API BANK AD. BELGRADE

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

MOORE

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

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF API BANK AD. BELGRADE

Report on the Audit of the Financial Statements

Opinion

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

In our opinion the accompanying financial statements give a true and fair view of the financial position of the API BANK a.d., Belgrade as at 31 December 2023, and of its financial performances and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Responsibilities of the Management for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF API BANK AD. BELGRADE - continued

Other Information included in the Bank's Annual Business Report

Management is responsible for the other information. The other information comprises the Annual Business Report (of which Corporate Governance Report is integral part), but does not include the annual financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information, except to the extent explicitly described in the Report on Other Legal and Regulatory Requirements section of our report, 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. 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.

Report on Other Legal and Regulatory Requirements

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

In our opinion, the Annual Business Report is:

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

In addition, considering the knowledge and understanding of the Bank and its environment obtained during the audit, we are required to report if we have identified material misstatements in the Annual Report. We have nothing to report in this regard.

Belgrade, 15 April 2024

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4 Studentski Trg, 5th floor

Ružica Vukosavljević
Authorised Auditor

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4 Studentski Trg, 5th floor

Bogoljub Aleksić
Managing Partner

API BANK a.d. BELGRADE

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR 2023

CONTENT

FINANCIAL STATEMENTS

INCOME STATEMENT
For the Year Ended 31 December 2023

In RSD thousand

	Notes	2023	2022
Interest income	5	620,543	369,277
Interest expense	5	(103,605)	(82,504)
Net interest income		**516,938**	**286,773**
Fee and commission income	6	943,294	461,284
Fee and commission expense	6	(117,658)	(76,782)
Net fee and commission income		**825,636**	**384,502**
Net gains from derecognition of financial instruments measured at fair value		(56)	-
Net (losses)/gains from hedging	7	-	-
Net foreign exchange gains and effects of contracted foreign currency clause	8	386,828	506,284
Net impairment loss on financial assets not measured at fair value through profit or loss	10	(112,379)	(218,677)
Other operating income	9	10,989	7,066
TOTAL NET OPERATING INCOME		**1,627,956**	**965,948**
Salaries, compensations and other personal expenses	11	(331,501)	(289,797)
Amortisation and depreciation expenses	12	(76,703)	(73,090)
Other income	13	21,556	14,140
Other expenses	14	(271,175)	(356,788)
PROFIT/(LOSS) BEFORE TAX		**970,133**	**260,413**
Income tax		(35,136)	-
Profit from deferred taxes	15	(1,238)	3,893
PROFIT/(LOSS) FOR THE YEAR		**933,759**	**264,306**

The notes on pages from 6 to 100
are an integral part of these financial statements.

Nataša Đoković	Valentina Keiša	Radomir Stevanović
Responsible for financial statements preparation	President of Executive Board	Member of Executive Board

STATEMENT OF OTHER COMPREHENSIVE RESULT
For the period 01 January to 31 December 2023

In RSD thousand	2023	2022
PROFIT/(LOSS) FOR THE YEAR	**933,759**	**264,306**
Other comprehensive income:		
Positive effects of changes in value of debt securities valued at fair value through other results	-	-
Negative effects of changes in value of debt securities valued at fair value through other results	(2,053)	(5,176)
Profit from tax related to other results of period	-	170
Items of other comprehensive income that can be reclassified to profit or loss:	-	-
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**931,706**	**259,300**

The notes on pages from 6 to 100
are an integral part of these financial statements.

Nataša Đoković Responsible for financial statements preparation	Valentina Keiša President of Executive Board	Radomir Stevanović Member of Executive Board

BALANCE SHEET STATEMENT
For the period 01 January to 31 December 2023

In RSD thousand	Note	2023	2022
ASSETS			
Cash and balances with central bank	17	7,526,810	5,009,080
Pledged financial assets		-	-
Securities	18	-	354,233
Loans and advances to banks and other financial organisations	19	5,486,608	2,740,530
Loans and advances to customers	20	4,726,062	5,150,291
Intangible assets	21	52,425	46,734
Property, plant and equipment	22(a)	88,287	119,405
Investment property	22(b)	-	-
Deferred tax assets	15(c)	11,443	12,680
Non-current assets held for sale and discontinued operations	23	-	234,645
Other assets	24	165,442	173,520
TOTAL ASSETS		**18,057,077**	**13,841,118**
LIABILITIES			
Deposits and other financial liabilities to banks, other financial organisations and central bank	25	342,289	289,338
Deposits and other financial liabilities to other customers	26	14,537,448	11,232,939
Changes in fair value of items subject to hedging		-	-
Subordinated liabilities	27	-	119,350
Provisions	28	50,255	25,640
Current tax liabilities	15(a)	35,136	-
Deferred tax liabilities	15(d)	-	853
Other liabilities	29	160,391	173,146
TOTAL LIABILITIES		**15,125,519**	**11,841,266**
EQUITY	30		
Share capital		4,632,407	4,632,407
Profit/Loss		(2,634,608)	(2,898,914)
Reserves		933,759	2,053
Profit		-	264,306
TOTAL EQUITY		**2,931,558**	**1,999,852**
TOTAL LIABILITIES		**18,057,077**	**13,841,118**

The notes on pages from 6 to 100
are an integral part of these financial statements.

Nataša Đoković	Valentina Keiša	Radomir Stevanović
Responsible for financial statements preparation	President of Executive Board	Member of Executive Board

STATEMENT OF CHANGES IN EQUITY
For the period 01 January to 31 December 2023

In RSD thousand	Share capital	Reserves	Profit / (Loss)	Total capital
Opening balance as of 1 January 2022	**4,632,407**	**7,059**	**(2,898,914)**	**1,740,552**
Profit/(Loss) for the year	-	-	264,306	264,306
Other comprehensive result:	-	-	-	-
Negative effects of changes in fair value of debt instruments valued at fair value through other comprehensive income	-	(5,006)	-	(5,006)
Deferred taxes recognised in equity (Note 15(d))	-	-	-	-
Allowance for impairment of financial assets measured through other comprehensive income	-	-	-	-
Balance as of 31 December 2022	**4,632,407**	**2,053**	**(2,634,608)**	**1,999,852**
Opening balance as of 1 January 2023	**4,632,407**	**2,053**	**(2,634,608)**	**1,999,852**
Profit/(Loss) for the year	-	-	933,759	933,759
Transactions with owners recorded directly in equity-increase	-	-	-	-
Other comprehensive result:				
Negative effects of changes in fair value of debt instruments valued at fair value through other comprehensive income	-	**(2,053)**	-	**-**
Deferred taxes recognised in equity (Note 15(d))	-	-	-	-
Allowance for impairment of financial assets measured through other comprehensive income	-	-	-	-
Balance as of 31 December 2023	**4,632,407**	**-**	**(1,700,849)**	**2,931,558**

The notes on pages from 6 to 100
are an integral part of these financial statements.

