the Bank calculates and allocates the obligatory foreign currency reserve against the average daily balance of foreign currency liabilities from the preceding month at a rate of 23% applied to liabilities with contracted maturity of up to 2 years, i.e. within 730 days, at a rate of 16% applied to liabilities with contracted maturity of over 2 years, i.e. over 730 days (2022: 20% and 13%,) and at a rate of 100% applied to the average daily balance of RSD liabilities indexed with a foreign currency clause (2022: 100%).

The Bank allocates the required foreign currency reserve to foreign currency accounts of the National Bank of Serbia. Out of the total calculated required foreign currency reserve, 54% (for liabilities with maturity of up 2 years, i.e. within 730 days), i.e. 62% (for liabilities with maturity of over 2 years, i.e. over 730 days) is allocated in foreign currencies, while the remaining 46%, i.e. 38% is allocated in RSD to the gyro account.

The Bank is obliged to maintain the average daily balance of the required foreign currency reserve during the accounting period in the amount of the calculated required foreign currency reserve. The calculated required foreign currency reserve for the period from 18 December 2023 to 17 January 2024 amounted to EUR 206,712 thousand (from 18 December 2022 to 17 January 2023: EUR 205,430 thousand), and was in compliance with the Decision of the National Bank of Serbia.

21. PLEDGED FINANCIAL ASSETS

In RSD thousand

	31 December 2023	31 December 2022
Equity instruments – shares of Eurobank Direktna a.d. Belgrade	20,420,056	-
Balance as of	**20,420,056**	**-**

A pledge on shares of Eurobank Direktna a.d. Belgrade was made in line with a Share Pledge Agreement signed between the Bank and Eurobank S.A. Athens, Greece on 2 November 2023. The pledge was established as a collateral for the liabilities of Eurobank Direktna a.d. Belgrade under the Liquidity Loan Agreement towards Eurobank S.A. Athens, Greece. The loan repayment proportionally reduces the number of pledged shares.

22. DERIVATIVES

22.1. DERIVATIVES RECEIVABLE

In RSD thousand

	31 December 2023	31 December 2022
Derivatives - currency swap	114,421	16,972
Balance as of	**114,421**	**16,972**

22. DERIVATIVES (Continued)

22.2. DERIVATIVES PAYABLE

	31 December 2023	In RSD thousand 31 December 2022
Derivatives - currency swap	21,556	7,900
Balance as of	**21,556**	**7,900**

Financial receivables and payables arising from held-for-trading derivatives are related to the effects resulting from the fair value of instruments whose nominal value is stated within off-balance sheet items (Note 39.2).

23. SECURITIES

	31 December 2023	In RSD thousand 31 December 2022
Securities measured at fair value through profit or loss	1,925,651	3,529,272
Securities measured at fair value through other comprehensive income	42,441,681	54,579,367
Securities measured at amortised cost	454,270	635,033
Balance as of	**44,821,602**	**58,743,672**

23.1. Securities Measured at Fair Value through Profit or Loss

	31 December 2023	In RSD thousand 31 December 2022
In RSD:		
Securities held for trading – shares	724,636	727,554
Securities initially recognized at fair value	1,201,015	1,146,048
	1,925,651	**1,873,602**
In foreign currency:		
Securities held for trading – shares	-	1,655,670
	-	**1,655,670**
Balance as of	**1,925,651**	**3,529,272**

The Bank's investments in RSD securities held for trading totalling RSD 724,636 thousand as of 31 December 2023 completely relate to shares of the company Fintel energija a.d. Belgrade. The Bank's investments in RSD securities held for trading totalling RSD 727,554 thousand as of 31 December 2022 related to shares of the company Fintel energija a.d. Belgrade.

The Bank's investments in securities initially recognized at fair value - investment units in RSD in the amount of RSD 1,201,015 thousand as of 31 December 2023 (31 December 2022: RSD 1,146,048 thousand) relate to investment units of Raiffeisen Cash in the amount of RSD 442,425 thousand (31 December 2022: RSD 423,790 thousand), Kombank Cash Fund in the amount of RSD 435,976 thousand (31 December 2022: RSD 416,276 thousand) and Intesa Invest Cash in the amount of RSD 322,614 thousand (31 December 2022: RSD 305,982 thousand).

As of 31 December 2023, the Bank had no investments in securities held for trading in foreign currency, which, as of 31 December 2022, mainly related to purchased GDR instruments of NLB d.d. Ljubljana in the amount of RSD 1,513,894 thousand.

23. SECURITIES (Continued)

23.2. Securities Measured at Fair Value through Other Comprehensive Income

In RSD thousand

	31 December 2023	31 December 2022
In RSD:		
Republic of Serbia's bonds	35,604,617	43,414,105
Corporate bonds	-	4,603,816
	35,604,617	**48,017,921**
In foreign currency:		
Republic of Serbia's bonds	6,837,064	6,561,446
	6,837,064	**6,561,446**
Balance as of	**42,441,681**	**54,579,367**

As of 31 December 2023, the Bank has investments in RSD bonds of the Republic of Serbia at a fixed interest rate. State bonds with fixed interest rates have maturities from 24 to 144 months and a yield as of the acquisition date ranging from 2.07% to 6.30% per annum (31 December 2022: maturities from 24 to 144 months and a yield ranging from 2.07% to 5.64% per annum).

The Bank's investments in the Republic of Serbia's foreign currency bonds as of 31 December 2023 and 2022 have maturities from 60 to 180 months and a yield ranging from 1.6% to 5.44% per annum as of 31 December 2023 (31 December 2022: yield ranged from 1.6% to 3.38% per annum).

The Bank's investments in corporate bonds as of 31 December 2022 related to bonds of the company JP Jugoimport – SDPR, Belgrade at a variable interest rate and with a five-year maturity.

23.3. Securities Measured at Amortised Cost

In RSD thousand

	31 December 2023	31 December 2022
Corporate bills of exchange		
- in RSD	501,536	753,488
- in foreign currencies	-	3,170
	501,536	**756,658**
Less: Allowance for impairment	(47,266)	(121,625)
Balance as of	**454,270**	**635,033**

Movements in the allowance for impairment during the year were as follows:

In RSD thousand

	2023	2022
Balance as of 1 January	**(121,625)**	**(125,319)**
Charge for the year (Note 12)	(6,186)	(17,176)
Reversal of impairment losses (Note 12)	14,271	20,872
Sales, FX differences, other	66,274	(2)
Balance as of 31 December	**(47,266)**	**(121,625)**

24. LOANS AND PLACEMENTS TO BANKS AND OTHER FINANCIAL INSTITUTIONS

In RSD thousand

	31 December 2023	31 December 2022
RSD loans:		
Loans per REPO transactions	50,729,410	10,000,000
Transaction account loans	29,792	27,179
Liquidity and working capital loans	645,873	569,129
Investment loans	2,245	-
Other loans	347,948	199,764
Other placements	4,801	41,318
Interest and fees receivable	44,998	9,272
Deferred fee income as part of the effective interest rate	(5,366)	(5,608)
	51,799,701	**10,841,054**
Foreign currency loans:		
Foreign currency accounts with foreign banks - nostro	5,854,935	9,840,943
Loans per REPO transactions	1,451,871	1,113,379
Loans for payment of goods and services' import	-	459,519
Overnight deposits	2,226,300	2,229,126
Other foreign currency loans	5,858,685	5,866,120
Other earmarked deposits	254,692	556,164
Other placements	1,017,372	779,768
Interest and fees receivable	18,719	6,589
	16,682,574	**20,851,608**
Gross loans and placements	**68,482,275**	**31,692,662**
Less: Allowance for impairment	(340,900)	(216,177)
Balance as of	**68,141,375**	**31,476,485**

Movements in the allowance for impairment during the year were as follows:

In RSD thousand

	2023	2022
Balance as of 1 January	**(216,177)**	**(21,953)**
Effects of Nasa AIK Banka merger	-	(195,895)
Charge for the year (Note 12)	(515,409)	(129,746)
Reversal of impairment losses (Note 12)	376,063	131,864
Write-off, FX differences and other changes	7,805	(447)
Transfer to off-balance sheet items	6,818	-
Balance as of 31 December	**(340,900)**	**(216,177)**

In 2023, the Bank invested funds in RSD repo transactions with the National Bank of Serbia at interest rates ranging from 4.16% to 5.59% per annum. The Bank invested funds at an interest rate of 5.39% per annum in repo transactions with other banks during the first half of 2023.

In 2023, funds in repo transactions with other customers and in foreign currencies were placed at interest rates of 2.5% and 4.5% per annum.

In 2023, the Bank placed RSD funds at interest rates ranging from 4.25% to 5.26% per annum and EUR funds at interest rates ranging from 1.5% to 3.95% per annum (2022: RSD funds from 0.25% to 6.85% per annum and EUR funds from 0.05% to 2.00% per annum).

Other placements in foreign currency totalling RSD 1,017,372 thousand as of 31 December 2023 (31 December 2022: RSD 779,768 thousand) are mainly, in the amount of RSD 983,495 thousand (31 December 2022: RSD 116,723 thousand), related to the settlement account balance for Mastercard and Visa International.

25. LOANS AND PLACEMENTS TO CUSTOMERS

In RSD thousand

	31 December 2023	31 December 2022
Corporate customers:		
Transaction account loans	1,350,511	1,455,238
Working capital loans	45,023,390	60,835,703
Investment loans	106,306,750	86,798,642
Deposits placed	162	872
Foreign currency loans	19,351,045	19,399,952
Advances per guarantees and acceptances	45,467	5,289
Factoring receivables	6,822,123	5,992,080
Other loans and advances	4,798,808	4,539,943
Interest and fees receivable	1,188,769	1,794,136
Deferred fee income as part of the effective interest rate	(744,458)	(530,433)
	184,142,567	**180,291,422**
Retail customers:		
Transaction account loans	515,674	591,299
Consumer loans	6,576	9,198
Housing loans	18,398,296	19,816,820
Cash loans	28,924,943	32,645,410
Other loans and advances	2,427,644	3,008,765
Interest and fees receivable	755,222	739,346
Deferred fee income as part of the effective interest rate	(75,550)	(90,639)
	50,952,805	**56,720,199**
Gross loans and advances	**235,095,372**	**237,011,621**
Less: Allowance for impairment	(7,707,583)	(5,082,690)
Balance as of	**227,387,789**	**231,928,931**

Movements in the allowance for impairment during the year were as follows:

In RSD thousand

	2023	2022
Balance as of 1 January	**(5,082,690)**	**(3,581,112)**
Effects of Nasa AIK Banka merger	-	(1,410,951)
Charge for the year (Note 12)	(13,822,818)	(7,443,997)
Reversal of impairment losses (Note 12)	10,646,891	6,779,131
Impairment of interest on impaired loans	(106,613)	(44,595)
Write-off, FX differences	38,524	29,825
Transfer to off-balance sheet items	666,026	589,009
Other	(46,903)	-
Balance as of 31 December	**(7,707,583)**	**(5,082,690)**

Short-term RSD loans were granted to corporate customers and entrepreneurs for a period of up to 12 months, predominantly at nominal interest rates ranging from 4% to 25% per annum.

Short-term foreign-currency indexed loans were granted to corporate customers at interest rates ranging from 4% to 6M Euribor + 8.95% per annum.

Long-term RSD loans were granted to corporate customers at interest rates ranging from 4% to 25% per annum.

Long-term RSD loans (with a foreign currency clause) were granted to corporate customers and entrepreneurs at interest rates ranging from 4 % to 25% per annum.

25. LOANS AND PLACEMENTS TO CUSTOMERS (Continued)

Loans and placements to entrepreneurs are granted under the same terms and conditions applicable to legal entities from the SME segment.

Short-term RSD loans were granted to retail customers at a fixed nominal interest rate of 6.1% per annum.

Short-term RSD loans were granted to registered agricultural households at nominal interest rates ranging from 4.10% to 30% per annum.

Long-term RSD loans were extended to retail customers at a fixed nominal interest rate of 6.1% per annum, i.e. at a variable interest rate of 3M Belibor + 5.28% per annum. Long-term RSD loans indexed to EUR were extended at a variable nominal interest rate of 6M Euribor + 2.85% per annum, i.e. at a fixed annual nominal rate of 4.10% per annum.

Short-term foreign currency loans were granted to registered agricultural households that are retail customers at nominal interest rates ranging from 4.10% to 30% per annum.

Long-term RSD loans were extended to registered agricultural households that are retail customers at a nominal interest rate of 4.1% per annum.

Long-term RSD loans with a foreign currency clause were extended to registered agricultural households at nominal fixed interest rates ranging from 4.1% to 6M Euribor + 6.45% per annum.

Interest rates on loans based on earmarked term deposits are formed using appropriate interest margins on interest rates applied to earmarked term deposits.

26. INVESTMENTS IN JOINT VENTURES AND SUBSIDIARIES

26.1. INVESTMENTS IN JOINT VENTURES

In RSD thousand

	31 December 2023	31 December 2022
Investments in joint ventures	150,064	150,064
Balance as of	**150,064**	**150,064**

As of 31 December 2023, the Bank has joint venture in the company “Super Kartica” d.o.o. Belgrade.

26.2. INVESTMENTS IN SUBSIDIARIES

In RSD thousand

	31 December 2023	31 December 2022
Equity investment in:		
- Eurobank Direktna a.d. Belgrade	33,053,174	-
Less: pledged shares	(20,420,056)	-
Balance as of	**12,633,118**	**-**

On 2 November 2023, the Bank signed a Shares Purchase Agreement for the acquisition of 100% shares of Eurobank Direktna a.d. Belgrade. On 2 November 2023, after obtaining the approval from the National Bank of Serbia and other competent regulatory institutions, the Bank officially became the sole owner of Eurobank Direktna a.d. Belgrade in Serbia. The Bank established a pledge over a portion of shares in favour of Eurobank S.A. Athens, Greece (Note 21).

27. INTANGIBLE ASSETS

In RSD thousand

	31 December 2023	31 December 2022
Cost		
Patents, licenses and software	3,011,782	2,854,204
Intangible assets under construction	150	-
Other intangible rights	163,898	163,898
	3,175,830	**3,018,102**
Less: Accumulated amortisation	(2,758,240)	(2,450,843)
Carrying value as of	**417,590**	**567,259**

Movements in intangible assets during 2022 and 2023 were as follows:

In RSD thousand

	Patents, licenses and software	Intangible assets under construction	Other intangible rights	Total
COST				
As of 1 January 2022	**1,221,705**	**-**	**163,898**	**1,385,603**
Effects of Nasa AIK Banka merger	1,437,334	40,653	-	1,477,987
Transfer (from)/to	40,653	(40,653)	-	-
Additions	154,512	-	-	154,512
Balance as of 31 December 2022	**2,854,204**	**-**	**163,898**	**3,018,102**
Additions	157,578	150	-	157,728
Balance as of 31 December 2023	**3,011,782**	**150**	**163,898**	**3,175,830**
ACCUMULATED AMORTIZATION				
As of 1 January 2022	**745,956**	**-**	**163,898**	**909,854**
Effects of Nasa AIK Banka merger	1,297,248	-	-	1,297,248
Amortisation (Note 16)	243,741	-	-	243,741
Balance as of 31 December 2022	**2,286,945**	**-**	**163,898**	**2,450,843**
Amortisation (Note 16)	333,662	-	-	333,662
Other	(26,265)	-	-	(26,265)
Balance as of 31 December 2023	**2,594,342**	**-**	**163,898**	**2,758,240**
Carrying value as of:				
- 31 December 2023	**417,440**	**150**	**-**	**417,590**
- 31 December 2022	**567,259**	**-**	**-**	**567,259**

28. PROPERTY, PLANT AND EQUIPMENT

In RSD thousand

	31 December 2023	31 December 2022
Cost		
Buildings	121,150	126,028
Equipment	2,797,813	2,795,926
Construction in progress	2,300,164	1,115,675
Leasehold improvements	632,831	601,074
Right-of-use assets (Note 29)	1,582,333	1,667,382
	7,434,291	**6,306,085**
Less: Accumulated depreciation	(3,522,549)	(3,481,774)
Carrying value as of	**3,911,742**	**2,824,311**

Movements in property and equipment during 2022 and 2023 were as follows:

In RSD thousand

	Buildings	Equipment	Construction in progress	Leasehold improvements	Right-of-use assets	Total
COST						
As of 1 January 2022	**412,380**	**1,933,861**	**113,490**	**150,365**	**859,959**	**3,470,055**
Effects of Nasa AIK Banka merger	-	900,849	4,615	495,544	856,339	2,257,347
Additions	7,677	148,953	1,001,299	11,157	150,733	1,319,819
Write-off and disposals	(294,029)	(187,737)	(3,729)	(55,992)	(199,649)	(741,136)
Balance as of 31 December 2022	**126,028**	**2,795,926**	**1,115,675**	**601,074**	**1,667,382**	**6,306,085**
Additions	8,735	249,311	1,184,489	34,342	598,011	2,074,888
Write-off and disposals	(13,613)	(247,424)	-	(2,585)	(683,060)	(946,682)
Balance as of 31 December 2023	**121,150**	**2,797,813**	**2,300,164**	**632,831**	**1,582,333**	**7,434,291**
ACCUMULATED DEPRECIATION						
As of 1 January 2022	**93,755**	**1,624,803**	**-**	**118,665**	**384,397**	**2,221,620**
Effects of Nasa AIK Banka merger	-	633,713	-	420,835	299,494	1,354,042
Depreciation (Note 16)	2,278	86,479	-	20,731	219,879	329,367
Write-off and disposals	(83,027)	(183,350)	-	(54,793)	(102,085)	(423,255)
Balance as of 31 December 2022	**13,006**	**2,161,645**	**-**	**505,438**	**801,685**	**3,481,774**
Depreciation (Note 16)	532	176,392	-	48,377	421,887	647,188
Write-off and disposals	(2,923)	(244,482)	-	(1,575)	(356,827)	(605,807)
Other	-	(143)	-	-	(463)	(606)
Balance as of 31 December 2023	**10,615**	**2,093,412**	**-**	**552,240**	**866,282**	**3,522,549**
Carrying value as of:						
- 31 December 2023	**110,535**	**704,401**	**2,300,164**	**80,591**	**716,051**	**3,911,742**
- 31 December 2022	**113,022**	**634,281**	**1,115,675**	**95,636**	**865,697**	**2,824,311**

The Bank does not have mortgages over its buildings as collateral for loans' repayment.

In line with the requirements of IAS 36 "Impairment of Assets", an independent certified appraiser assessed the value of the Bank's buildings as of 31 December 2023 and no impairment was identified.

28. PROPERTY, PLANT AND EQUIPMENT (Continued)

In 2023, the Bank sold one building, i.e. business premises in Bor, located at Djordja Vajferta 21, whose net book value amounts to RSD 10,690 thousand and realized a gain on the sale in the amount of RSD 3,377 thousand (Note 17).

As of 31 December 2023, the Bank did not have title deeds for two buildings with a net book value of RSD 7,958 thousand. The Bank's management is undertaking all necessary actions to obtain the title deeds.

29. RIGHT-OF-USE ASSETS

29.1. Structure of Right-of-use Assets

In RSD thousand

	31 December 2023	31 December 2022
Business premises	612,028	706,231
Parking places and cars	-	5,589
ATM business premises	104,023	153,877
Carrying value as of	**716,051**	**865,697**

29.2. Movements in right-of-use assets during 2022 and 2023

In RSD thousand

	Business premises	Parking places and cars	ATM business premises	Total
GROSS CARRYING VALUE				
As of 1 January 2022	**817,602**	**8,502**	**33,855**	**859,959**
Effects of Nasa AIK Banka merger	667,530	29,884	158,925	856,339
Additions	147,811	78	2,844	150,733
Inactive contracts	(196,058)	-	(3,591)	(199,649)
Balance as of 31 December 2022	**1,436,885**	**38,464**	**192,033**	**1,667,382**
Additions	511,121	-	86,890	598,011
Inactive contracts	(550,935)	(38,464)	(93,661)	(683,060)
Balance as of 31 December 2023	**1,397,071**	**-**	**185,262**	**1,582,333**
ACCUMULATED DEPRECIATION				
As of 1 January 2022	**363,673**	**3,837**	**16,887**	**384,397**
Effects of Nasa AIK Banka merger	255,108	27,049	17,337	299,494
Depreciation (Note 16)	211,498	1,989	6,392	219,879
Inactive contracts	(99,625)	-	(2,460)	(102,085)
Balance as of 31 December 2022	**730,654**	**32,875**	**38,156**	**801,685**
Depreciation (Note 16)	326,066	-	95,821	421,887
Inactive contracts	(271,214)	(32,875)	(52,738)	(356,827)
Other	(463)	-	-	(463)
Balance as of 31 December 2023	**785,043**	**-**	**81,239**	**866,282**
Carrying value as of:				
- 31 December 2023	**612,028**	**-**	**104,023**	**716,051**
- 31 December 2022	**706,231**	**5,589**	**153,877**	**865,697**

30. INVESTMENT PROPERTY

	31 December 2023	In RSD thousand 31 December 2022
Investment property	1,733,280	2,179,371
Balance as of	**1,733,280**	**2,179,371**

Movements in investment property during 2022 and 2023 were as follows:

	In RSD thousand
Balance as of 1 January 2022	**5,603,528**
Sales	(3,395,771)
Change in fair value	(28,386)
Carrying value as of 31 December 2022	**2,179,371**
Sales	(378,013)
Change in fair value	(68,078)
Carrying value as of 31 December 2023	**1,733,280**

In 2023, the Bank sold six buildings classified as investment property, with total carrying value in the amount of RSD 378,013 thousand and realised gains on sales in the amount of RSD 34,297 thousand (Note 17), while the loss on sale totalled RSD 2 thousand.

The total carrying value of the sold investment property in the amount of RSD 378,013 thousand mostly relates to the following investment property:

- A four-nave industrial hall in Novi Sad, with a carrying value of RSD 135,161 thousand;
- department store “Merkator“ in Cuprija, Cara Lazara 3, with a carrying value of RSD 133,753 thousand;
- A commercial warehouse in Nis, Bulevar Nikole Tesle, with a carrying value of RSD 47,150 thousand; and
- Business premises in Belgrade, Sarajevska 15, with a carrying value of RSD 50,333 thousand.

The Bank’s income from leased investment property in 2023 amounts to RSD 47,988 thousand (Note 14).

In accordance with IFRS 13, the Bank determines the fair value of investment property by engaging independent certified appraisers. Fair value assessments by independent certified appraisers are done once a year for each investment property individually. To determine the fair value, independent appraisers consider all three methods allowed by the standard: comparable market transactions, yield capitalization and replacement cost method, while the final one used depends on what best suits the assessment of each individual property in given circumstances. In addition, the estimated fair value would increase /(decrease) if real estate prices in the local market increased/(decrease). Taking into consideration that the established fair values of investment property for 2023 represent a combination of the above methods from the hierarchy standpoint, they are classified in Level 2.

According to a certified appraiser’s valuation, the value of the Bank’s investment property in 2023 was decreased by the net amount of RSD 68,078 thousand. The valuation gains amounted to RSD 125,131 thousand (Note 17), whereas the valuation losses amounted to RSD 193,209 thousand (Note 18).

As of 31 December 2023, the Bank did not have title deeds for four buildings classified as investment property with total carrying value of RSD 19,568 thousand. The Bank’s management is undertaking all necessary actions to obtain the title deeds.

31. CURRENT TAX ASSETS AND LIABILITIES

31.1. Current Tax Assets

In RSD thousand

	31 December 2023	31 December 2022
Current tax assets	2,220,054	2,280,879
Balance as of	**2,220,054**	**2,280,879**

31.2. Current Tax Liabilities

In RSD thousand

	31 December 2023	31 December 2022
Current tax liabilities	-	4,168,535
Balance as of	**-**	**4,168,535**

The calculated income tax payable in the 2023 tax return amounts to RSD 639,439 thousand and it was fully offset from monthly tax payments for 2023 (Note 19.2).

32. NET DEFERRED TAX ASSETS

32.1. Deferred Tax Assets and Liabilities

In RSD thousand

	Tax assets	Tax liabilities	2023 Net deferred tax assets
Buildings and equipment	-	(69,848)	(69,848)
Impairment of assets	472,254	-	472,254
Securities measured at fair value through other comprehensive income (FVOCI)	156,287	-	156,287
Actuarial losses	811	-	811
Balance as of 31 December 2023	**629,352**	**(69,848)**	**559,504**

	Tax assets	Tax liabilities	2022 Net deferred tax assets
Buildings and equipment	126,333	-	126,333
Impairment of assets	470,687	-	470,687
Securities measured at fair value through other comprehensive income (FVOCI)	438,588	-	438,588
Actuarial losses	-	(46)	(46)
Balance as of 31 December 2022	**1,035,608**	**(46)**	**1,035,562**

32. NET DEFERRED TAX ASSETS (Continued)

32.2. Movements in Net Deferred Tax Assets during 2023 and 2022

In RSD thousand

	Balance as of 1 January	Effects of Nasa AIK Banka merger	Recognized in income statement	Recognized in equity	Total
2023					
Buildings and equipment	126,333	-	(196,181)	-	(69,848)
Impairment of assets	470,687	-	1,567	-	472,254
Unrealized gains/(losses) on FVOCI securities	438,588	-	-	(282,301)	156,287
Actuarial losses (Note 38(iii))	(46)	-	-	857	811
Balance as of 31 December 2023	**1,035,562**	**-**	**(194,614)**	**(281,444)**	**559,504**
2022					
Buildings and equipment	48,422	-	77,911	-	126,333
Impairment of assets	396,649	-	74,038	-	470,687
Unrealized gains/(losses) on FVOCI securities	(117,496)	201,830	(201,830)	556,084	438,588
Provisions for retirement benefits	-	3,943	(3,943)	-	-
Repossessed property following the foreclosure	-	602	(602)	-	-
Tax credits	-	81,538	(81,538)	-	-
Actuarial losses (Note 38(iii))	(100)	-	-	54	(46)
Balance as of 31 December 2022	**327,475**	**287,913**	**(135,964)**	**556,138**	**1,035,562**

33. OTHER ASSETS

In RSD thousand

	31 December 2023	31 December 2022
Other RSD receivables:		
Fees receivable per other assets	73,294	44,514
Advances paid for working capital	124,037	218,342
Advances paid for capital expenditures	533,734	12,007
Other receivables	201,777	3,023,318
Receivables in settlement	151,901	68,795
	1,084,743	**3,366,976**
Other foreign currency receivables		
Fees receivable per other assets	7,188	5,000
Advances paid for working capital	26,922	296,235
Other receivables in foreign currency	56,925	858,277
	91,035	**1,159,512**
Other investments:		
Equity investments (a)	35,399	37,664
	35,399	**37,664**
Prepayments and accruals:		
Deferred interest expense	12,880	13,539
Deferred other expenses	77,279	126,417
	90,159	**139,956**
Inventories:		
Other inventories	980	83
Repossessed property following the foreclosure (b)	727,549	780,780
	728,529	**780,863**
Other receivables, gross	**2,029,865**	**5,484,971**
***Less:* Allowance for impairment**		
Other receivables in RSD	(83,524)	(107,650)
Other receivables in foreign currency	(12,043)	(9,131)
Equity investments	(24,243)	(24,243)
Prepayments and accruals	(593)	(32)
	(120,403)	**(141,056)**
Balance as of	**1,909,462**	**5,343,915**

Movements in the allowance for impairment during the year were as follows:

In RSD thousand

	2023	2022
Balance as of 1 January	**(141,056)**	**(122,009)**
Effects of Nasa AIK Banka merger	-	(64,057)
Charge for the year (Note 12)	(149,565)	(80,719)
Reversal of impairment losses (Note 12)	110,060	79,837
Write-off, FX differences and transfer to off-balance sheet items	13,160	45,888
Other	46,998	4
Balance as of 31 December	**(120,403)**	**(141,056)**

33. OTHER ASSETS (Continued)

(a) As of 31 December 2023 and 2022, the Bank had equity investments in the following legal entities:

	31 December 2023	In RSD thousand 31 December 2022
Equity investments up to 10%:		
Univerzal Banka a.d. Belgrade – in bankruptcy	14,381	14,381
PB Agrobanka a.d. Belgrade – in bankruptcy	9,825	9,825
Ikarbus a.d. Belgrade	3,819	3,819
Yu trade Zeleznik d.o.o. Belgrade	3,171	3,171
Beogradska berza a.d. Belgrade	-	2,114
AMS Osiguranje a.d.o. Belgrade	1,610	1,400
Politika a.d. Belgrade	965	1,327
Other equity investments	1,628	1,627
Gross equity investments	**35,399**	**37,664**
Less: Allowance for impairment	(24,243)	(24,243)
Balance as of	**11,156**	**13,421**

In 2023, the Bank sold its equity investments in Belgrade Stock Exchange j.s.c.

(b) Repossessed property following the foreclosure include:

	31 December 2023	In RSD thousand 31 December 2022
Buildings	720,132	760,678
Equipment	7,417	20,102
Balance as of	**727,549**	**780,780**

Movements in repossessed property during the year were as follows:

	2023	In RSD thousand 2022
Balance as of 1 January	**780,780**	**748,188**
Effects of Nasa AIK Banka merger	-	147,447
Assets acquired during the year	12,414	-
Sales	(8,679)	(111,302)
Impairment (Note 18)	(56,966)	(3,553)
Balance as of 31 December	**727,549**	**780,780**

33. OTHER ASSETS (Continued)

(b) Repossessed property following the foreclosure (Continued)

According to the independent appraiser's assessment, repossessed property following the foreclosure in 2023 was impaired by RSD 56,966 thousand. The valuation gains amounted to RSD 5,902 thousand, whereas the losses amounted to RSD 62,868 thousand.

In 2023, the Bank sold eight repossessed property items following the foreclosure with total carrying value of RSD 8,679 thousand, out of which, the largest portion related to:

- A building for food manufacturing industry and beverage production, Tanaska Rajica 11 in Varvarin, with the carrying value of RSD 5,632 thousand;
- A family residential building, Radanska 39 in Lebane, with the carrying value of RSD 1,575 thousand; and
- A family residential building in Kovacevac, with the carrying value of RSD 845 thousand.

The Bank realized a gain on the sale of repossessed property in 2023 in the amount of RSD 3,453 thousand (Note 17), while no losses were incurred.

The Bank's management is undertaking all necessary measures to sell the remaining acquired assets.

As of 31 December 2023, the Bank did not have title deeds for two buildings classified as repossessed property following the foreclosure, whose carrying value amounted to RSD 18,702 thousand. The Bank's management is undertaking all necessary actions to obtain the title deeds.

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

		In RSD thousand
	31 December 2023	**31 December 2022**
Transaction deposits	3,023,127	4,551,808
Demand deposits	247,315	219,160
Deposits for granted loans	-	117,322
Earmarked deposits	76,270	86,653
Other deposits and loans	9,226,881	6,838,142
Borrowings	5,858,685	4,692,896
Other financial liabilities	308,156	219,160
Interest, accrued interest and fees payable	165,081	63,890
Balance as of	**18,905,515**	**16,789,031**

In 2023, the Bank paid an interest at rates ranging from 3.9% to 5.25% per annum (2022: from 0.50% to 3.60% per annum) on RSD overnight deposits from banks.

In 2023, the Bank paid an interest rate of 5.5% % per annum on borrowed funds in RSD with maturities of over one day (2022: from 0.94% to 3.40% per annum). Interest rates on EUR borrowed funds ranged from 1.90% to 3.75% per annum.

As of 31 December 2023, the Bank had a borrowing from the International Finance Corporation (IFC) in the total amount of RSD 5,858,685 thousand, with maturity until 2028.

In 2023, the Bank paid interest rates from 5.95% to 7.30% per annum on RSD funds received from financial institutions with maturity up to one year, i.e. from 0.75% to 5.95% per annum in 2022. In 2023, Interest rates on EUR funds from financial institutions with maturity up to one year ranged from 2.50% to 4.75% per annum (2022: 0.95% to 3.20% per annum).

35. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

In RSD thousand

	31 December 2023	31 December 2022
Corporate customers		
Transaction deposits	69,077,111	53,092,312
Demand deposits	3,507,285	7,125,467
Deposits for granted loans	15,160,905	14,100,455
Earmarked deposits	1,663,851	2,751,123
Other deposits	73,100,986	59,861,831
Overnight deposits and loans	3,526,594	7,198,067
Borrowings	1,438,275	1,799,046
Other financial liabilities	172,945	310,361
Interest, accrued interest and fees payable	963,898	387,959
	168,611,850	**146,626,621**
Retail customers		
Transaction deposits	40,553,999	41,178,606
Savings deposits	124,783,541	117,135,508
Deposits for issued loans	2,132,902	2,424,117
Earmarked deposits	145,146	374,148
Other deposits	719,509	977,972
Other financial liabilities	86,393	95,290
Interest, accrued interest and fees payable	1,598,626	721,675
	170,020,116	**162,907,316**
Balance as of	**338,631,966**	**309,533,937**

The Bank paid an interest at rates ranging from REF - 0.05% and REF - 3.5% per annum on RSD transaction deposits of corporate and public sector customers. The Bank paid an interest at rates ranging from 0% to 1% per annum and from 0% to 0.7% per annum on foreign currency transaction deposits of corporate and public sector customers in EUR and USD, respectively.

Interest rates on RSD term deposits of corporate and public sector customers ranged from REF - 1.7% to REF + 0.90% per annum. The term deposits were placed between one day and over one year.

Interest rates on EUR term deposits of corporate and public sector customers ranged from 2.5% to 4.75% per annum. The term deposits were placed between one day and over one year.

As of 31 December 2023, the Bank had borrowings from the European Investment Bank (EIB) and the Revolving Credit Fund in the amount of RSD 1,438 million. The loans received from the EIB through the Republic of Serbia Government are related to APEX loan agreements concluded with the National Bank of Serbia, which will mature by 2031, while loans from the Revolving Credit Fund will mature by 2026.

Transaction deposits from retail customers in RSD and foreign currencies are non-interest bearing.

A nominal interest rate on sight savings of retail customers was 0.01% per annum.

Nominal interest rates on standard savings deposits in EUR up to one year ranged from 0.01% to 4% per annum, i.e. from 0.05% to 0.10% per annum on CHF deposits and from 0.55% to 1.20% per annum on USD deposits. Nominal interest rates on standard savings deposits in EUR with maturity of over one year (over 12 months up to 36 months) ranged from 0.50% to 3.50% per annum, whereas nominal interest rates on savings deposits in USD with maturity of over one year (over 12 months up to 36 months) ranged from 0.95% to 1.30% per annum.

Nominal interest rates on standard savings deposits in RSD up to one year ranged from 0.01% to 1.70% per annum. Nominal interest rates on term savings deposits in RSD over one year (over 12 months up to 36 months) ranged from 1.80% to 2.00 per annum.

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

Movements in liabilities arising from *financing activities*, i.e. borrowings from banks and other financial organisations (Note 34) and other customers, in the Statement of Cash Flows are provided below:

In RSD thousand

	2023	2022
Balance as of 1 January	**6,491,942**	**2,090,453**
Receipts from borrowings n	5,868,880	4,746,431
Repayment of borrowings	(5,051,017)	(375,019)
Net FX differences	(12,845)	(1)
Effects of Nasa AIK Banka merger	-	30,078
Balance as of 31 December	**7,296,960**	**6,491,942**

36. PROVISIONS

In RSD thousand

	31 December 2023	31 December 2022
Provisions for litigations (a)	604,246	852,303
Provisions for employee benefits (b)	82,959	173,826
Provisions for off-balance sheet items (c)	146,348	284,074
Balance as of	**833,553**	**1,310,203**

(a) Movements in provisions for litigations during the year were as follows:

In RSD thousand

	2023	2022
Balance as of 1 January	**852,303**	**327,245**
Effects of Nasa AIK Banka merger	-	644,492
Charge for the year (Note 18)	275,795	25,690
Release of provision (Note 17)	(216,556)	(11,302)
Used provisions	(307,296)	(133,822)
Balance as of 31 December	**604,246**	**852,303**

(b) Movements in provisions for employee benefits (retirement benefits, jubilee awards and other benefits) during the year were as follows:

In RSD thousand

	2023	2022
Balance as of 1 January	**173,826**	**71,708**
Effects of Nasa AIK Banka merger	-	62,196
Charge for the year (Note 15)	3,708	119,196
Actuarial losses (Note 38(iii))	5,718	354
Release of provision (Note 15)	-	(30,054)
Used provisions	(100,293)	(49,574)
Balance as of 31 December	**82,959**	**173,826**

36. PROVISIONS (Continued)

(b) Provisions for employee benefits (Continued)

Main actuarial assumptions used in the calculation of provisions for retirement benefits were as follows:

	31 December 2023	31 December 2022
Discount rate	7.0%	6%
Salary growth rate	7.5%	7.5%
Employee turnover rate	11%	11%

(c) Movements in provisions for off-balance sheet items during the year were as follows:

In RSD thousand

	2023	2022
Balance as of 1 January	**284,074**	**147,366**
Effects of Nasa AIK Banka merger	-	131,913
Charge for the year (Note 12)	450,191	345,539
Release of provision (Note 12)	(587,680)	(340,034)
FX differences	(237)	(710)
Balance as of 31 December	**146,348**	**284,074**

37. OTHER LIABILITIES

In RSD thousand

	31 December 2023	31 December 2022
Other liabilities:		
Trade payables	176,829	86,191
Advances received	21,411	63,315
Lease liabilities (Note 37.1)	725,182	830,164
Liabilities arising from activated guarantees and acceptances	244	96
Liabilities from profit	122,237	130,870
Liabilities for managed funds	13,938	12,965
Other liabilities from operating activities	1,218,734	807,530
Liabilities in settlement	835,378	261,868
Suspense and temporary accounts	7,224	7,356
Liabilities to employees	62	1,252
Other liabilities in foreign currency	567,533	565,445
	3,688,772	**2,767,052**
Taxes payable:		
Value added tax	51,138	7,620
Other taxes and contributions	12,443	11,856
	63,581	**19,476**
Accruals and deferred income:		
Accrued other expenses	383,828	266,092
Deferred income	178,308	43,004
Other deferrals	157,191	177,795
	719,327	**486,891**
Balance as of	**4,471,680**	**3,273,419**

37. OTHER LIABILITIES (Continued)

37.1. Lease Liabilities

The maturity structure of lease liabilities is provided in the following table:

	31 December 2023	In RSD thousand 31 December 2022
Maturity:		
- Up to 1 year	255,062	234,300
- Up to 2 years	169,981	298,994
- Up to 3 years	118,616	133,998
- Up to 4 years	73,549	87,474
- Up to 5 years	56,014	42,769
- Over 5 years	51,960	32,629
Total	**725,182**	**830,164**

The maturity structure of *undiscounted expected cash outflows* arising from lease liabilities (including interest outflows) is provided in the following table:

	31 December 2023	In RSD thousand 31 December 2022
Maturity:		
- Up to 1 year	344,739	261,417
- Up to 2 years	195,039	335,736
- Up to 3 years	141,090	150,554
- Up to 4 years	68,344	96,881
- Up to 5 years	39,198	46,921
- Over 5 years	19,558	36,264
Total	**807,968**	**927,773**

The structure of total lease payments reported in the Statement of Cash Flows in 2023 and 2022 is provided in the following table:

	2023	In RSD thousand 2022
Fixed payments	388,191	363,549
Variable payments	21,886	11,094
Total	**410,077**	**374,643**

Variable payments that are included in a lease liability are index dependent payments. Out of the total cash outflows of RSD 410,077 thousand in 2023 (2022: RSD 374,643 thousand), an amount of RSD 395,427 thousand is related to the principal (2022: RSD 363,549 thousand), which is reported within cash outflows from financing activities, whereas an amount of RSD 14,650 thousand is related to the interest (2022: RSD 11,094 thousand), which is reported within cash outflows from operating activities.

The structure of rental expenses in 2023 and 2022 was as follows:

	2023	In RSD thousand 2022
Interest expense on lease liabilities (Note 7)	(14,650)	(8,388)
Depreciation of right-of-use assets (Note 16)	(421,887)	(219,879)
Rental costs (Note 18)	(191,258)	(140,102)
Total	**(627,795)**	**(368,369)**

38. EQUITY

Equity Structure

In RSD thousand

	31 December 2023	31 December 2022
Share capital:		
Ordinary shares	19,349,169	17,320,083
Preference shares	2,442,512	2,442,512
	21,791,681	**19,762,595**
Share premium	14,196,293	7,433,135
	35,987,974	**27,195,730**
Reserves:		
Profit reserves and other reserves	13,953,877	13,953,877
Losses from changes in value of equity instruments	(4,797)	(4,669)
Losses from changes in value of debt instruments	(880,829)	(2,480,658)
Actuarial (losses)/gains based on defined employee benefit plans	(4,598)	263
	13,063,653	**11,468,813**
Retained earnings	**46,781,335**	**38,609,706**
Balance as of	**95,832,962**	**77,274,249**

(i) Share Capital

Shareholder Structure

The Bank's shareholder structure with a share above 1% as of 31 December 2023 and 2022 was as follows:

In RSD thousand
31 December 2023

	Total share capital	Share in %	Controlling capital	Share %
M&V Investments a.d. Belgrade	21,313,092	97.80	19,349,169	100.00
BDD M&V Investments – 80200ZMVI0008	252,968	1.16	-	-
BDD M&V Investments - 80200ZMVI0011	225,621	1.04	-	-
Total	**21,791,681**	**100.00**	**19,349,169**	**100.00**

31 December 2022

	Total share capital	Share in %	Controlling capital	Share %
M&V Investments a.d. Belgrade	19,284,006	97.58	17,320,083	100.00
BDD M&V Investments – 80200ZMVI0008	252,968	1.28	-	-
BDD M&V Investments - 80200Z	225,621	1.14	-	-
Total	**19,762,595**	**100.00**	**17,320,083**	**100.00**

The total number of the Bank's subscribed and paid in shares as of 31 December 2023 amount to 10,424,447, out of which 9,256,027 ordinary shares and 1,168,420 preference shares, each with a nominal value of RSD 2,090.44 (31 December 2022: 8,285,377 ordinary shares and 1,168,420 preference shares, each with a nominal value of RSD 2,090.44).

38. EQUITY (Continued)

(i) Share Capital (Continued)

Pursuant to the Decision no. 05-LXIII/2023 on the Distribution of the Bank's Profit generated according to the Financial Statements for the Year Ended 31 December 2022 totalling RSD 26,132,960 thousand, which was passed by the Shareholders Assembly on 28 April 2023, the amount of RSD 5,866,650 thousand was allocated to retained earnings that were included in the share capital (in accordance with the Decision of the Bank's Shareholders Assembly no. 07-LXII/2023 of 1 March 2023), while the remaining amount of RSD 20,266,310 thousand was allocated to retained earnings that were not included in the Bank's share capital.

Pursuant to the Decision no. 03/LXV/2023 on the Distribution of Bank's Retained Earnings, which was passed by the Shareholders Assembly on 28 June 2023, the remaining amount of profit generated according to the Financial Statements for the Year Ended 31 December 2022 totalling RSD 20,266,310 thousand was allocated to retained earnings that were included in the share capital.

Pursuant to the Decision no. 04-LXVII/2023 dated 29 September 2023 passed by the Shareholders Assembly on the XXV Issuance of Ordinary Shares without the Obligation to Publish an Issuing Prospectus in order to Increase Share (Tier 1) Capital, the Bank issued 970,650 ordinary shares at a nominal value per share of RSD 2,090.44. The total nominal value of this share issue was RSD 2,029,085,586. The shares were sold at an issuing price of RSD 9,058.10. The total issue value of the ordinary shares issued was RSD 8,792,244,765. The difference between the issue and nominal value of shares in the amount of RSD 6,763,159,179 represents a share premium. The buyer of these shares is the majority shareholder and owner of 100% of the Bank's ordinary shares - M&V Investments a.d. Belgrade.

(ii) Revaluation Reserves - Unrealized (Losses)/Gains on Securities

Revaluation reserves based on equity and debt instruments, i.e. securities measured at fair value through other comprehensive income, as of 31 December 2023 and 2022, comprise the following items:

In RSD thousand

	2023	2022
Balance as of 1 January	**(2,485,327)**	**665,815**
Net gains/(losses) from changes in fair value:		
- based on valuation	1,774,777	(2,758,887)
- based on reversal of impairment/(impairment) (Note 12(a))	107,225	(117,012)
Effect of sale of equity instruments	-	(831,327)
Deferred taxes related to items of other comprehensive income (Note 32.2)	(282,301)	556,084
Balance as of 31 December	**(885,626)**	**(2,485,327)**

(iii) Actuarial (Losses)/Gains

Actuarial (losses)/gains as of 31 December 2023 and 2022 completely relate to actuarial (losses)/gains on provisions for retirement benefits.

In RSD thousand

	2023	2022
Balance as of 1 January	**263**	**563**
Actuarial losses (Note 36(b))	(5,718)	(354)
Deferred taxes related to items of other comprehensive income (Note 32.2)	857	54
Balance as of 31 December	**(4,598)**	**263**

39. CONTINGENT LIABILITIES AND OFF-BALANCE SHEET ITEMS

39.1. Litigations

The Bank acts as a defendant in 8,016 disputes as of 31 December 2023 (31 December 2022: 11,102 disputes), in which plaintiffs seek monetary claims from the Bank. The total value of these claims, which may result in cash outflows (for damage compensation, debts, etc.) in case of negative outcomes for the Bank, amounts to RSD 4,058,568 thousand (31 December 2022: RSD 6,144,688 thousand).

According to the Bank's lawyer, as of 31 December 2023, lawsuits with estimated positive outcome account for 89.26% out of the total lawsuits with monetary claim against the Bank.

Pursuant to the requirements of IAS 37 and its internal methodology, the Bank made a provision in the amount of RSD 604,246 thousand (31 December 2022: RSD 852,303 thousand) (Note 36(a)) for claims with the negative outcome estimated by lawyers.

The current level of provisions has been assessed as adequate by the Bank's management, but the Bank will closely monitor the market situation and outcomes of such litigations, and will make adequate provisions in the future reporting periods, according to the best estimates, in order to avoid any unexpected effects on the Bank's performance.

The Bank is also involved in a number of lawsuits filed against third parties, mostly for the purpose of debt collection.

39.2. Off-Balance Sheet Items

		In RSD thousand
	31 December 2023	**31 December 2022**
Managed funds on behalf of third parties (a)	1,653,306	1,230,191
Guarantees and other sureties issued (b)	77,418,387	71,546,434
Assets as collateral (c)	20,420,056	-
Derivatives held for trading at contracted value (d)	18,995,809	25,066,913
Securities received as pledges (e)	164,621,848	69,113,707
Other off-balance sheet assets (f)	1,157,097,952	672,081,989
Balance as of	**1,440,207,358**	**839,039,234**

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

39.2. Off-Balance Sheet Items (Continued)

In RSD thousand

	31 December 2023	31 December 2022
a) Managed funds on behalf of third parties		
Loans in RSD:		
- short-term	5,524	4,812
- long-term	1,647,782	1,225,379
	1,653,306	**1,230,191**
b) Contingent liabilities		
Payment guarantees:		
- in RSD	8,434,386	8,230,092
- in foreign currency	1,088,620	1,368,789
Performance guarantees:		
- in RSD	49,570,111	38,709,777
- in foreign currency	3,497,822	3,491,810
	62,590,939	**51,800,468**
Undrawn letters of credit	124,230	19,649
Undrawn loan facilities	4,308,790	9,205,695
	4,433,020	**9,225,344**
Irrevocable commitments per own guarantees and spot:		
- in RSD	4,805,366	4,405,517
- in foreign currency	5,589,062	6,115,105
	10,394,428	**10,520,622**
Total guarantees and other sureties	**77,418,387**	**71,546,434**
(c) Assets as collateral		
Financial assets as collateral	20,420,056	-
	20,420,056	**-**
(d) Derivatives		
Currency swap and forward (Note 22)	18,995,809	25,066,913
	18,995,809	**25,066,913**
(e) Sureties received as pledges		
Securities received as collaterals	164,621,848	69,113,707
	164,621,848	**69,113,707**
(f) Other off-balance sheet items		
Tangible assets, guarantees and other sureties received as collaterals	1,051,380,506	548,690,596
Unused revocable loan facilities	54,481,300	56,966,720
Depositary operations	373	519
Loro guarantees	11,930,736	16,041,234
Suspended interest	3,340	2,692
Receivables transferred to off-balance sheet items	25,692,683	43,546,918
Other	13,609,014	6,833,310
	1,157,097,952	**672,081,989**
Balance as of	**1,440,207,358**	**839,039,234**

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

39.2. Off-Balance Sheet Items (Continued)

A breakdown of the Bank's credit risk-weighted off-balance sheet items that are classified, as of 31 December 2023 and 2022, is provided below:

In RSD thousand

	31 December 2023	31 December 2022
Guarantees	62,590,939	51,800,468
Irrevocable commitments – undrawn letters of credit and loan facilities	4,433,020	9,225,344
Irrevocable commitments per own guarantees and spot	3,163,715	3,166,942
Revocable commitments	54,481,300	56,599,231
Balance as of	**124,668,974**	**120,791,985**

40. RELATED PARTY DISCLOSURES

(a) Transactions with Management

Transactions with the Bank's management members are based on the standard market conditions.