Nataša Đoković	Valentina Keiša	Radomir Stevanović
Responsible for financial statements preparation	President of Executive Board	Member of Executive Board

CASH FLOW STATEMENT
For the period 01 January to 31 December 2023

In RSD thousand	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash inflow from operating activities	**4.983.494**	**6,553,286**
Interest receipts	635.459	396,717
Fee and commission receipts	945.499	461,157
Receipts from other operating activities	3.402.536	5,695,412
Cash outflow from operating activities	**(3.597.216)**	**(5,974,973)**
Interest paid	(71.055)	(82,504)
Fees and commission paid	(98.824)	(76,782)
Payments for gross salaries, compensationsand other personal expenses	(298.610)	(328,626)
Taxes, contributions and other duties paid	-	(9,484)
Outflow for other operating expenses	(3.128.727)	(5,477,577)
Net cash flows provided by / (used in) operatingactivities before increase or decrease in financial assets and liabilities	**1.386.278**	**578,313**
Decrease in financial assets and increase in in financial liabilities	**1,476,040**	**4,278,904**
Decrease in loans and other receivables from banks and other financial organizations, central bank and customers	256.600	1,107,686
Decrease in receivables from securities, derivatives and other financial assets not intended for investment	354.233	1,292,007
Increase in deposits and other liabilities towards banks and other financial organizations, central bank and customers	865.207	1,879,171
Increase in other financial obligations	-	40
Increase in financial assets and decrease in financial liabilities	**(6.682.763)**	**5,156,056**
Increase in loans and placements to banks, other financial organisations, central banks and customers	(6.007.455)	4,718,622
Increase in receivables from securities, derivatives and other non-investment financial asset	-	-
Decrease in deposits from and other liabilities to banks, other financial organizations, central bank and customers	(675,308)	437,434
Net cash flows provided by / (used in) operating activities	**3,820,445**	**298,839**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash inflow from investing activities	**234,645**	**184,941**
Proceeds from investment securities		-
Cash outflow from investing activities	**(30,125)**	**(40,862)**
Purchase of investment securities	(56)	(2,239)
Outflows for acquiring of investments in subsidiaries and associated companies and joint ventures	-	(38,623)
Outflows for acquiring of intangible assets, property, plant and equipment	(30,069)	-
Other outflows from investing activities	-	-
Net cash flows provided by /(used in) investing activities	**204,519**	**144,079**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflow from financing activities	**3,147,110**	**10,663**
Inflows from taken loans	3,147,110	(216,240)
Cash outflow from financing activities		**-**
Outflows from subordinated liabilities	(119,278)	-
Other outflows from financing activities	-	-
Net cash flows provided by /(used in) financing activities	**3,027,832**	**(205,577)**
Net increase / (decrease) in cash and cash equivalents	**(588,094)**	**(360,337)**
Cash and cash equivalents at the beginning of the year	1,911,166	2,346,917
Net foreign exchange gains	(159,762)	(75,414)
Cash and cash equivalents at the end of the year (Note 17)	**1,163,310**	**1,911,166**

The notes on pages from 6 to 100
are an integral part of these financial statements.

Nataša Đoković	Valentina Keiša	Radomir Stevanović
Responsible for financial statements preparation	President of Executive Board	Member of Executive Board

All amounts are stated in RSD thousand, unless otherwise stated

1. CORPORATE INFORMATION

API BANK a.d. BELGRADE, former VTB Banka a.d. Belgrade (hereinafter referred to as the “Bank”) was established on 11 July 2008 pursuant to the Decision of the National Bank of Serbia no. 2158 dated 3 March 2008.

The founder and the sole shareholder of the Bank until 2011 was the Joint Stock Commercial Bank – Bank of Moscow, Moscow, Russian Federation (hereinafter referred to as the “Bank of Moscow, Moscow”). In 2011, there was a change in the ownership structure of the Bank’s sole shareholder, therefore, as of that date, 95% of shares of the Bank of Moscow, Moscow were held by the Joint Stock Company “VTB Bank”, Saint Petersburg, Russian Federation or its subsidiaries.

On 16 May 2013, the Agreement on Sale and Purchase of Shares was signed between the Bank of Moscow, Moscow, as the seller and the Joint Stock Company “VTB Bank”, Saint Petersburg as the buyer. The subject of this transaction pursuant to the above Agreement was the sale of the Bank’s shares. The agreement was implemented on the same day when the new shareholder of the Bank’s shares – Joint Stock Company “VTB Bank”, Saint Petersburg, Russian Federation, was registered with the Central Securities Depository and Clearing House.

Pursuant to the amendments to the Articles of Association dated 30 August 2013, and the Decision no. BD 99529/201, on 13 September 2013 the Bank was registered in the Company Register under the name of VTB Banka a.d. Belgrade. The Public Joint Stock Company “VTB Bank”, Saint Petersburg, Russian Federation (hereinafter “JSC VTB Bank, Saint Petersburg”) became the sole shareholder of the Bank.

Based on the transaction of sale of shares realised on 26 July 2018, the Central Securities Depository and Clearing House conducted a change of ownership over 100% of VTB Bank a.d. Belgrade shares, so that the company "AZRS INVEST" d.o.o. Belgrade, registration number 20988592, became the sole owner of the shares of the Bank. The change of ownership was made on the basis of the prior approval of the National Bank of Serbia, pursuant to the Decision G 2182 dated 22 March 2018. Based on the Decision of the Shareholders Assembly as of 24 September 2018, the Articles of Association and the Memorandum of Association were amended and the new business name of the Bank – API Bank a.d. Belgrade was established, as well as the sole owner of the Bank's shares ("AZRS INVEST" d.o.o. Belgrade). The ultimate owner of the Bank is a physical person – Andrey Zakharovich Shlyakhovoy. Changing the business name of the Bank into API Bank a.d. Belgrade was registered with the Serbian Business Registers Agency on 18 October 2018.