In RSD thousand

Remunerations to management	2023	2022
Members of the Executive Board	(90,798)	(86,850)
Members of the Board of Directors	(33,412)	(33,783)
Total	**(124,210)**	**(120,633)**

In RSD thousand

Other transactions with management	Balance as of 31 December 2023	Balance as of 31 December 2022	Income/ (expenses) 2023	Income/ (expenses) 2022
Payment cards, cash and consumer loans	113,082	66,012	7,794	1,912
Deposits	(136,454)	(77,239)	(1,792)	(236)
Other liabilities	118	55	(1,058)	(346)
Total	**(23,254)**	**(11,172)**	**4,944**	**1,330**

40. RELATED PARTY DISCLOSURES (Continued)

(b) Transactions with the Bank's Related Parties

In the regular course of business, the Bank enters into business transactions with its shareholders and other related parties under the standard market conditions.

The following table summarises related party transactions at the reporting date:

In RSD thousand

	Balance sheet gross exposure	Off-balance sheet exposure	Total	Liabilities
Employees	125,327	14,734	140,061	262,061
Other individuals	48,067	21,998	70,065	380,879
Legal entities *	41,260,326	314,096	41,574,422	7,964,162
Balance as of 31 December 2023	**41,433,720**	**350,828**	**41,784,548**	**8,607,102**
Employees	32,170	22,241	54,411	346,310
Other individuals	61,168	13,075	74,243	159,268
Legal entities *	9,457,185	107,747	9,564,932	14,263,994
Balance as of 31 December 2022	**9,550,523**	**143,063**	**9,693,586**	**14,769,572**

* Transactions with related legal entities are presented in the tables below.

In RSD thousand
31 December 2023

Legal entity	Balance sheet exposure	Off-balance sheet exposure	Total	Liabilities	Income	Expenses
Eurobank Direktna a.d. Belgrade	33,053,174	-	33,053,174	-	6,705	(18,807)
Gorenjska banka d.d. Kranj	6,390,679	57	6,390,736	-	448,223	(100,418)
Cista voda projekt d.o.o. for services, Savudrija	1,318,035	-	1,318,035	(5,721)	241,839	(37,208)
Preston holding d.o.o. Novi Sad	464,129	116,588	580,717	(14,563)	25,230	(3,532)
Agri Europe Cyprus Limited, Cyprus	25,775	-	25,775	(511,946)	313,416	(158,042)
MK Group d.o.o. Belgrade	-	50,000	50,000	(130,453)	1,664	(1,548)
Sunoko d.o.o. Novi Sad	-	-	-	(205,713)	10,051	(133,160)
M&V Investments a.d. Belgrade				(680,643)	589	(53,880)
Pik-Becej a.d. Becej	35	416	451	(500,711)	1,132	(19,073)
MK Holding d.o.o. Belgrade	166	834	1,000	(4,179,258)	308	(38,673)
Carnex d.o.o. Vrbas	-	-	-	(559,012)	2,816	(19,265)
MK Mountain Resort d.o.o. Kopaonik	-	-	-	(231,170)	2,353	(18,803)
Agrounija Indjija d.o.o.	-	60,593	60,593	(176,559)	14,509	(16,391)
Other	8,333	85,608	93,941	(768,413)	25,716	(206,937)
Total	**41,260,326**	**314,096**	**41,574,422**	**(7,964,162)**	**1,094,551**	**(825,737)**

40. RELATED PARTY DISCLOSURES (Continued)

(b) Transactions with the Bank's Related Parties (Continued)

In RSD thousand
31 December 2022

Legal entity	Balance sheet exposure	Off-balance sheet exposure	Total	Liabilities	Income	Expenses
Gorenjska banka d.d. Kranj	6,097,679	57	6,097,736	(4,692,896)	6,964,494	(86,365)
Cista voda projekt d.o.o. for services, Savudrija	3,138,393	-	3,138,393	-	203,663	(46,881)
Agri Europe Cyprus Limited, Cyprus	208,958	-	208,958	(994,193)	223,091	(7,304)
MK Group d.o.o. Belgrade	543	5,506	6,049	(2,968,022)	4,344	(59,288)
Sunoko d.o.o Novi Sad	-	-	-	(2,280,556)	6,539	(14,562)
M&V Investments a.d. Belgrade				(834,486)	1,921	(96,331)
Pik-Becej a.d. Becej	83	367	450	(645,341)	2,039	(5,131)
MK Holding d.o.o. Belgrade	-	-	-	(505,718)	9,699	(34,972)
Carnex d.o.o. Vrbas	3	-	3	(428,060)	1,690	(4,009)
MK Mountain Resort d.o.o. Kopaonik	361	-	361	(123,343)	4,228	(16,811)
MK Agriculture d.o.o. Novi Sad	52	1,748	1,800	(12,512)	92	(157)
Other	11,113	100,069	111,182	(778,867)	11,906	(28,518)
Total	**9,457,185**	**107,747**	**9,564,932**	**(14,263,994)**	**7,433,706**	**(400,329)**

41. RECONCILIATION OF OUTSTANDING BALANCES WITH COUNTERPARTIES

According to Article 18 of the Law on Accounting, the Bank is obliged to reconcile outstanding balances of receivables and payables with its counterparties. The reconciliation is performed at least once a year, before the preparation of the financial statements.

In accordance with the Bank's internal procedures, 1 December of the current year is set as the date for the reconciliation of receivables and payables with customers.

Out of the total amount of receivables requested to be reconciled, the amount of RSD 14,196 thousand, i.e. 0.0036% remained unreconciled. Out of the total amount of payables requested to be reconciled, the amount of RSD 2,739 thousand, i.e. 0.0095% remained unreconciled.

42. IMPACT OF THE GLOBAL MACROECONOMIC INSTABILITY ON THE BANK'S OPERATIONS

Since early March 2022, there has been increased instability in global financial and commodity markets due to the escalation of the conflict in Ukraine, which is still ongoing and has been accompanied by imposing sanctions on certain Russian companies and individuals. In addition, a Middle Eastern conflict between Israel and Palestine began in 2023. These events have resulted in multiple issues affecting the stability of the global economy - rising rates of inflation, energy instability, and uncertainty in the global banking sector noted among other matters. These factors may have significant financial effects on many entities. These include entities with physical operations in those affected areas and sectors as well as indirect interests (e.g. suppliers and customers, investors and lenders).

The Bank has immaterial direct exposure to both Russia and Ukraine and accordingly, did not have any adverse effects on its operation in 2023 and 2022. In the coming period, the Bank does not expect a significant impact based on direct exposure to these countries. Despite the limited direct exposure, due to the continuation of conflicts between countries and further macroeconomic instability, an additional adverse effect on the global economy can be expected, particularly in terms of the prices of energy products, changes in foreign exchange rates, interest rates, stock market activities, supply chain disruptions and increased inflationary pressures, which may indirectly impact the Bank's operations.

42. IMPACT OF THE GLOBAL MACROECONOMIC INSTABILITY ON THE BANK'S OPERATIONS (Continued)

The management carefully monitors and assesses the potential impact of the global macroeconomic instability, and undertakes all necessary measures to ensure the stability of Bank's operations, even though future effects cannot be predicted with reasonable certainty.

43. EVENTS AFTER THE REPORTING PERIOD

On 1 January 2024, the Bank appointed Mr. Petar Jovanovic as the new Chairman of the Executive Board, following the approval obtained from the National Bank of Serbia.

In line with the strategy of further growth and development, the Bank successfully signed a purchase transaction agreement on 29 February 2024, becoming the sole owner of NDM Leasing d.o.o. Belgrade, which was subsequently renamed to AIK Leasing d.o.o. Belgrade. This acquisition represents an opportunity to expand the range of products and services for existing clients of AIK Banka and Eurobank Direktna, while simultaneously strengthening the position in the financial services' market. AIK Leasing will serve as an important channel for attracting new customers, both corporate and retail.

Apart from the aforesaid, there were no other significant events subsequent to the reporting date, which would require disclosure in the notes to the accompanying financial statements of the Bank as of and for the year ended 31 December 2023.

44. EXCHANGE RATES

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

		In RSD
	31 December 2023	**31 December 2022**
EUR	117.1737	117.3224
USD	105.8671	110.1515
CHF	125.5343	119.2543

AGROINDUSTRIJSKO KOMERCIJALNA BANKA "AIK BANKA" AKCIONARSKO DRUŠTVO BEOGRAD 2

Petar Jovanovic
Executive Board Chairperson

Andrija Vukovic
Executive Board Member

ANNUAL REPORT 2023.

AIK Banka a.d. Beograd

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1.11 Future Plans

1.1 Introductory Message of the Chairperson of the Executive Board

Dear all,

Another successful commercial year is behind us, which, in addition to good business results, was also marked by the Bank's strong resistance to economic challenges that arose as a result of geopolitical turmoil. Good forecasts, as well as the ability to quickly and adequately adapt to new circumstances, remain synonymous with the stability and strength of the domestic banking sector.

From AIK Banka's point of view, the past year will be remembered as a year of further expansion and strengthening of the influence of our banking group, not only on the Serbian market, but also in the entire region. At the end of 2023, our Bank officially took over Eurobank Direktna Bank, and as a result of this takeover, AIK Banka would become one of the three largest banks in Serbia.

Following its strategy and orientation, AIK Banka continued to improve and innovate its services and operations. We continued with our digital agenda, as well as further investments in digitization and modernization of our business. We have improved the customer experience and introduced new services that will enable our clients to use the Bank's numerous services in a simpler, faster and more convenient way.

As one of the largest and most stable banks in Serbia, we have remained consistent and focused on the implementation of our strategy, putting the needs of our clients first and providing them with continuous financial and advisory support. This approach has contributed to the further building and strengthening of our partnerships, resulting in an increase in the number of clients in all segments, especially in the area of retail and the SME sector.

Our business strategy clearly recognizes the importance of ESG principle as a key factor in creating value for our shareholders, clients and the community as a whole. By adopting the highest standards in the field of environmental protection, social responsibility and corporate management, we not only respond to current market demands, but also build the foundations for sustainable and successful business in the future.

This is supported by the fact that small and medium-sized enterprises in Serbia, especially those investing in green projects, have easier access to financial resources thanks to AIK Banka's partnership with the International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD).

The objective of this cooperation is to increase the availability of loans to the SME sector, but also to develop new options for financing "green" projects that will enable companies in Serbia to operate in a more responsible and ecologically sustainable manner.

Responsibility, as one of the core values we nurture in our relations with clients, is equally important in our relations with the community. We continued to provide support to the youngest members of our community through the "Family Support" project, which AIK Banka has been successfully implementing for years in cooperation with MK Group. In the current year, we supported the renovation and equipping of eight kindergartens in Serbia, and over twenty in the entire Adria region. We continued our cooperation with SOS Children's Villages, through direct financial support, but also by enabling donations at our ATMs, which enabled us to launch another channel of support and, at the same time, provide an opportunity for our clients to take an active part in improving the quality of life of the children and young people this organization helps.

In the upcoming period, we continue with innovation and providing comprehensive support to all our clients, providing them with sustainable and affordable solutions. With the conviction that commitment and consistency to this approach builds long-term partnerships, AIK Banka remains a stable pillar for the economy, a reliable partner for the population and strong support for the community.

Kind regards,

Jelena Galic
Chairperson of the Executive Board

1.2

About AIK Banka

AIK Banka was founded in 1976, and then operated for two decades as the internal bank of the Nis Agro-Industrial Combine. By entering the open market in 1993, thanks to its liquidity, solvency, profitability, as well as the capacity of its own capital, it positioned itself as one of the most important on the domestic market.

Through its long history, AIK Banka has gained a reputation as a reliable, stable and efficient financial institution, dedicated to providing high quality banking services in accordance with the trends of modern banking and focusing on the needs of clients, whose satisfaction is a measure of success. The Bank is extremely active in the field of developing digital services, especially in terms of providing services to both the retail clients and SMEs. Electronic and mobile banking enable our clients to have access to services 24/7. At the same time, the Bank retained direct work with clients in branches, as well as traditional banking products and services. The extensive branch network and over 1,000 employees promptly ready to respond to the needs and demands of clients are further strengthened by an excellent digital offering that has provided clients with comfort and constant availability. In addition, the Bank continues to focus on the economy that requires financial support for further growth and development.

Confirmation of the successful business is also evidenced in the fact that AIK Banka was the recipient of the prestigious award of the renowned international magazine International Banker for the best commercial bank in Serbia for several consecutive years. AIK Banka received the award for the year 2023 thanks to excellent business results and continuous improvement of the quality of its services.

AIK Banka represents a strong support for the development of the local community, which is reflected in continuous investments and innovations, respect for the highest levels of professionalism and business ethics, showing awareness and engagement in various socially responsible activities in the field of sports, culture and education.

As one of its strategic goals, AIK Banka has the strengthening of its position both on the domestic and regional markets. In addition to acquiring a 100% stake in Jubanka (previously Alpha banka) in 2017, by acquiring 100% ownership of Gorenjska banka, AIK Banka became the first bank from Serbia to enter the European Union market.

In December 2022, the acquisition of Sberbank Srbija a.d. Belgrade took place, and in November 2023 AIK Banka became the sole owner of Eurobank Direktna a.d., Belgrade, Serbia. AIK Banka and Eurobank Direktna a.d., Belgrade will continue to operate as two separate banks in the period until integration, without any changes that would affect clients and the services provided by these two banks today.

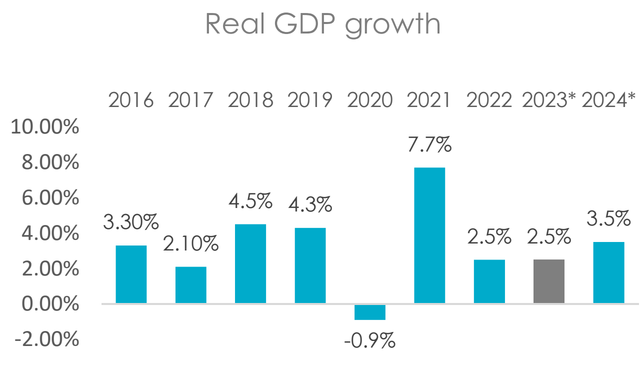
The deep commitment to clients remains unchanged - their user experience is still the priority, and the goal for them is to experience concrete benefits in the coming period, as a result of the exchange of experiences, knowledge and ideas of all employees. Both banks have an exceptional willingness and enthusiasm to achieve synergy, which forms the basis for a successful integration and building an even stronger bank that will continue to support employees, customers and the community.

1.3

Macroeconomic Environment and Banking Sector

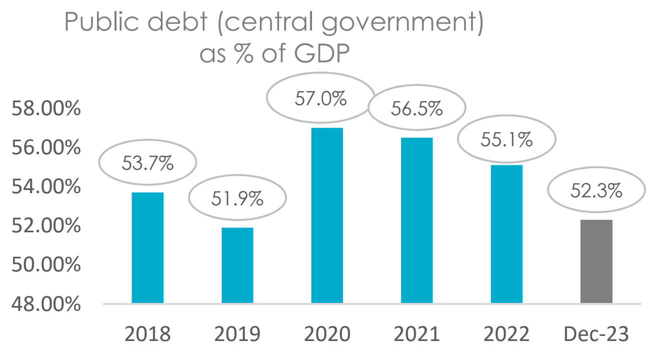
The recovery of the global economy from the negative consequences of the coronavirus pandemic and the conflict in Ukraine progressed slowly during 2023 due to the present inflationary pressures, significant geopolitical tensions and tightened global financial conditions. Inflation reached multi-decade highs, which caused central banks around the world to tighten monetary policy, resulting in a slowdown in economic growth. Prudence and coordination in conducting economic policy were the main challenge for public policymakers. Since economic activity in Serbia is heavily influenced by events in the international environment, specifically in the past year and a half, the country was affected by high food and energy prices, slower growth of the most important trading partners and tightening of financing conditions. Nevertheless, even in such circumstances, the economy has shown sufficient resilience, bearing in mind the problems and uncertainties it is faced with.

Real GDP growth in the first quarter of 2023 compared to the same period of the previous year was 0.9%. In the second quarter of 2023 compared to the same period of the previous year, real GDP growth was 1.6%, while real GDP growth in the third quarter of 2023 compared to the third quarter of 2022 was 3.6%. The projection of GDP growth for 2023 by the Statistical Office of the RS was determined at the level of 2.50%. GDP growth in the range of 3% to 4% is projected for 2024.



Source: NBS, Statistical Office of the Republic of Serbia

Fiscal trends in the first eleven months of 2023 are better than expected, with a deficit of RSD 52.7 billion. The share of public debt of the government sector in November 2023 was 51.9% of GDP (51.5% of GDP is the public debt of the central government). Expectations are that the public debt will continue its downward trajectory in the coming years, with a further reduction in currency risk.

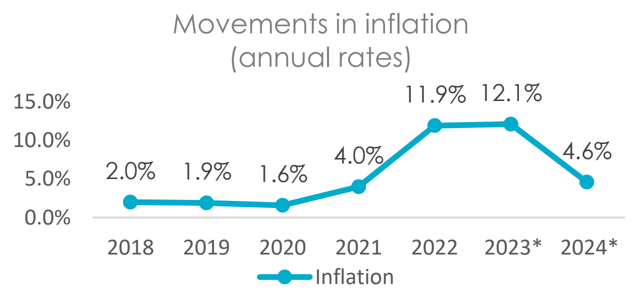


In the period January - November 2023, goods exports increased by 4.5% year-on-year, driven by higher exports of the manufacturing industry and electricity, while exports of services recorded a growth of 19.6% year-on-year driven by the growth of ICT, transport and business services. Goods imports decreased by 5.2% (on a year-on-year basis) during the eleven months of 2023, with the most significant contribution to the decrease coming from reduced imports of capital goods, which include energy, while the import of services increased by approximately 15% in the same observed period.

Serbia's exports showed resilience during the first six months of 2023, despite the decrease in demand from the EU and the region, on which it relies on the most. The largest share of exports by country is to Germany (14.8%), Bosnia and Herzegovina (6.7%), Italy (6.4%), Hungary (5.5%), Romania (5.2%) and Russia (4.2%). The largest part of imports in the same observed period originates from the countries of the Eurasian Union and CEFTA. The volume of imports from Germany surpassed the volume of imports from China, making Germany again the country from which the most imports are sourced, with a share of 12.8%.

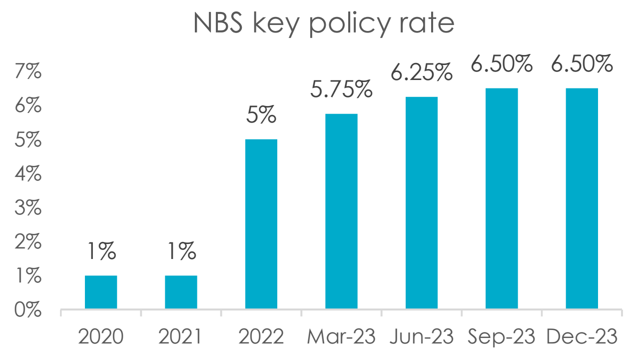
In eleven months of 2023, the total inflow of FDI amounted to EUR 3.9 billion, net, while the total amount of FDI in 2022 was EUR 4.3 billion. FDI is geographically diversified, with a growing share of countries from the Asian region, in addition to the EU.

According to the survey of the Statistical Office, unemployment in the Republic of Serbia in the third quarter of 2023 was 9.0%, while the employment rate was 50.7%. The average salary (gross) calculated for October 2023 was RSD 119,791, while the average salary without taxes and contributions (net) amounted to RSD 86,738. In the period January-October 2023, compared to the same period last year, there was a nominal growth of average net wages of 15%. In the same period, net earnings increased by 2.0 in real terms.



Compared to the end of 2022, inflation was almost halved and amounted to 7.6% in December. Average annual inflation in 2023 was 12.1%. Since April 2023, inflation has been decreasing, primarily as a result of the tightening of monetary policy, the reduction of import inflation, decline in inflation expectations, as well as the easing of cost pressures. Cost pressures are weakening due to the decrease in prices of primary products and certain industrial raw materials, as well as the elimination of stagnation in global supply chains. Projection risks primarily originate from the international environment, and relate to geopolitical conditions and prospects for global economic growth, as well as their effect on the prices of energy and primary products on the world market. The risks of the projection of the domestic environment relate to the speed of recovery of domestic demand and the nature of the agricultural season in the coming year.

During 2023, the National Bank of Serbia increased the key policy rate six times, starting in January 2023, in line with inflation trend. The NBS key policy rate ranged from 5.25% to 6.50% in 2023.



The National Bank of Serbia increased the mandatory required reserve in September:

- rates on the foreign exchange basis were increased by 3 p.p. to 23% and 16% depending on the maturity of the liabilities; and
- the dinar-based rates were increased by 2 p.p. each at 7% and 2% depending on the maturity of the liabilities.

The effect achieved after the adoption of the measures was reflected in the withdrawal of liquidity surpluses in the amount of RSD 114 billion (20%).

The National Bank of Serbia also intervened in the area of interest rates on placements with bank clients, introducing a temporary restriction on the interest rates of housing loans to individuals - the first time housing loan borrowers with a variable interest rate, whose contracted amount does not exceed EUR 200 thousand. For those debtors, the interest rate is limited to 15 months, starting with the October instalment. The interest rate cannot exceed 4.08%. The National Bank of Serbia introduced this measure with the aim of increasing the disposable income of the population, but on a scale that does not disrupt the downward trajectory of inflation, as it accounts for about 0.3 percent of the total household consumption in Serbia in one year.

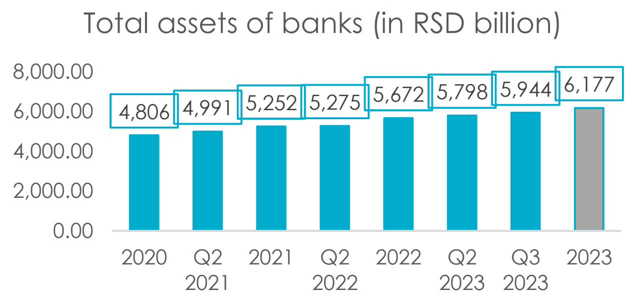
Agencies Fitch (in August 2023) and S&P (in October 2023) have confirmed Serbia's credit rating at the BB+ level, with a stable outlook. As factors that determine the retention of the credit rating, they point out: favourable prospects for economic growth in the medium term, inflow of FDI, credible monetary policy, built resistance of the economy to risks from the international environment, regulated public finances.

Source: NBS, Statistical Office of the Republic of Serbia

Banking sector

In November 2023, 20 banks were operating in the banking sector of Serbia, among which foreign-owned banks accounted for 76.1% of the market share. The ten largest banks account for 91.9% of the balance sheet assets of the banking sector, indicating a high level of saturation of this industry. In the future, this percentage can be expected to be even higher, given that the consolidation process in the banking sector is still ongoing.

The total balance sheet assets of the banking sector increased by 8.9% year-on-year basis and amounted to RSD 6,177 billion at the end of 2023.

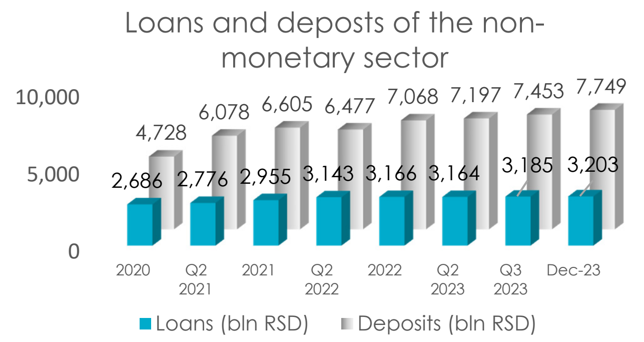


The operation of the banking sector during 2023 was marked by a high level of profitability. Compared to the first nine months of 2022, in the same period of 2023, a higher profit before tax was achieved by 97.2%, amounting to RSD 108.5 billion. The average ROE in September 2023 was 19.2%, achieving significant growth compared to the previous year when ROE was 13.8%.

Net interest income, which increased by 59.4% in the observed period (September 2022 / September 2023), had the most significant contribution to the increase in net results. Net income from fees in the same period increased by 12.3%, while operating expenses on the other hand increased by 15.4%.

In the banking sector of Serbia, the stability of retail and corporate deposits is present in the financing structure, with share of 44% and 32% in total liabilities at the end of September 2023, respectively.

Source: NBS



In November, total domestic loans recorded a year-on-year decrease of 0.4%, whereby the slowdown in credit activity is a consequence of the high base from the previous year, the maturity of loans approved under the guarantee scheme, the tightening of the monetary policy of the National Bank of Serbia and the European Central Bank (ECB) and tightened credit bank standards.

The year-on-year growth of household loans in November amounted to 1%. Loans to the corporate sector recorded a decrease of 0.3% in the same observed period (Investment loans +2.2%, loans for liquidity and working capital -3.7%). The most significant shares in total customer loans were as follows: loans for liquidity and working capital 23%, investment loans 21%, cash loans 20% and housing loans 18%.

The ratio of loans and deposits of clients, which at the end of November 2023 was 76.6%, indicates a stable financing structure and the liquidity of the banking sector in general. Liquid assets accounted for 43.9% of the total assets of the banking sector at the end of November 2023.

Despite the high Euroization of the loan portfolio, the currency matching of assets and liabilities is present, with a net open position of 1.9% of regulatory capital at the end of November 2023.

Banks have significant capital reserves, which allows them to successfully manage credit risk, even in the event of the assumed most pessimistic scenario in stress tests. In November, the average capital adequacy of the banking sector amounted to 22.2%, while the NPL amounted to 3.2%.

1.4

Financial Performance Indicators of AIK Banka

As of 30 September 2023, the Bank ranks seventh in terms of net assets. With balance sheet assets of RSD 455.1 billion, AIK Banka has a market share of 8.0%.

When considered together with Eurobank Direktna a.d., Belgrade (ERBD), AIK Banka holds the third place in terms of balance sheet assets, i.e. 13.6% of market share.

The total balance sheet asset amount to RSD 459 billion as of 31 December 2023, which represents an increase of RSD 46 billion (11.2%) compared to the end of 2022.

The most significant increase was noted in the line item Equity investments in subsidiaries and associates, as a result of the purchase of ERBD shares.

In RSD million

Assets	31 December 2023	31 December 2022	YoY change absolute / in %	
Cash and balances with Central Bank	74,272	75,804	-1,532	-2.0%
Financial assets	44,936	58,761	-13,825	-23.5%
Loans and placements to banks and other financial institutions	68,141	31,476	36,665	116.5%
Loans and placements to customers	227,388	231,929	-4,541	-1.9%
Equity investments in subsidiaries	33,203	150	33,053	22,035.5%
Intangible assets	418	567	-149	-26.3%
Property, plant and equipment	3,912	2,824	1,088	38.5%
Investment property	1,733	2,179	-446	-20.5%
Other assets	4,694	8,667	-3,973	-45.8%
Total assets	**458,697**	**412,357**	**46,340**	**11.2%**

The financial assets decreased by RSD 13.9 billion (23.5%) as a result of the decrease in liquid assets upon acquisition of ERBD shares. Of the total amount of financial assets, RSD 42.4 billion relates to dinar and euro bonds issued by the Ministry of Finance of the Republic of Serbia. AIK Banka has no investments in corporate bonds in its portfolio as of 31 December 2023.

An increase of RSD 37 billion in absolute terms, or 116.5%, was recorded in the loans and advances to banks and financial institutions. The most significant contribution to this increase came from repo loans, which increased by RSD 40.7 billion compared to the end of last year.

Decrease in investment property by 20.5% resulted from the successful sale of six properties owned by the Bank, with the total carrying value of RSD 378 million. The remaining amount of the decrease in investment properties relates to the change in the value of the property.

The property, plant and equipment position increased by RSD 1.1 billion or 38.5%. This increase mostly relates to investments in the new building B23, where a larger number of AIK Banka employees continue to work in the new, modern and innovative space.

As of 31 December 2023, the level of loans and placements to customers, gross, reached the amount of RSD 235 billion, i.e. RSD 227 billion, net, including RSD 7,7 billion of allowance for impairment. As a result, the net loan portfolio amount is slightly lower compared to the end of 2022.

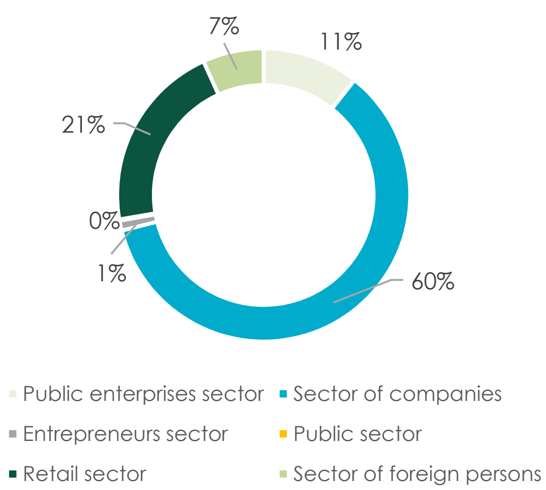
Based on the net loan portfolio at the end of the third quarter of 2023, the Bank has a market share of 6.8%.

In terms of segment structure, during 2023, the growth of net loans was realized in the corporate segment, with an increase of RSD 8 billion, while other segments recorded a decrease compared to the end of the previous year.

Out of the total gross loans to customer, 81% are Level 1 loans, 14% are Level 2 and 4% are Level 3.

The NPL ratio as of 31 December 2023 is 3.6%.

Loans and placements by sector, net



Liabilities and Equity

In the structure of liabilities and equity, the most significant increase of RSD 29 billion in absolute amount (or 9.4%), was recorded in deposits and liabilities due to customers.

Customer deposits as of 30 September 2023 amounted to RSD 341.8 billion, based on which the Bank holds the 7th market position with a share of 8.2% in the Serbian banking market.

In RSD million

Liabilities and equity	**31 December 2023**	**31 December 2022**	**YoY change absolute / in %**	
Deposits and liabilities due to banks, other financial organizations and Central Bank	18,927	16,797	2,130	12.7%
Deposits and liabilities due to customers	338,632	309,534	29,098	9.4%
Provisions	833	1,310	-477	-36.4%
Other liabilities	4,472	7,442	-2,970	-39.9%
Equity	95,833	77,274	18,559	24.0%
Total liabilities and equity	**458,697**	**412,357**	**46,340**	**11.2%**

Following the trends in the segment structure of deposits, the most significant increase, compared to the prior year end, is observed in deposits from public enterprises amounting to RSD 14.1 billion. The increase in deposits was also achieved in corporate sector - by12% and retail sector - by 5%.

In 2023, the capital was significantly influenced by the profit from the previous period, as well as the recapitalization of the Bank as part of the preparatory measures for the acquisition of Eurobank Direktna a.d., Belgrade.

The regulatory capital of the Bank, in addition to the above positive effect, was also influenced by the inclusion of a deductible item from the capital based on the equity investement in the aforementioned acquired subsidiary. As a result, the regulatory capital increased by RSD 5.6 billion in 2023.

The share of the Bank based on the volume of its capital in the Serbian banking market at the end of the third quarter of 2023 remained high. According to the total level of regulatory capital, at the end of the third quarter of 2023, the Bank reached a market share of 11.1% and holds the fifth position.

Item description	31 December 2023	31 December 2022
TIER 1	60,008,680	54,753,766
Common equity Tier 1 capital – CET 1	60,008,680	54,753,766
Additional Tier 1 capital (AT1)	-	-
TIER 2	2,619,570	2,228,827
CAPITAL (000 RSD)	**62,628,250**	**56,982,593**

The National Bank of Serbia's Decision on Capital Adequacy of Banks stipulates the Bank's obligation to perform its operations so as to ensure the coverage of its risk-weighted assets by capital in the amount of at least 8%, i.e. level increased by the National Bank of Serbia based on the supervisory evaluation.