The Bank is registered in the Republic of Serbia for provision of a wide range of banking services related to payment transfers, credit and deposit activities in the country and abroad. In accordance with the Law on Banks, the Bank is obliged to operate under the principles of liquidity, security of placements and profitability.

The Bank’s registration number is 20439866. Its tax identification number is 105701111. The Bank’s Head Office is located in Belgrade, 6-8 Bulevar Vojvoda Bojovic.

On 3 June 2009, the Bank opened its first branch in Belgrade, in no. 2, Balkanska Street, the status of which was changed in affiliate by the end of 2010. On 22 November 2010, the Bank opened its first affiliate in Novi Sad, in no. 12, Narodnog fronta Street.

On 24 September 2013, the Bank opened its new branch in Belgrade, in no. 57, Kralja Milutina Street. Pursuant to the Decision of the Executive Board of the Bank dated 15 November 2016, the above mentioned branch was discontinued on 15 December 2016.

The Bank had 87 employees at 31 December 2023 (at 31 December 2022: 86 employees).

All amounts stated in RSD thousand, unless otherwise stated

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. Basis of Preparation and Presentation of the Financial Statements

Pursuant to the Law on Accounting (Official Gazette of the Republic of Serbia no. 73/2019) and other applicable legislation, legal entities and entrepreneurs incorporated in Serbia are required to maintain their books of account, to recognize and evaluate assets and liabilities, income and expenses, and to present, submit and disclose financial statements. The Company, as a large legal entity, is required to apply International Financial Reporting Standards ("IFRS"), which within the Law, include: Framework for the preparation and presentation of financial statements ("Framework"), International Accounting Standards ("IAS").), International Financial Reporting Standards ("IFRS") and Related Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), subsequent amendments to standards and related interpretations, as approved by the International Accounting Standards Committee (IASC), translated and published by the Ministry of Finance.

Translated international financial reporting standards by the Decision consist of:

- Conceptual framework for financial reporting,
- Basic texts of International Accounting Standards (IAS), basic texts of IFRS issued by the International Accounting Standards Board (IASB), as well as
- Interpretations issued by the Interpretations Committee in the form in which they were issued or adopted and which do not include grounds for conclusions, illustrative examples, guidelines, comments, dissenting opinions, elaborated examples and other additional explanatory material that may be adopted in connection with standards, ie interpretations, unless it is explicitly stated that it is an integral part of the standard, ie interpretation.

2.2. Published standards and interpretations that are applied for the first time in the current reporting period

Reference	Name	Application date
Amendment to IFRS 3	Business combination definition of a	01 January 2020
Amendment to IAS 1 and IAS 8	Definition of materiality	01 January 2020
Conceptual framework	Revised conceptual framework for financial reporting	01 January 2020
Amendment to IFRS 7, IFRS 9 and IAS 39	Interest rate benchmark reform	01 January 2020
Amendment to IFRS 16	Covid 19	01 June 2020*

* implementation is not mandatory for 31 December 2020, however many entities may decide to accept this amendment earlier and publish appropriate disclosures on early adoption.

All amounts are stated in RSD thousand, unless otherwise stated

2.2. Published standards and interpretations that have not yet become effective

At the date of these financial statements, the following standards, amendments and interpretations have been issued but have not yet become effective:

Reference	Name	Application date
Amendment to IFRS 16	Covid 19	01 June 2020
IFRS 17	Insurance contracts	01 January 2023
Amendment to IAS 1	Classification of liabilities as long-term or short-term	01 January 2023
Amendment to IAS 16	Procedures before intended use	01 January 2022
Amendment to IFRS 3	Reference to the Conceptual Framework	01 January 2022
Amendment to IAS 37	Cost of contract fulfillment	01 January 2022
Annual improvements	Annual improvement of standards 2018-2020	01 January 2022
Amendment to IFRS 10 iIAS 28	Sale or stake of assets between investor and its affiliate or joint venture	Delayed until IASB completes equity method project
Amendment to IFRS 4. IFRS 7. IFRS 9. IFRS 16 & IAS 39	Benchmark interest rate reform - phase 2	01 January 2021

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

2.3. Comparative Figures

Comparative figures represent the audited financial statements of the Bank as of and for the year ended 31 December 2022, prepared in accordance with IFRS.

2.4. Going Concern

The accompanying financial statements of the Bank are prepared in accordance with the going concern principle, which assumes that the Bank will continue its operations in the foreseeable future, which includes a period of at least twelve months from the date of the financial statements.

In 2023, the Bank generated a net profit of RSD 933,759 thousand (2022: net profit in the amount of RSD 264,306 thousand).

In 2018, the Bank changed its owner, and accordingly the sole owner of the Bank's shares is the Company “AZRS INVEST” d.o.o. Belgrade, whose ultimate owner intends to strengthen the Bank's capital base in the following periods.

In 2020, the owner of the Bank increased its capital value 3 times, as follows:

- On 30 April 2020 in the amount of RSD 240,000,000.00;
- On 03 July 2020 in the amount of RSD 360,000,000.00; and
- On 03 September 2020 in the amount of RSD 360,000,000.00,
- which represents the total increase of EUR 8 million.

All amounts stated in RSD thousand, unless otherwise stated

As of 31 December 2023, the regulatory capital of the bank calculated in accordance with the Decision on Capital Adequacy of Banks ("RS Official Gazette", no. 103/2016, 103/2018, 88/2019, 67/2020, 98/2020, 137/2020 and 59/2021) amounts to RSD 1,945,374 thousand, i.e. EUR 16,602 thousand according to the official median exchange rate prevailing as of the reporting date and is above the minimum amount of capital of EUR 10 million, prescribed by the Law on Banks ("RS Official Gazette", no. 107/2005, 91/2010 and 14/2015).

The management of the Bank is preparing an adequate Capital Management Plan in terms of processes for an internal assessment of capital adequacy, which will enable the implementation of further activities regarding a capital increase with the aim of increasing credit activities of the Bank and permanent provision of capital sufficient to cover all risks that the Bank will be exposed to in the ordinary course of business in the coming period.

Considering the foregoing, the management believes that the Bank has adequate resources and support from the owner to continue its operations for the foreseeable future.