The objective of the Bank's capital management is to ensure that at all times, the Bank has at its disposal a level and structure of internal capital that ensures the Bank's compliance with all legal obligations, maintenance of the trust of its shareholders and depositors in the security and stability of its operations, achievement of the Bank's business and financial plans, which can support the expected growth of the Bank's loans and investments, future sources of funds and their utilization, as well as the implementation of the dividend policy.

Item description	31 December 2023	31 December 2022
Nominal value of shares	21,791,681	19,762,595
Share premium	14,196,294	7,433,135
Reserves	13,063,653	11,468,813
Current year profit	8,171,631	26,132,960
Retained earnings	38,609,704	12,476,746
TOTAL EQUITY (000 RSD)	**95,832,963**	**77,274,249**

The Bank's strategic goal is to maintain its capital adequacy ratio at its targeted level, representing an overall capital requirement according to the NBS Decision on the conducted supervisory evaluation process increased by 1 p.p.

The minimum capital adequacy ratio level is 16.64%, or 10.92% increased by the combined capital buffer according to the NBS Decision on the conducted supervisory evaluation process. As of 31 December 2023, the Bank calculated capital adequacy ratio in accordance with the NBS Decision on Capital Adequacy of Banks.

According to this Decision, the Bank calculates the capital requirements for the following risks:

- Credit risk – using the standardized approach;
- Credit valuation adjustment risk (CVA risk) – using the standardized approach; and
- Operational risk – using the basic indicator approach (BIA).

As of 31 December 2023, the Bank had no obligation to set aside the capital requirement for market risks, taking into account the amount of the open foreign exchange position and the value of the trading book.

In 2023, there was no purchase of treasury shares.

The Bank's performance indicators throughout the year were within the regulatory prescribed:

General regulatory indicators	Required	31/12/2023	31/12/2022
Capital adequacy	min 8%	21.17%	19.81%
Exposure to one or a group of related entities	max 25%	17.85%	16.33%
Sum of the Bank's large exposures	max 400%	138.14%	131.22%
The Bank's investments (in non-financial sector entities and capital expenditures)	max 60%	9.27%	9.06%
Investment in a single non-financial sector entity	max 10%	0.24%	0.26%
Liquidity ratio	min 1	3.13	3.42
Liquid assets coverage indicator	min 100%	165%	163%
Foreign exchange risk ratio	max 20%	0.43%	1.13%

Income Statement

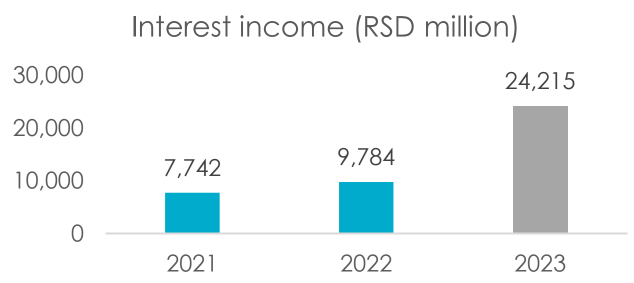
In 2023, the Bank achieved a high level of profitability with RSD 9 billion of profit before tax.

In RSD million

Item	2023	2022	YoY change absolute / in %	
Interest income	24,215	9,784	14,431	147.5%
Interest expense	-9,640	-2,424	-7,216	297.7%
Net interest income	**14,575**	**7,360**	**7,215**	**98.0%**
Fee and commission income	4,709	2,948	1,761	59.7%
Fee and commission expense	-1,299	-1,087	-212	19.5%
Net fee and commission income	**3,410**	**1,861**	**1,549**	**83.2%**
Net operating income	967	692	275	39.7%
Total operating income	**18,952**	**9,913**	**9,039**	**91.2%**
Operating expenses	-8,897	-5,710	-3,187	55.8%
Other expenses	1,229	25,829	-24,600	-95.2%
Operating result	**11,284**	**30,032**	**-18,748**	**-62.4%**
Net impairment losses/(reversal of impairment) and provisions	-2,279	405	-2,684	-662.7%
Profit before tax	**9,005**	**30,437**	**-21,432**	**-70.4%**
Profit before tax adjusted (for a bargain purchase gain)	**9,005**	**6,400**	**2,605**	**40.7%**

Net interest income in 2023 reached a total of RSD 14.6 billion, which is by RSD 7.2 billion higher than in the previous year.

The total amount of interest income is at the level of RSD 24.2 billion, which is by RSD 14.4 billion higher than previous year income.



In the structure of interest income, the most significant share relates to interest income from loans and advances to customers, accounting for 69.5%. This is followed by interest income from repo transactions at 13.5% and interest income from loans and deposits to banks at 6.8%.

In the structure of interest expenses, interest expenses on customer deposits have the most significant share of 85.4%, while interest expenses on bank deposits and interest expenses on securities account for 4.9% and 4.5%, respectively.

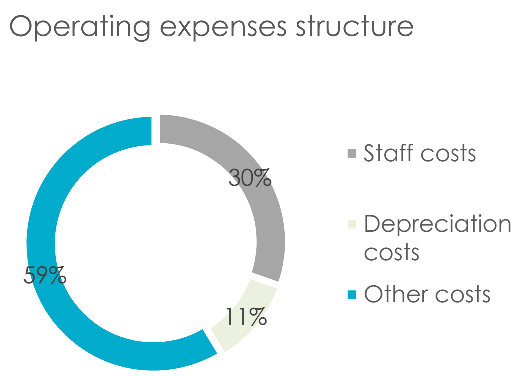
Increase in interest income and expenses is the result of the increase of market (key policy) interest rates, as well as the growth of the Bank's deposit portfolio.

In 2023, net fee and commission income increased by RSD 1.5 billion compared to the previous year, and reached the amount of RSD 3.4 billion. The income from payment transaction fees has a predominant share in the total fee income of 34.9%, followed by fees from payment cards with a share of 31.7%.

The highest absolute growth in fee and commission income was achieved from payment transactions - RSD 611 million, while fees from guarantees had an increase of RSD 166 million (with a 14.1% share).

Total operating expenses in 2023 amount to RSD 8.9 billion, which represents an increase of RSD 3.2 billion compared to the previous year.

Expenses increased as compared to the previous year due to the continuation of the digitization process and the comprehensive expansion of operations, as well as the result of the business network growth after the merger with Nasa AIK Banka and the adjustment of supplier prices to the inflation rate.



The net effect of impairment and provisioning at a level of RSD 2.3 billion had a negative effect on the income statement in 2023, encompassing both the effects of additional impairment losses and the positive effects of receivables collection.

1.5

Retail Banking, Operations with Micro Legal Entities and the Branch Network

AIK Banka is one of the leading banks in Serbia, with a complete range of financial solutions for corporate and retail customers, advanced digital products and a wide branch network, with over 60 branches (distributed in 4 regions: Belgrade, Vojvodina, East and West) in more than 35 cities.

A clear strategy for further development and focus on providing high-quality services to the clients it cooperates with has been confirmed through a base of more than 600,000 satisfied customers.

AIK Banka started the year 2023 by merging the portfolio of Nasa AIK Banka with its own portfolio in the already operationally merged network of branches. The Bank then stabilized the process and service model in the branches in the first half of the year and in parallel launched a project (Apollo 2023), consisting of a series of activities aimed at improving the customer experience in the Bank's branch network.

During 2023, the following improvements were made:

- The centralization of cash processing and the processing of payment orders was implemented, which significantly reduced the waiting time of clients at the cash desk in branches. By eliminating queues, cashiers can focus on educating customers to use self-service machines and mobile banking applications.
- A new, modern design, organization and appearance of the branches was created, which focuses on fast service and an advisory role for clients. Implementation was carried out at the pilot location (through the relocation of the branch in Kralja Milana Street in Belgrade).
- The process of opening accounts for individuals has been optimized, through the introduction of a new module for account packages, and the duration of the process has been reduced, as well as the volume of required documentation and the number of client signatures.
- The account opening process for legal entities with a simple ownership structure in the branch was optimized, streamlined to be completed on the same day, in less than an hour of conversation in order to establish a business relationship.
- A new product "Kompas package" was implemented, intended for newly established and other small business entities and entrepreneurs in cooperation with the Bank's strategic partners: Telekom Srbija and Poste Srbije.
- Further optimization of the client journey through the mobile banking application was carried out
- The process of pre-approved loans for individuals and for existing clients in branches has been implemented. This improvement provides a quick process for all those clients who do not use our E2E On-line processes for electronic and mobile banking, as well as for those who need larger amounts of cash loans.

The Bank continuously monitors market trends and, in this regard, improves and adjusts its offer to individuals, i.e., small businesses and entrepreneurs. In doing business with small business entities, the focus is on further diversification of the portfolio and its quality. We single out organic growth, the quality of the service provided in the business network, the quality of the portfolio, compliance with the law, the decisions of the regulator and the Bank's internal acts as the primary pillars of the strategy in doing business with the retail customers and small business entities.

In the process of branch transformation, the Bank strives to respond to the needs and expectations of its clients, improve efficiency, maintain a personalized customer service model and optimize operating costs.

In order to achieve optimal geographical positioning and increase the profitability of the network, the Bank continuously analyses the justification of operations at existing locations, the need for the relocation of certain branches, as well as the merger of certain organizational parts.

When determining the degree of equipment of organizational units, the Bank's security standards are respected, as well as standards in terms of technical and technological equipment, including 24/7 service through modern services.

The Bank also provides its services through two Digital Spots, which are part of the branch in the Shopping Centre, equipped with self-service machines for cash transactions, and with the presence of an Advisor for non-cash products and customer service. Sales outlets are located in DS TC Galerija, as well as in DC TC West.

1.6

Corporate Customers

The Corporate and Public Sector Division managed to record another successful business year, achieving loan and deposit increase and thus contributing to an excellent business result at the end of the year. The market share of corporate loans as of 31 December 2023 was 9.35%, while the market share of deposits was 8.19%. Public sector deposits achieved a somewhat higher deposit market share of 10.6%, while this segment's share in the total banking sector loans amounted to 9.1%.

Taking into account the successful operations of our clients, the Bank has created an offer of credit products that are adapted to the business needs for company financing. We offer a wide range of short-term and long-term funding models.

Investment loans, which we offer as support to business development of our customers, recorded significant growth in 2023, achieving market share of 15.45% at the end of the financial year.

We have a particularly significant business partnership with our customers through the placement of project finance loans. Each project is approached individually and the best solutions are proposed. Loans are approved for financing construction projects for residential and office buildings or buildings for commercial or other purposes, as well as projects related to renewable energy sources.

AIK Bank has one of the largest POS terminal acceptance network in Serbia, which accepts MasterCard, Dina Card, VISA payment cards, and also offers the option of the NBS IPS Instant payments on POS terminals.

The funds are guaranteed to be transferred within one business day to the merchant's account after a transaction has been completed.

As part of its services, AIK Bank also offers an eCommerce service, a solution for our clients who wish to enable their customers to easily make payments for goods and services using MasterCard and Visa payment cards in a simple way.

For all customers that are engaged in imports, exports, design, construction or sales, and in need of support to guarantee the fulfilment of their obligations, the Bank issues all types of domestic and foreign payment and performance guarantees, opens nostro letters of credit and accepts loro letters of credit, and performs incasso operations.

In addition to its own funding sources, the Bank has made available to its customers lines of credit supported by international financial institutions, such as the IFC, and the EBRD since 2024.

Small and medium-sized enterprises in Serbia, particularly those investing in green projects, have been granted increased access to financial resources due to a EUR 50 million line of credit approved by the International Finance Corporation (IFC) to AIK Bank.

The purpose of the co-operation is to increase lending accessibility to small and medium-sized enterprises and to develop new options for financing climate change projects in Serbia.

Approximately three-quarters of small and medium-sized enterprises are ready to invest in green projects in order to improve business and mitigate the effects of climate changes, while the greatest challenges they face are a lack of capital and insufficient information about green technologies and financing options available on the market.

As a result of the IFC investment, the Bank has expanded its lending offer to small and medium-sized enterprises, to meet the growing demand for green financing.

1.7

Risk Management

Risk Management System

The risk management process involves continuous risk identification, measurement, i.e. assessment, undertaking risk mitigation measures, risk monitoring and control, i.e. establishing the risk exposure limit system, as well as reporting on risks in line with the Bank's internal acts and the decisions of the regulators. An adequate risk management system is one of the key elements in ensuring the stability of the Bank's operations.

Risk monitoring and control are primarily based on establishing the procedures and limit system. The established limits reflect the Bank's business strategy and market environment, as well as the risk level that the Bank is willing to accept. The Bank permanently monitors and measures the capacity of the acceptable risk exposure level, taking into account the total exposure to all types of risks. The Bank continuously monitors all changes in the law and bylaw regulations and international standards, and undertakes measures for the timely harmonization of its operations with the current regulations.
The Risk Management System is defined in the following Bank's acts:

- Risk management strategy;
- Capital management strategy and plan;
- Risk appetite;
- Risk management policy;
- Individual risk management procedures,
- Methodologies by which the Bank defines in detail the methods and approaches used in the individual risk management system; and
- Other acts of the Bank.

The risk management strategy defines the risk management principles for the purpose of ensuring an adequate assessment of all the risks the Bank is exposed or may be exposed to in its operations, and the adequate capital necessary for supporting the realization of the Bank's strategic goals, in line with the Bank's Business Policy and Strategy.

The Risk Management Strategy defines:

- All the risks the Bank is exposed or may be exposed to in its operations;
- Long-term goals in risk management, as established by the Bank's Business Policy and Strategy, as well as risk inclination and tolerance determined in line with those goals;
- Basic principles of risk assessment and management;
- Basic principles of the process of internal capital adequacy assessment;
- Obligatory regular reporting to the Bank's bodies and the NBS about risk management; and
- The criteria for establishing the Bank's non-performing assets, the basic principles of managing such assets, as well as the highest acceptable level of the Bank's non-performing assets.

Risk appetite defines a comprehensive risk management framework and the maximum risk exposure level acceptable for the Bank. Risk appetite also defines a set of internally defined limits and targets for all material risks.

In the Risk Management Policy, the Bank determines: the basic principles of risk management, and in particular defines the organization of the risk management process, the basis for the Bank's risk profile assessment, i.e. individual risk identification, measurement, mitigation and monitoring, the internal risk management control system, the establishment of the individual risk limit system, as well as acting in the event of exceeding the defined limits, the manner and methodology for implementing the internal capital adequacy assessment process, the framework and frequency of the stress testing of individual types of risks, acting in case of unfavourable stress test results, as well as the obligation of regular internal and external reporting on risk management.

In the risk management procedures, the Bank further defines the process or risk identification, measurement, i.e. assessment, as well as the procedure of risk mitigation, monitoring and control, reporting about the risks the Bank is exposed to, as well as the competencies and responsibilities of the Bank's organizational parts in the risk management system.

In addition, in a separate procedure, the Bank defines activities, rules for the employees' actions, authorities and responsibilities in relation to:

- Management of placements in arrears from the corporate, public and financial sectors, retail segment and the small client segment; and
- Non-performing loans of the Bank to corporate customers related to restructuring of their placements, i.e. towards all non-performing customers (corporate and retail) related to enforced collection.

Through individual methodologies, the Bank prescribes in detail the methods and approaches applied for measuring individual risk exposure.

For the purpose of adequate risk management, the Bank has formed an adequate organizational structure that suits the scope, type and complexity of the operations it performs and with the aim of preventing conflicts of interest, it has separated the risk-taking function (front office) from the risk management function (middle office) and supporting activities (back office). Such organizational structure enables the achievement of the established goals and principles of risk management in practice.

The Bank has established a comprehensive and reliable risk management system that is fully integrated into all the Bank's business activities and ensures that the Bank's risk profile is in line with the Bank's defined risk appetite.

The risk management process includes the following participants:

The Bank's Shareholders Assembly - adopts the Bank's Business Policy and Strategy that define the Bank's business goals for the period of at least three years, adopts the Bank's financial statements and decides on the use and distribution of the realized profit i.e. covering losses.

In addition, the Assembly decides on increasing capital i.e. capital investments in other entities in the financial sector or other corporate customers, as well as regarding the amount of investments in fixed assets and investment property.

Board of Directors – is competent and responsible for establishing a unique risk management system and control over that system, adopting the Risk Management Strategy and Policy, the Capital Management Strategy and Plan, and the Methodology for Internal Capital Requirements Assessment, establishing the internal control system, adopting the Liquidity Contingency Plan and the Bank Recovery Plan. Furthermore, the Board of Directors controls the work of the Executive Board.

The Audit Committee is competent and responsible for adopting the proposed Bank's Strategy and Policy in relation to risk management and implementing the internal control system submitted to the Board of Directors for consideration and adoption. In addition, this Committee is in charge of analysing and controlling the application and adequate implementation of the adopted Risk Management Strategy and Policies and Internal Control System Policies. At least once a month, the Board of Directors reports on its activities and established irregularities, and proposes ways to eliminate them.

Executive Board is competent and responsible for implementing the Bank's Business Policy and Strategy according to the three-year strategic plan, the Risk Management Strategy and Policy, the Capital Management Strategy and Plan, the Internal Control System Policy, the adoption and analysis of the efficiency of individual risk management procedures that further define the process of risk identification, measurement (assessment), mitigating, monitoring and control, as well as reporting on the risks the Bank is exposed to. The Bank's Executive Board regularly reports to the Board of Directors about the efficiency of the adopted Policy and risk management procedures.

The Asset and Liability Committee monitors the Bank's risk exposure arising from the structure of its balance sheet liabilities, receivables and off-balance sheet items and proposes measures for managing market risks, interest risk and liquidity risk.

The Risk Committee is responsible for monitoring the Bank's exposure to credit risk, liquidity risk, interest risk, market risks, operational risk, country risk, investment risk and other risks, and it proposes measures for managing those risks to the Bank's Executive Board.

The Client Monitoring Committee is responsible for monitoring the placement quality at the level of individual clients and observing the increased credit risk, i.e. for monitoring the receivables from clients in arrears and clients with a probability of increased credit risk. The Client Monitoring Committee meets at least once a month and more frequently if necessary.

The Bank's Credit Committees decide on loan requirements/placements within the frameworks determined in the Bank's acts and analyses the Bank's exposure to credit risk (including foreign exchange risk, concentration risk and country risk), interest rate and market risks. The Bank's Board of Directors makes the Decision on forming credit committees and appointing the members of the following credit committees:

- Corporate and Finance Sector Credit Committee; and
- Retail and SME Credit Committee.

The Credit Risk Management Departments (the Corporate, Public and Finance Sector Credit Risk Management Department and the Retail and SBB Sector Credit Risk Management Department) identify, measure i.e. assess and manage the credit risk of performing clients in the corporate segment, public and financial sector, i.e. the segment of retail and small and medium enterprises. The task of these divisions is to prepare proposals and give their expert opinions and "votes" to the specific loan proposals.

The Monitoring Department performs the ongoing control and monitoring of performing loans and receivables from clients within the corporate, public and finance sectors, retail and small clients, as well as the control and monitoring of collaterals and circumstances following loan disbursement, the validity of insurance policies, the validity of appraisals of properties assigned under mortgage liens, authenticity of information related to the collaterals securitizing the Bank's receivables that are entered into the Bank's information system, etc.

The Risk Control Sector proposes the risk management strategy, policy, procedures and methodologies for adoption. This Sector is responsible for implementing and maintaining risk-related methodologies and procedures from the aspect of ensuring the independent risk control process.

This Sector also ensures the complete inclusion of risks in the measurement and reporting system of the risks that the Bank is exposed to in its operations. The Risk Control Sector comprises two departments: Credit Risk Controlling and Market, Liquidity and Operational Risk Controlling.

The Workout (NPL) Sector - in order to implement the strategy for addressing NPLs, which is an integral part of the Bank's risk management strategy, the Bank set up this Sector within its organization as a separate organizational unit for NPL management so that it is functionally and organizationally separated from the organizational units whose scope of activity includes risk-taking.

The primary function of this Sector is to manage the collection of non-performing customers – corporate and retail, entrepreneurs and registered agricultural estates, and to manage the early collection of retail loans arrears.

The Finance Sector is in charge of maintaining books of accounts, the preparation and issue of the financial statements and reporting to the NBS and other external users. It also provides appropriate support for all participants in the process of planning available internal capital, as well as in preparing the Bank's Financial Plan, which is taken as the basis for planning available internal capital.

The Treasury Sector is responsible for managing assets and liquidity, as well as the Bank's assets and liabilities. Moreover, it participates in the liquidity risk management, interest position and foreign currency position of the Bank. The operations of this Sector are organized through the work of two departments: Trading, Sales and Financial Institutions Relations and Asset/Liability and Liquidity Management.

The Operations Sector which provides a support function through its operational activities, through the management of the Bank's operations in the areas of business support, payment operations, credit and deposit administration.

The Internal Audit Department is responsible for the continued monitoring of the implementation of risk management policies and procedures, as well as for the regular assessment of the adequacy, reliability and effectiveness of the internal control system and the compliance function of the Bank. The Internal Audit Sector reports to the Board of Directors and the Audit Committee about its findings and proposals.

The Compliance Sector is obligated to identify and monitor compliance risks in the Bank's operations, as well as to manage those risks that particularly relate to the risk of money laundering and terrorist financing, the risk of sanctions by the regulator, the risk of financial losses and reputation risk.

The basic function of the Compliance Sector is the implementation of the ongoing, adequate and efficient control of the Bank's compliance in a manner that enables indicating existing and potential compliance risks and the management of such risks in order to achieve the highest standards in the Bank's operations.

Liquidity Risk

In its operations, the Bank pays particular attention to liquidity maintenance as it believes that appropriate liquidity is one of the prerequisites of financial stability and development. The experiences of the banking sector in the Republic of Serbia and the region demonstrate that under circumstances of compromised liquidity, client trust in the Bank deteriorates and reputation risk increases, which compromises profitability.

Liquidity risk is the possibility of adverse effects on the financial result and equity of the Bank, due to the inability of the Bank to settle due liabilities, as a result of insufficient liquidity reserves and inability to cover unexpected outflows and other liabilities.

In its operations, the Bank respects the basic principles of liquidity management, achieving a sufficient level of funds to cover short-term liabilities, i.e. respects the principle of solvency, forming an optimal structure of own and borrowed funds and forming a sufficient level of liquidity reserves.

The Bank maintains a stable liquidity position and a sufficient and adequate level of liquidity reserves. Liquidity reserves are mostly in the form of cash and liquid debt government securities, which can be redeemed in a relatively short period of time.

The Bank manages its assets and liabilities to ensure that it settles all its liabilities and that its clients may at all times have their assets at their disposal in accordance with the contractual terms. The Bank adequately manages the liquidity risk of funding sources, considering the diversification of the deposit base. At the same time, the Bank has a sufficient level of liquid assets, where the market liquidity risk is within the expected limits.

The Bank regularly monitors the liquidity risk level on a daily basis based on a daily liquidity ratio, rigid liquidity ratio, liquid coverage ratio and internal liquidity ratios. Moreover, in the process of liquidity risk measurement, the Bank uses GAP analysis by grouping balance-sheet and off-balance sheet items per time buckets according to the contractually defined maturity dates, i.e. the expected time for generating cash flows.

The Bank also defines internal limits relating to cumulative GAP values per time buckets under regular conditions and stress conditions. Stress tests are conducted on a monthly basis and compliance with the defined internal limits for liquidity GAP in stress conditions is monitored.

The Bank aligns its operations with the prescribed regulatory liquidity ratio, narrow liquidity ratio, as well as the liquid asset coverage ratio.

Range	Liquidity ratio	Narrow liquidity ratio	Liquidity coverage ratio
As of 31 December 2023	3.13	2.05	165%
Average for the year	3.35	2.01	202%
Maximum	4.00	2.89	236%
Minimum	2.70	1.43	165%

Table 25 - Movements of the liquidity ratios in 2023

During 2023, the Bank maintained regulatory liquidity ratios at a higher level than the regulatory and internally defined minimums. The integration of operational processes with the previously acquired Nasa AIK Banka was completed at the beginning of 2023. Additionally, the second half of 2023 was under the impact of preparatory activities, which included a significantly increased liquidity level with the aim of acquiring Eurobank Direktna a.d. Belgrade, as well as the completion of the transaction itself.

Market Risks

The Bank identifies its exposure to the foreign exchange risk through open positions in a certain currency and in total for all currencies it uses in its business operations. The Bank assesses foreign exchange risk exposure using the regulatory limits (foreign exchange risk ratio) and internally defined methods.

The Bank's foreign exchange risk ratio remained below the regulatory maximum of 20% of capital throughout the year and as of 31 December 2023 it amounted to 0.43%.

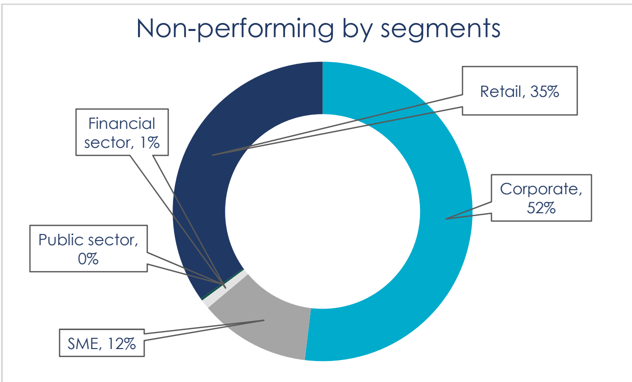
Since 2018, the Bank has been exposed to the price risk per items in the trading book, when the first equity investments were purchased. As of 31 December 2023, the Bank only had corporate shares of one company with a total market value of RSD 0.7 billion in its trading book. The basic principles of price risk management entail the maintenance of this risk level according to the internally defined limits for the Bank's trading book level, daily monitoring of the changes in the market conditions that may give rise to the increased exposure of the Bank to the trading book risks, and definition of measures to mitigate this risk.

The objective of active risk management is to decrease the price risks to an acceptable level, which can be controlled and which enables the Bank to maximize its profit while minimizing the risks.

Non-performing Loans

For the purpose of the timely identification of possible problems, the Bank continued its intensive monitoring of the balances and trends of the non-performing loans (NPLs) throughout 2023. NPL monitoring is vital to credit risk monitoring as NPLs represent one of the basic indicators of the quality deterioration of the Bank's loan portfolio.

The most significant share in the NPL amount refers to the corporate customer segment (52%). The share of the retail segment in the Bank's total NPLs amounts to 35%.



During 2023, the Bank continued to monitor loans and to improve the collection process, both from individual clients and at the level of the entire portfolio, which resulted in maintaining NPLs at a stable level in absolute amounts, but with noticeable pressure from the macroeconomic environment on the retail customer segment.

The non-performing loan indicator (NPL indicator) at the end of 2023 was within the internally defined limit of 5%.

The comparison between the total amount of allowance for impairment and the amount of the provisions for non-performing loans and receivables (according to the methodology of the National Bank of Serbia) indicates that the Bank's rate of coverage of gross NPL with allowances for impairment (in accordance with IFRSs) equalled 89%.

Throughout 2023, the Bank intensively worked on improving the processes of risk identification, assessment, monitoring and control, which resulted in the keeping up of the Bank's NPL indicator within the internally defined limits.

Risk assumption principles – Prudent capital and risk management

We accept risks that we can manage. We use past experiences and lessons learned to further improve risk management in the future.

We establish comprehensible rules for managing individual risk types, along with accompanying procedures for managing each risk type with clearly defined objectives.

We make business decisions based on a qualitative and/or quantitative analysis of risk parameters, in order to detect risk profile changes in a timely manner.

We collect complete, timely and accurate data important for risk management and provision of adequate technical infrastructure for data storage and processing. We use a number of methods for risk identification and assessment.

We are guided by the precautionary principle during risk assumption, along with regular monitoring and supervision of certain risk exposures and compliance with the established limit system.

1.8

Bank Management and Organisational Structure

In terms of corporate governance, the Bank observes and complies with the relevant applicable laws and by-laws, as well as the AEC Group's internal governance policy. The Bank adopts the Corporate Governance Policy in order to establish and recognise high standards in all fields of work, improvement instruments and efficiency of the corporate governance system, which provides for Bank's sustainable development based on socially responsible business and a value increase for shareholders, employees, clients and the environment in accordance with good business practices.

Corporate governance principles that the Bank applies in its operations are business transparency, protection of the Bank's reputation, responsibility, professionalism, security, efficiency and availability of information in accordance with the law.

Pursuant to the Law on Banks, the Bank's managing bodies are the Shareholders' Assembly, Board of Directors and Executive Board.

The Bank's Shareholders Assembly consists of the Bank's shareholders, who may directly participate in the Assembly's work or through their representatives. Assembly sessions can be regular or extraordinary. Regular meetings of the Shareholders' Assembly are held at least once a year, or no later than four months after the end of a financial year. The Assembly's responsibilities are stipulated under the Law and the Articles of Association, whereas its method of operation and decision-making is prescribed in the Assembly's Rules of Procedure.

Board of Directors (BoD) consists of seven members, including the chairman, whereas the **Executive Board** comprises five members. The members of the Bank's BoD must be individuals with a good business reputation and appropriate qualifications as prescribed by the NBS. At least three members of the BoD have to have adequate financial experience.

At least one member of the BoD must have active knowledge of the Serbian language and have permanent residency in the territory of the Republic of Serbia. The Chairman and other members of the Bank's BoD are appointed by the Bank's Assembly for a period of four years, whereby they will perform these duties until newly appointed members of the BoD take office, according to previously obtained approval from the NBS and after the expiry of the four-year period, and three months maximum.

The BoD establishes the Bank's internal organisation, i.e. Bank's organisational structure, which ensures the distribution of authorities, duties and responsibilities of employees, members of the managing bodies and other individuals in managerial positions at the Bank, in a manner that prevents conflict of interest and ensures transparent and documented decision-making and decision-implementing processes.

The Executive Board (EB) members are responsible for ensuring that business operations are in accordance with the Law on Banks, regulations and by-laws of the NBS and the Bank's enactments. Duties and responsibilities of the EB members are stipulated by the Law on Banks, regulations adopted based on the Law on Banks, the Bank's Articles of Association and internal acts.

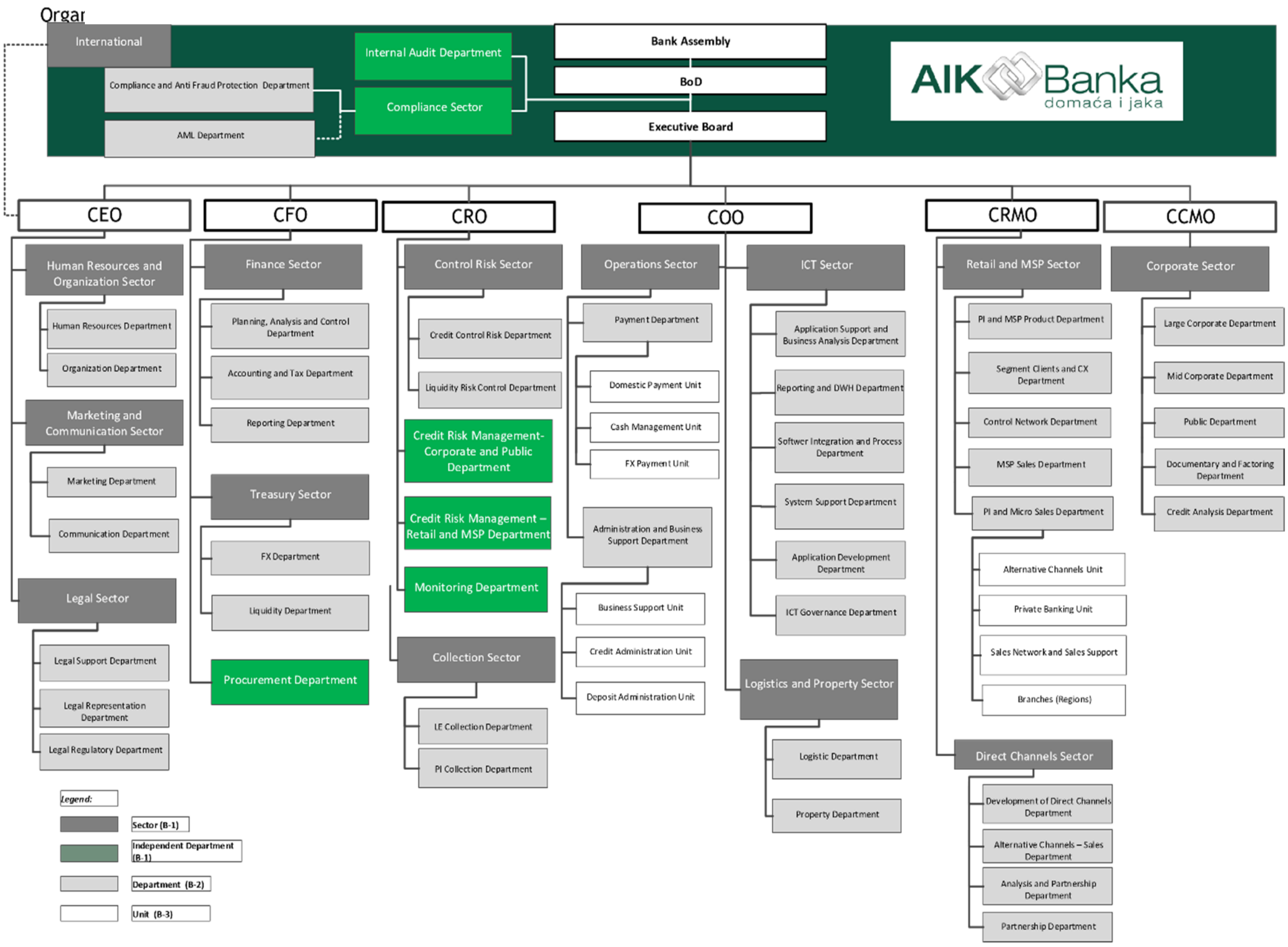
There are procedures in place at the Bank for appointing and re-appointing members of the BoD and EB, which are harmonised with the Law on Banks and the NBS's Decision and Guideline governing this matter.