2.5. Use of Estimates

The preparation of financial statements in accordance with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. These estimates and related assumptions are based on information available as of the date of preparation of the financial statements. Actual results could differ from those estimates.

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

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

All amounts are stated in RSD thousand, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Interest Income and Expenses

Interest income and expense, including penalty interest and other income and other expenses from interest bearing assets, i.e., liabilities are recognised on an accrual basis based on obligatory terms defined by a contract signed between the Bank and a customer.

From 1 January 2020, interest income and expense are recognised in the income statement using the effective interest method, which represents a rate that accurately discounts the estimated future payments or receipts through the expected life of the financial instrument, to:

- gross carrying amount of a financial asset (amortised cost net of expected credit losses); or
- amortized value of a financial liability.

When calculating the effective interest rate for financial instruments that have not been credit impaired at the time of approval, nor have they undergone significant modification of contracted cash flows as purchased or originated credit impaired (POCI), the Bank estimates future cash flows taking into account all contractual terms of a financial instrument, but excluding expected credit losses. In the case of loans that are POCI, an effective interest rate adjusted for credit risk, using estimated future cash flows that include expected credit losses is calculated.

Interest income is recognized for financial assets that are measured at amortised cost as well as debt instruments at fair value through other comprehensive income.

Loan origination fee, which constitutes a part of the effective interest rate, is recorded in income and interest expense. Loan origination fees, that are calculated and charged on a one-off basis in advance, are deferred and discount using the effective interest method, over the life of the loan.

Interest expense is recognized for financial liabilities that are measured at amortised cost. Interest expense on deposits is deferred and recognized in the income statement in the period to which it relates.

Fees on approved loans were accrued on a pro rata basis during the loan repayment period and recognized in the income statement within interest income.

If a financial asset is impaired on the basis of impairment loss, interest income continues to be calculated using the effective interest rate used to discount future cash flows for the purpose of measuring and calculating the impairment loss.

3.2. Fee and Commission Income and Expense

The Bank earns/pays fee and commission from rendering and using the banking services. Fees and commissions are generally recognised on an accrual basis when the service has been provided, i.e. rendered.

Fees and commissions mostly comprise fees for payment operations services, issued guarantees and other banking services.

Fees and commission expenses are mainly related to fees based on transactions and services performed and are recorded at the time of receiving the service.

All amounts are stated in RSD thousand, unless otherwise stated

Fee income can be divided into the following two categories:

i. *Fee Earned from Services that are Provided over a Certain Period of Time*

Fees earned for the provision of services over time are accrued over that period.

ii. *Fee from Providing Transaction Services*

Fees or components of fees that are linked to provision of certain services are recognised after fulfilling the corresponding criteria.

Income and expenses from fees and commissions that are an integral part of the effective interest rates of financial assets or liabilities are included in determining the effective interest rate and are recognised in the income statement as interest income.

Income from fees and commissions for banking services are recognised on an accrual basis and recognised in the period when they are realised or when the service is provided. Fees and commissions mostly comprise fees for payment services, buying and selling of foreign currency, the fee for the account maintenance and other banking services.

The fees for the issuance of guarantees and other warranties are deferred over the period of guarantees or warranties using the proportional accounting method and recognised in the income statement as income from fees.

3.3. Foreign Currency Translation

The items included in the Bank's financial statements are valued by using currency of the Bank's primary economic environment (functional currency).

The accompanying financial statements are stated in thousands of Dinars (RSD), which represents the functional and official reporting currency in the Republic of Serbia.

Transactions denominated in foreign currency are translated into Dinars at the official median exchange rate determined in the Interbank Foreign Currency Market, prevailing at the transaction date.

Monetary assets and liabilities denominated in foreign currency at the balance sheet date are translated into Dinars at the official median exchange rates published by the National Bank of Serbia, prevailing at the reporting date (Note 40).

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 (Note 8).

Gains and losses arising on translation of financial assets and liabilities indexed with the contracted foreign currency clause are recorded in the income statement within foreign exchange gains/losses and effects of contracted foreign currency clause (Note 8).

Commitments and contingencies denominated in foreign currency are translated into Dinars at the official median exchange rate determined on the Interbank Foreign Currency Market, prevailing at the balance sheet date.

All amounts are stated in RSD thousand, unless otherwise stated

3.4. Financial instruments

3.4.1 Initial recognition

All financial instruments are initially recognised at fair value increased by transaction costs (except for financial assets and financial liabilities at fair value through profit and loss), that are directly attributable incremental costs of acquisition or issue.

Financial assets and financial liabilities are recognised in the Bank's balance sheet on the date upon which the Bank becomes counterparty to the contractual provisions of a specific financial instrument.

Regular purchase or sale of financial assets is recognised by applying calculation on the date of settlement, i.e., the date when the asset is delivered to the counterparty.

3.4.2. Derecognition of Financial Assets and Financial Liabilities

Financial assets cease to be recognised when the Bank loses control of the contractual rights governing such instruments, which occurs when the rights and risks of use of such instruments have been transferred or did not transfer or retained all risks and rights in relation to the assets, but has transferred the control over it.

Apart from the aforementioned criteria, implementation of IFRS 9 from 1 January 2018 specifies additional criteria that lead to derecognition of financial assets. Financial asset is derecognised when it is written-off. Also, derecognition of a financial asset will occur if subsequent changes of contractual terms of financial assets arisen, leading to significant modification of financial asset's cash flows.

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

In addition to the above mentioned criteria, implementation of IFRS 9 specifies additional criteria for derecognition of financial liability when the contractual terms are modified, while cash flows of modified liability are significantly changed. In that case, new financial liability is based on the modified terms and is recognised at fair value. Difference between carrying amount of financial liability and new financial liability with modified terms is recognised in profit or loss.

3.4.3. Classification of Financial Instruments

In accordance with IFRS 9, the classification of financial assets into individual categories sets out the rules for their initial recognition and subsequent measurement of the value of those assets, as well as the accounting treatment of the effects of the change in value upon subsequent measurement and impairment of the value of financial assets, based on two criteria that have the same importance in determining the category for classification:

- business model of the Bank for managing financial assets; and
- contracted characteristics of cash flows for the specific financial assets.