The Audit Committee (AC) comprises minimum three members, one of whom is the Chairman and the others are the member of this Committee. At least two members of the AC, who have adequate experience in finance, are members of the Bank's BoD and minimum one member has to be independent of the Bank. The Committee assists the Bank's BoA in supervising the work of the Executive Board and employees of the Bank.
Details about the members of the Board of Directors, Executive Board and the Audit Committee are publicly available in the Bank's website section: ***AIK Bank | About us***

Bank Organisation and Employees

The Bank's organizational model ensures the efficient management and implementation of the internal control system, in line with the requirements of dynamic and modern business and according to the banking sector standards.

Image 1 – Organizational chart of the Bank as of 31 December 2023

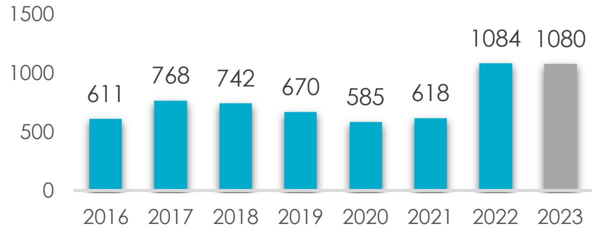


Employees

The most important resource of AIK Bank is certainly its employees. The human resource management policy in the previous period, supported by a more efficient business model, contributed to a rational distribution of employees.

The focus was on the development of the potential of existing employees and recruitment of new candidates, who bring new knowledge and ideas, and thereby contribute to the Bank's progress in every aspect.

Development of business activities, as well as the acquisition of Sberbank Serbia (Nasa AIK Banka) resulted in an increase in the number of employees in 2022 and 2023.



The share of employees with high education has increased compared to the previous period.

Employees with a university degree accounted for 57.7% of the total number of employees at the end of 2023, employees holding a college degree accounted for 22.1% and the employees who had IV degree education accounted for 19.8%.

Observed by the aging structure, employees aged 41 to 50 account for the largest portion of 41%, followed by employees aged 31 to 40, accounting for 31%, while employees under 30 years of age account for 13% of the total number of employees.

AIK Bank and MK Group allocated RSD 11 million for the employees in Serbia, Slovenia and Croatia who became parents in 2023. In order to support employees who become parents this year, cash subsidies for 163 new-born babies were awarded at a traditional event within the regional Family Support Initiative.

1.9

Significant Events after the End of the Financial Year

On 1 January 2024, the Bank appointed Petar Jovanovic as the new Chairman of the Executive Board after obtaining the approval from the National Bank of Serbia.

In line with the strategy of further growth and development, the Bank successfully signed a purchase transaction agreement on 29 February 2024, becoming the sole owner of NDM Leasing d.o.o., Belgrade, which was subsequently renamed to AIK Leasing d.o.o., Belgrade. This acquisition represents an opportunity to expand the range of products and services for existing clients of AIK Banka and Eurobank Direktna, while simultaneously strengthening the position in the financial services' market. AIK Leasing will serve as an important channel for attracting new customers, both corporate and retail.

There were no other significant events subsequent to the reporting date, which would require disclosures in the notes to the Bank's financial statements and Annual Business Report for the year ended 31 December 2023.

1.10

Approach to Sustainability, Contribution to the Community and Environmental Impact

AIK Bank has had an internal obligation as a part of its business practice for over 40 years to report to the public about its activities regarding non-financial and corporate social responsibility segment by issuing public statements and Annual Reports, in addition to the legal obligation to perform mandatory **non-financial reporting** stipulated by Directive 2014/95/EU and the Law on Accounting.

AIK Bank defines the entire philosophy of its business operations using five pillars – customer commitment – **Our way**; innovations in products and services – **Our inspiration**; business excellence and flexibility – **Our measure**; awareness and social responsibility – **Our tomorrow**; and trust based on partnership, teamwork and competitive spirit – **Our strength**.

The Bank's mission (WE BUILD PARTNERSHIP BY SUPPORTING PEOPLE IN CREATING THEIR FUTURES) and vision (WE STRIVE TO MAKE A DIFFERENCE AND BECOME YOUR FIRST CHOICE AT ANY TIME AND ANY PLACE), as well as social responsibility, business excellence and commitment to all interest groups are based on the key business postulate and relationship with employees and customers. In this way, AIK Banka lays the foundations of its sustainable operations, since it starts from a mixture of public interest and social responsibility in all its products/services/operations/, which implies that no product/service/activity is valid or valuable unless it is in general interest, where all contracting parties are satisfied and the general public benefits from it. We regard this as the greatest contribution to each individual and the society in general. Through non-financial reporting and corporate social responsibility, AIK Bank supports the development of different segments of the society by conducting a wide variety of activities, whose primary objective is to protect the environment, regardless of whether they are aimed at the well-being of their owners, employees and customers or, more generally, at the social community by supporting numerous humanitarian, educational, cultural, healthcare and sports institutions across the region in which it operates – including many neighbouring countries. The Bank always takes into account specific regional characteristics and local society needs.

By prioritising sustainability, AIK Bank embarked on a strategic initiative process, which begins with raising awareness, initiative and implementation of sustainability elements within its new business model.

The goal of these strategic guidelines is to raise awareness and develop culture across the entire organization that should maintain environmental, social, business and financial performances of the Bank in the future, taking into account external and internal SGE risks and opportunities for further smooth operations, and actively contribute to reducing any systemic risks pertaining to the financial stability of the country (region) in which the Bank operates.

In implementing sustainability elements, the Bank is particularly focused on local communities and the real sector. The Bank is aware of the impact of its operations on the social community and responds to social needs and expectations in a balanced, relevant and transparent manner.

The four pillars on which AIK Bank bases its business system sustainability originate from Bank's environmental, social, business and financial performance:

- ✓ Environmental sustainability (I)
- ✓ Social sustainability (II)
- ✓ Business sustainability (III)
- ✓ Financial sustainability (IV)

(I) Through the products we offer, and the clients we serve, and extending to employees and shareholders, we aim that everyone bear a part of their responsibility – in order for water, air, land, forests and climate to have a partner in the Bank who cares about them.

In other words, we subject our operations and goals to the overall well-being of the human environment, thinking of future generations. The contribution to the environmental sustainability is immeasurable. Therefore, the Bank is increasingly turning towards green financing – granting loans to all relevant customers, whose mission is to protect the environment and reduce emissions of greenhouse gases.

AIK Bank has joined a major regional initiative of the United Nations Development Program (UNDP) dedicated to the promotion of environmental protection, social responsibility and diligent corporate governance. This approach is becoming more and more important each year, both in terms of business operations of small and medium-sized enterprises and all business and credit activities of domestic banks.

Small and medium-sized companies that harmonize their operations with ESG criteria are seen by banks and potential investors as "companies of the future". These are companies that base their strategy on reducing the amount of material incorporated into products, minimizing the consumption of energy and raw material in production, designing products with a longer lifespan and suitable for repair or recycling.

Companies should actively think about implementing the "net zero" business concept in accordance with customer demands, the interests of company owners, employees and other stakeholders. In addition, smart use of resources and waste and wastewater management becomes imperative in modern business. It is necessary to understand all these changes not as a cost, but as an opportunity to innovate own production, whose carbon footprint will be much smaller.

It is impossible to avoid climate changes, but behaviour and adaptation can be controlled. Business changes and timely consideration of potential damage through property insurance can mitigate the consequences of natural changes.

(II) AIK Bank recognises corporate social responsibility (CSR) as one of its pillars of sustainability (CSR), as part of its ethical responsibility to support children, families, youth, education, science, healthcare and care for people, preservation of cultural heritage, sports and improvement of physical education. MK Group and the Bank donated EUR 350, 000 to preschools across Serbia this year.

Preschool institutions in Vrbas, Becej, Pecinci, Kovacica, Novi Sad, Nis, Raska and Golubac were donated funds for the renovating and furnishing.

Due to the donations for improving the conditions in these institutions, children now spend time in a lovelier and more creative environment.

AIK Bank's ATMs are the first ATMs in Serbia where all Bank's customers, in addition to usual payments and withdrawals, insights into the balance and other services, can now pay their donation to the humanitarian organization SOS Children's Villages Serbia with just a few clicks.

SOS Children's Villages Serbia is one of the largest humanitarian organisations in our country, whose mission is to ensure that every child grows up in a home filled with love. Donations collected through this initiative will be used to support the programmes and services of this organization and improve the lives of children, youth and families at risk.

(III) Our goal is to improve sustainable business by adhering to the relevant EU regulations and the UN Finance Environment Initiative, striving to include as many principles as possible in our own business goals. We tend to make our business operations public and our customers aware in each transaction and obligation, along with the right to protect the users of financial services.

Moreover, our goal is to act responsibly towards the state and take seriously our legal obligations by settling our liabilities on time, to prevent our customers from engaging in money laundering and terrorism financing by strengthening financial culture and awareness.

(IV) Financial sustainability also involves active management of all types of risks (on micro and macro level) with the aim of acting responsibly towards regulators and supervisors, on the one hand, and customers and the community, on the other hand, trying to act procyclically in times of crisis and stress – enabling the real sector to access financial resources in a sustainable manner.

1.11

Future Plans

AIK Bank has defined three key goals:

- Growth
- Diversification
- Sensation

		VISION • **Make a difference** and become a client's first choice anytime, anywhere		**MISSION** • Building **partnership** by supporting people in **creating** their **future**	
PURPOSE	Why are we here?	We power life, empowering clients, colleagues, industry and community to leap forward			
PROMISSES	What do we provide?	We empower our customers' self-confidence to thrive today and embrace tomorrow, equipped and inspired by our products, innovations and tailored support			
PRINCIPLES	How do we deliver?	Lead, not follow • **Dynamic** • Innovative • **Energetic** • Committed	Being positive about the future • **Optimistic** • **Thinking ahead** • **Resilience** • Cooperation	Adapt and engage • **Flexibility** • **Customized** • **High quality** • **Useful**	The community • **Team work** • **Community (trust)** • Sustainability

OUR STRATEGIC FOCUS

✓ **Personalisation and customer satisfaction**

The Bank exists to serve its customers, which represent the basic definition of our business. We endeavour to be ultimately committed and accountable to our clients through personalization and efficient data management, so that we can offer them personalized solutions at all times and respond to their specific requirements and needs in the best possible manner. In this way, we build a long-term and mutually beneficial partnership.

✓ **Qualified employees and their satisfaction**

No organization could exist without employees' satisfaction. Satisfied employees are a prerequisite for the Bank's satisfied customers.

Our employees are our biggest capital. Improving employees' knowledge and skills is a continuous process at all management levels.

- ✓ **Satisfaction of shareholders**

  A large number of satisfied clients supported by the Bank's trained and motivated employees are a guarantee of stable and sustainable development and business of each bank.

  Each shareholder is aware of these preconditions - which lead to the required financial result and the achievement of environmental, social and business performances.

  Only banks with low CIR and high ROE can progress given the new digital ecosystem, M&A, new business models and necessary investments.

- ✓ **Digitalisation and innovations**

  The Bank is a dynamic business system which always has to respond to broader trends in the society and the real economy.

  Digitalisation and innovation represent a kind of business imperative to withstand the pressure of the competition and respond to the demands of new generations that follow the technological development of the fourth industrial revolution.

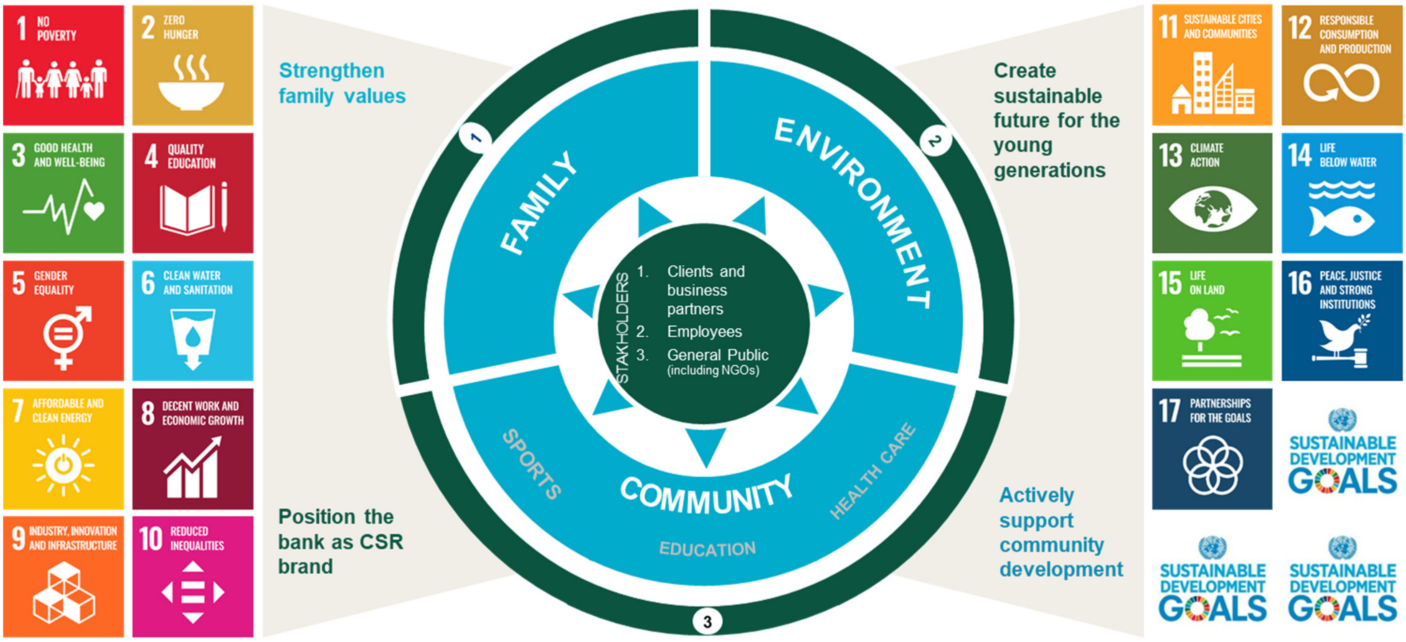
  By changing ourselves, we also change the world we live in. We consciously accept all new challenges and enter into a new ecosystem. We strive to be leaders in this field, not only followers.

- ✓ **Regional presence**

  AIK Bank is recognized as a regional banking group. The Bank's goal is to further strengthen its presence in the region and confirm the status of a systemically important bank.

  Our presence should include, above all, the acknowledgement of excellence and business efficiency on the one hand, and on the other hand, pushing cultural and social boundaries – by connecting in the best possible way millions of people and companies operating in the region - for the purpose of overall economic progress and the improvement of living standards of all people.

Our CSR framework will be focused on three main pillars:
1) Family, 2) Environment and 3) Community



Belgrade, 11 March 2024

Petar Jovanovic
Executive Board Chairman

Andrija Vukovic
Executive Board Member