All amounts are stated in RSD thousand, unless otherwise stated

The classification of financial assets is based on the Bank's business model for managing these assets. The business model for managing financial assets reflects the way in which the Bank manages funds to generate cash flows.

In accordance with IFRS 9, financial assets are classified into one of the following categories:

- financial assets that are subsequently measured at amortised cost - the business model is the collection of cash flows and cash flows represent only the payment of principal and interest on the outstanding principal amount;
- financial assets subsequently measured through other comprehensive result (FVTOCI) - the business model is the collection of cash flows, and sales and cash flows represent only the payment of principal and interest on the outstanding principal amount;
- financial assets subsequently measured at fair value through profit or loss (FVTPL)
- all other financial instruments.

At initial recognition, IFRS 9 permits to indicate that a particular financial asset is measured at fair value through profit or loss, if it eliminates or significantly reduces the accounting non-compliance.

In accordance with IFRS 9, the following business models are defined:

1. a business model aimed at holding funds for the collection of contracted cash flows;
2. a business model aimed at collecting contracted cash flows as well as selling financial assets; and
3. a business model that refers to the financial assets acquired for the purpose of generating an inflow through their sale (financial assets traded).

A business model whose purpose is to hold funds for the collection of contracted cash flows mainly relates to debit/credit funds, since cash flows are realized by collecting contractual principal and interest payments over the life of a financial instrument. This business model also implies the possible sale of financial assets when there is an increase in the credit risk of the asset or for other reasons determined by proven information.

A business model aimed at collecting contracted cash flows as well as selling financial assets implies that the management has made the decision that the collection of contracted cash flows and the sale of financial assets constitute an integral part of achieving the goal within the business model. The goal of this business model can be management in the way of providing funds for the needs of current liquidity or maintaining the expected interest yield.

A business model that relates to the financial assets that are acquired to generate inflows through sale essentially relates to financial assets traded.

All amounts are stated in RSD thousand, unless otherwise stated

Cash Flow Characteristics

The Bank classifies its financial assets based on the characteristics of its contracted cash flows. The characteristics of cash flows that the financial assets will generate are determined by the type of contract and the contractual provisions based on which these assets are acquired. These characteristics differ in certain credit, debt and equity instruments.

If financial assets are held within the first two business models, it is first necessary to determine whether the contractual terms of the financial asset on specified dates generate cash flows that exclusively constitute payments of principal and interest calculated on the remaining portion of the principal.

Principal is the fair value of the financial asset at initial recognition. Depending on the agreed arrangement, the amount of the principal may change over the life of the financial asset when the principal is repaid.

Interest consists of compensation for the time value of money, for credit risk attributable to the remaining principal amount over a specified period of time and for other basic risks and costs of the loan (loan), as well as for the profit margin.

The time value of money is an element of interest that provides compensation only for the flow of time, i.e., the element of time value of money does not provide compensation for other risks or costs associated with holding a financial asset.

3.4.4. Measurement of Financial Instruments

Initial Recognition of Financial Instruments

All financial instruments are initially measured at fair value increased/decreased by transaction costs, except for financial assets or financial liabilities at fair value through profit or loss. For financial assets that are measured at fair value through other comprehensive income, fair values include transaction costs.

Subsequent Measurement of Financial Instruments

Subsequent measurement of financial instruments is directly influenced by the fulfilment of the following criteria: the business model used in the management of financial assets and the characteristics of contracted cash flows.

Financial assets are classified into three categories:

1. financial assets that are subsequently measured at amortized cost;
2. financial assets that are subsequently measured at fair value through profit or loss (FVTPL); and
3. financial assets that are subsequently measured through other comprehensive income (FVOCI).

All amounts are stated in RSD thousand, unless otherwise stated

Financial Assets that are Subsequently Measured at Amortised Cost

Financial assets are subsequently measured at amortized cost when both of the following conditions are met:

a) Asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest, calculated on the remaining portion of the principal.

This category includes financial assets with fixed or determinable amounts of payment and with fixed maturity for which there is the Bank's intention and ability to hold to maturity, such as: loans and receivables, bonds or notes, time deposits and other financial assets not intended for sale, although sales that are not frequent and in non- significant amounts are not in contrast to the business model.

The depreciated value of a financial asset or financial liability is defined as the amount at which the financial asset or financial liability is measured at initial recognition, net of principal payments, plus the addition or subtraction of cumulated depreciation using the effective interest method for all differences between the initial amount and the amount on the maturity date, with an adjustment for losses provisions (impairment losses).

To determine whether a financial asset meets the conditions for measurement at the amortized cost, the SPPI test is used to assess the contractual characteristics contained in a financial instrument in the sense that the contractual cash flows must be exclusively for principal and interest payments. This test is performed for each instrument separately. Equity instruments or capital instruments cannot be classified in this category because they do not contain elements of principal and interest.

The test is used to determine contractual characteristics that deviate from the criteria for paying only principal and interest. The SPPI test includes an assessment of whether a financial asset contains a contractual provision that can alter the amount or dynamics of contractual cash flows in a manner that does not comply with the above mentioned condition. When contractual terms introduce risk or variation in a way that does not comply with the underlying lending arrangement, that financial asset is measured at fair value through profit and loss account (FVTPL).

An effective interest rate is the rate that accurately discounts the estimated future cash payments or receipts over the expected term of the financial asset or financial liability to the gross carrying amount of the financial asset or the depreciable amount of the financial liability.

Fees that are an integral part of the effective interest rate of a financial instrument are treated as adjustments to the effective interest rate, except when the financial instrument is measured at fair value, whereby the change in fair value is recognized in the income statement. In such cases, fees are recognized as income or expense in the initial recognition of the instrument.

All amounts are stated in RSD thousand, unless otherwise stated

Expected losses for assets classified at amortised cost are recognized as allowance for impairment/impairment of these assets.

The amount of the allowance for balance sheet receivables was determined as the difference between the carrying amount of the receivable and the carrying value of the expected future cash flows. In order to determine the present value of the expected future cash flows, the Bank used as the discount factor the effective interest rate from the agreement on the approval of the engagement.

Financial Assets that are Subsequently Measured through Other Comprehensive Income (FVOCI)

A financial asset is measured at fair value through other comprehensive income when both of the following requirements are met:

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

Equity and debt instruments can be classified under certain conditions in this category of financial assets. By applying this model, the management decides for each specific financial instrument to ensure that the holding of debt assets generates an inflow by collecting contracted cash flows (principal and interest), and for equity or capital instruments - a dividend inflow, i.e. when an inflow from selling assets is realised.

Expected losses that are determined for the financial assets based on the amortised value are included in the other comprehensive income. At each reporting date, provision for impairment losses for a financial instrument is carried out for the amount of expected loan losses over the life of the instrument, or during the expected twelve-month credit losses.

For financial assets classified in the category of measurement through other comprehensive income, the equity accounts reflect the effects of changes in their fair value, and for credit assets on these accounts, provisions for expected losses on credit risk are disclosed, other than gains and losses due to impairment values and exchange rate differences, until the end of recognition or reclassification of a financial asset.

In the event that a financial asset is derecognised, the accumulated gain or loss previously recognized in other comprehensive income is transferred from equity to the income statement as reclassification due to adjustments. Interest calculated using the effective interest method is recognised in the income statement.

All amounts are stated in RSD thousand, unless otherwise stated

Financial Assets Measured at Fair Value Through Profit or Loss (FVTPL)

These financial instruments are classified as all other instruments or the business model is collection of cash flows through trading instruments.

A financial asset should be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. However, the Bank may make an irrevocable choice when initially recognising certain investments in equity instruments that would otherwise be measured at fair value through profit or loss, subsequently showing changes in fair value in other comprehensive income.

A financial asset classified as at fair value through profit and loss is initially measured at fair value - the transaction price, while transaction costs are not included in fair value, but are treated as expense of the period.

Subsequent measurement of these assets is made at each reporting date by comparing the fair value of a financial asset with its carrying amount, while differences in fair value change are recorded as gains or losses through the income statement.

Equity Instruments

All equity instruments in accordance with IFRS 9 should be measured at fair value through profit or loss, except for those investments in equity for which it is selected to be displayed through the statement of other comprehensive income.

For equity instruments held for trading, it is compulsory to be measured at fair value, whereby any difference between the carrying amount (being the last established fair value) and the fair value at the reporting date is the profit or loss that is included in the income statement.

Financial assets that are an equity instrument that the management intends to hold for a longer period may irrevocably be recognised at initial recognition as financial assets at fair value through other comprehensive income (FVTOCI). In the subsequent measurement of the fair value change, it does not affect the result. The amounts recognized through equity are never reclassified through the income statement, but they can be transferred within equity.

IFRS 9 requires that all investments in equity instruments and contracts for such investments are measured at fair value. However, paragraph B5.2.3 states that in limited circumstances, cost may be an appropriate estimate of fair value. This can be the case if insufficient information from a close past is available for fair value measurement, or if there is a wide range of possible fair value measurements that makes the purchase price the best estimate of fair value in that range.

Cost can never be used to determine the fair value of investments in quoted equity instruments or quoted equity instruments contracts.

All amounts are stated in RSD thousand, unless otherwise stated

Derivatives and Hybrid Financial Assets

Derivatives are measured at fair value, and gains/losses on the change in fair value are recorded in the income statement. Hybrid financial assets are always assessed and presented as a whole. Hybrid financial assets are measured at amortised cost if the cash flows generated by the asset represent repayments of principal and interest payments, i.e. at fair value if this is not the case.

Subsequent Measurement of Financial Liabilities

Financial liabilities are classified as:

- financial liabilities measured at amortised cost; and
- financial liabilities measured at fair value through profit or loss (FVTPL).

Liabilities that are irrevocably classified as at fair value through profit or loss at initial recognition are related to the credit risk of a liability in respect of the accounting treatment of the effects of changes in that credit risk.

The amount of a change in the fair value of a financial liability that may be attributable to changes in the credit risk of that liability may be reported in other comprehensive income, and the remaining amount should be presented in the income statement unless this would result in an accounting inconsistency in the income statement.

The Bank has classified its liabilities into the category of financial liabilities that are measured at amortised cost.

3.4.5. Reclassification of Financial Assets

Reclassification is required only if the business model goal changes so that its previous assessment can no longer be applied to financial assets measured as FVTPL, FVTOCI and at amortised cost. Reclassification is made only for debt instruments while it is not envisaged for equity instruments, as well as reclassification of financial liabilities.

Reclassification is not allowed for equity instruments measured as FVTOCI, or in any circumstances in which the fair value option is applied to financial assets or financial liabilities.

Reclassification should be applied prospectively from the date of reclassification which is defined as the first day of the first reporting period after the change in the business model.

If the financial assets are reclassified from the model in which they are measured at amortized cost to the category at which they will be measured at fair value through profit or loss, then their fair value must be determined on the date of reclassification. Any gain or loss arising from the difference between the amortised and fair value is recognized in the income statement.

If a financial asset is reclassified from a business model in which it is valued at fair value in a business model in which it will be valued at amortised cost, then its last fair value is considered its current value.

Any reclassification carried out should be published with reference to: the date of reclassification and the value of the reclassified assets in each of the categories, the reasons for the reclassification and the quantification of the impact of the reclassification on the reported financial and yield position.

All amounts are stated in RSD thousand, unless otherwise stated

3.4.6. Interest Income Arising from Financial Instruments

Interest income in accordance with IFRS 9 is recognized differently according to the status of a financial asset in relation to the expected credit losses.

In the case of financial assets not purchased or initially recognized impaired, and for which there is no clear evidence of impairment on the reporting date, interest income is recognized using the effective interest rate method to the gross carrying amount of a financial asset.

In the case of financial assets not purchased or impaired at initial recognition, and for which there have been significant decrease in their credit quality, interest income is recognised using the effective interest rate method to the gross carrying amount of a financial asset.

In the case of the impaired financial assets, including purchased or impaired at initial recognition, and which contained objective evidence of impairment at initial recognition, interest income is recognized using the effective interest rate method on amortised cost (net base of the financial asset).

3.4.7. Write off

The Bank shall directly reduce the gross carrying amount of a financial asset when the entity has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. A write-off constitutes a derecognition event.

3.4.8. Modification of Contractual Cash Flows

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, an entity shall recalculate the gross carrying amount of the financial asset and recognise a modification gain or loss in profit or loss.

The gross carrying amount of the financial asset shall be recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets) or, when applicable, the revised effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

All amounts are stated in RSD thousand, unless otherwise stated

3.4.9. Gains or Losses on Financial Instruments

A gain or loss on a financial asset or financial liability that is measured at fair value shall be recognised in profit or loss unless, it is part of a hedging, it is an investment in an equity instrument and related gains and losses are presented within other comprehensive income, when it is a financial liability designated as at fair value through profit or loss and the entity is required to present the effects of changes in the liability's credit risk in other comprehensive income or it is a financial asset measured at fair value through other comprehensive income and the entity is required to recognise certain changes in fair value in other comprehensive income.

Gain or loss on a financial asset that is measured at fair value through other comprehensive income is recognized in comprehensive income, except for gains or losses due to impairment and foreign exchange gains and losses, until the derecognition or reclassification of a financial asset. Upon the cessation of recognition of a financial asset, the accumulated profit or loss previously recognized in other comprehensive income is reclassified from equity to the income statement as reclassification due to adjustments.

If a financial asset is reclassified from the fair value measurement through other comprehensive income category, the accumulated profit or loss previously recognised in other comprehensive income should be recorded. Interest calculated using the effective interest method is recognised in the income statement. If a financial asset is measured at fair value through other comprehensive income, the amounts recognized in the income statement are the same as the amounts that would be recognized in the income statement had the financial asset been measured at amortised cost.

If a financial instrument is designated at fair value through profit or loss after its initial recognition, or if it had not previously been recognized, the difference between the carrying amount and the fair value, if any, should be recognised immediately in the income statement.

For financial assets that are measured at fair value through other comprehensive income, accumulated gains or losses previously recognised in other comprehensive income should be immediately reclassified from equity to income statement as a reclassification due to adjustments.

All amounts are stated in RSD thousand, unless otherwise stated

3.5. Reserves for Estimated Losses on Bank Balance Sheet Assets and Off-balance Sheet Items

As of 31 December 2018, reserves for estimated losses on balance sheet assets and off-balance sheet items are calculated in accordance with the National Bank of Serbia's Decision on the Classification of Bank Balance Sheet Assets and Off-balance Sheet Items ("RS Official Gazette", no. 94/2011, 57/2012, 123/2012, 43/2013, 113/2013, 135/2014, 25/2015, 38/2015, 61/2016, 69/2016, 91/2016, 101/2017 and 114/2017).

Pursuant to the Decision on amendments to the Decision on the Classification of Bank Balance Sheet Assets and Off-Balance Sheet Items ("RS Official Gazette" No. 103/2018), the National Bank of Serbia has abolished required reserve for estimated losses and deductible item of equity in accordance with the Decision on Capital Adequacy of the Bank.

3.6. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and sight deposits (gyro account and foreign currency accounts) with banks in the country and abroad and cash equivalents consisting of highly liquid short-term investments that can be cashed immediately with insignificant risk of reduced value, deposits with the National Bank of Serbia and short- term securities for refinancing with the National Bank of Serbia.

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, gyro account with the National Bank of Serbia and current accounts with other banks and instruments in the collection procedure.

3.7. Repurchase Agreements

Securities bought under agreements to repurchase at a specified future date ('repos') are recognised in the balance sheet. The corresponding cash given, including accrued interest is recognised in the balance sheet. The difference between the sale and repurchase prices is treated as interest income and is accrued over the life of the agreement.

3.8. Intangible Assets

Intangible assets comprise software, licenses and other intangible assets. Intangible assets are initially recognised at cost.

After the initial recognition, intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses, if any.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite useful lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least once a year, at the financial year-end.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

The amortisation of intangible assets with finite useful lives is recognised in the income statement (Note 12). Amortisation of intangible assets is calculated using the straight-line method to write down the cost of intangible assets over their estimated useful lives, as follows:

- Software licenses 3 to 5 years
- Other intangible assets 3 to 5 years

Costs associated with developing and maintaining computer software programs are recognised as an expense as incurred.

All amounts are stated in RSD thousand, unless otherwise stated

3.9. Property, Plant and Equipment and Investment Property

i. Property, Plant and Equipment

Property, plant and equipment of the Bank at 31 December 2022 comprise equipment and leasehold improvements.

Items of property, plant and equipment which fulfil the requirements to be recognised as assets are initially recognised at cost, which includes all directly attributable costs of bringing the assets to the location and condition necessary to function.

After the initial recognition, property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.

All other repairs and maintenance are charged to income statement of the financial period in which they are incurred.

Depreciation is provided for on a straight-line basis to the cost of fixed assets, using the following prescribed annual rates, in order to write them off over their useful lives:

- Computer equipment up to 4 years
- Other equipment 7 to 14 years

The useful lives of the assets are reviewed and adjusted if necessary at each balance sheet date. Changes in the expected useful lives of assets are accounted for as changes in the accounting estimates.

Calculation of depreciation of equipment commences at the beginning of month following the month when an asset is put into use. Assets under construction are not depreciated. Depreciation charge is recognised as an expense for the period when incurred (Note 12).

The calculation of the depreciation of property, plant and equipment and amortisation of intangible assets for tax purposes is determined by the Corporate Income Tax Law of the Republic of Serbia ("RS Official Gazette", no. 25/2001, 80/2002, 43/2003, 84/2004, 18/2010, 101/2011, 119/2012, 47/2013, 108/2013, 68/2014, 142/2014, 91/2015, 112/2015,113/2017 and 95/2018) and the Rules on the Manner of Fixed Assets Classification in Groups and Depreciation for Tax Purposes ("RS Official Gazette", no. 116/2004, 99/2010 and 93/2019). Different depreciation methods used for the financial reporting purposes and the tax purposes give raise to deferred taxes (Note 15(c)).

Gains or losses arising on the disposal or sale of equipment are credited/debited to the income statement, as part of other operating income or other expenses, in the amount of the difference between the cash inflow and the carrying amount of the asset.

ii. Investment Property

Investment property is a property held by the Bank for the purpose of generating profit from its lease or increasing the capital value or both, but not for administrative operations or to be sold in the ordinary course of business.

After the initial recognition at cost, subsequent measurement of the investment property is performed at cost less accumulated depreciation.

All amounts are stated in RSD thousand, unless otherwise stated

3.10. 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 and property, plant and equipment. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

If the recoverable amount of an asset is estimated to be lower 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 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.

3.11. Repossessed Property

Property which is repossessed following the foreclosure on loans that are impaired is reported within other assets. Assets acquired through the collection of receivables are temporarily held for liquidation and are stated at the lower of carrying amount and fair value less costs to sell.

3.12. Non-current Assets Held for Sale

Non-current assets (or disposal groups) are recognised as held for sale if the Bank expects to recover their carrying value principally through a sale transaction rather than through continuing use, and when the general recognition criteria for recognition in accordance with the requirements of IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are met.

A non-current asset is classified as held for sale if the following criteria are met:

- An asset (or disposal group) is available for immediate sale in its current condition;
- There is an adopted plan of sale of fixed assets and the activities on the achievement of the sales plan have been initiated
- There is an active market for such asset and the asset is already active in this market; and
- The probability of sale if very high, or there is an expectation that a sales transaction will be realised within a period of one year from the date of classification of the asset as held for sale.

Non-current asset held for sale is initially measured at the lower of the carrying value or market (fair) value less costs to sell. From the moment of classification of an asset as held for sale, the calculation of depreciation of these assets shall cease.

If there is a change in the plan of sales, the non-current asset ceases to be classified as held for sale and, in that case, the non-current asset is valued at the lower of the following two values:

- Carrying value of the asset, prior to being classified as held for sale, adjusted for the calculated depreciation and impairment which would have been recognised if the non-current asset had not been classified as held for sale; and
- Recoverable values as of the date of the subsequent decision not to sell the asset.

Gains and losses from disposal of non-current assets held for sale are recognised by deducting the carrying value of an asset and related costs of sales from the disposal proceeds (sales price).

All amounts are stated in RSD thousand, unless otherwise stated

3.13. Leases

The determination of whether an arrangement is a lease, or contains lease elements, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or group of assets and whether the arrangement conveys a right to use the assets. There are two main types of lease:

a) Finance Lease - Bank as a Lessee

Finance leases, which transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in property, plant and equipment with the corresponding liability to the lessor included in other liabilities.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the assets and the lease term, if there is no reasonable certainty that the Bank will obtain ownership by the end of the lease term. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income in interest expense.

As of 31 December 2023, the Bank had no assets under the finance lease.

b) Operating Lease - Bank as a Lessee

IFRS 16 “Lease”, effective on 1 January 2019, brings major changes for lessee who have materially significant leases.

The key news for lessee is that in most cases, the lease will result in an asset that is capitalized along with the recognition of an obligation to make appropriate lease payments, which will result in changes to key financial indicators and may affect borrowing costs (interest).

At the commencement date, the lessee recognizes the obligation for lease and the asset that represents right to use it during the lease term (asset with the right of use). The requirement is to separately recognize interest expense on lease liability and depreciation costs of the eligible asset. (Note 2.1 (b)).

In case of operating leases ending in a period of 12 months or less from the date of first application of IFRS 16, there will be no change in accounting records, as well as in a low value lease. In such cases, the Bank will recognize lease cost on a straight-line basis, as permitted by the standard.

3.14. Provisions and Contingencies

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation (Note 28).

In order to be maintained, the best possible estimates of provisions are considered, determined and, if necessary, adjusted at each balance sheet date. Provision is measured at present value of outflow necessary to settle the liabilities, using the discount rate which reflects the current market estimate of the time value of money.

When the outflow of the economic benefits is no longer probable in order to settle legal or constructive liabilities, provisions are derecognised in income. Provisions are taken into account in accordance with their type and they can be used only for the expenses they were recognised initially for. Provisions are not recognised for future operating losses.

All amounts are stated in RSD thousand, unless otherwise stated

Contingent liabilities are not recognised in the accompanying financial statements. They are disclosed in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote (Note 38(b) and (c)).

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

3.15. Subordinated liabilities

Borrowings on which interest is payable and subordinated liabilities are classified as other financial liabilities and are initially recognised at fair value less attributable costs. They are subsequently measured at amortised cost over the life of the obligation using the effective interest method.

3.16. Equity

Equity consists of share capital (ordinary share), reserves (arising from financial assets measured at fair value through other comprehensive income), accumulated losses and current year profit (Note 30).

3.17. Employee Benefits

a) Employee Taxes and Contributions for Social Security

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

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

These taxes and contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

b) Liabilities arising from Other Benefits - Retirement Benefits

In accordance with the Labour Law, the Bank is obligated to pay retirement benefits in an amount equal to two gross monthly salaries in Republic of Serbia, based on the average salary in the Republic of Serbia, according to the latest published information of the state authority responsible for statistics. Expenses and liabilities for these plans are not provided by the funds.

Provisions for the benefits and related expenses are recognised in the amount of present value of expected future cash flows using the projected unit credit actuarial valuation method (Note 28). Past service costs are recognised in the income statement when incurred, while actuarial gains and losses are recognised in the statement of other comprehensive income (unless materially insignificant, when recognised in the income statement).

All amounts are stated in RSD thousand, unless otherwise stated

Long-term provisions for retirement benefits upon retirement after fulfilling the prescribed conditions in accordance with the Labour Law, stated as of 31 December 2023, are determined using the following assumptions:

- Discount rate 6.2%
- Annual salary growth 9.7%
- Employee turnover rate 4.0%
- Disability rate 0.1%
- Mortality tables (SORS) for the years 2010 – 2012

c) Short-Term Compensated Absences

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.

The Bank does not have its own pension funds or share-based remuneration options, and therefore there are no identified liabilities with respect to these benefits as of 31 December 2023

3.18. Financial Guarantees

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

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

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

3.19. Funds Managed 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. The Bank bears no risk in respect of repayment of these placements.

All amounts are stated in RSD thousand, unless otherwise stated

3.20. Taxes and Contributions

a) Income Taxes

Current Income Tax

Current income tax is calculated and paid in accordance with the effective Corporate Income Tax Law of the Republic of Serbia (“RS Official Gazette”, no. 25/2001, 80/2002, 43/2003, 84/2004, 18/2010, 101/2011, 119/2012, 47/2013, 108/2013, 68/2014, 142/2014, 91/2015, 112/2015, 113/2017, 95/2018, 86/2019, 153/20 and 118/21) and relevant by-laws.

Income tax is calculated at the rate of 15% (2022: 15%) on the tax base reported in the annual corporate income tax return, and can be reduced by any applicable tax credits.

The tax return is submitted to the Tax Authority 180 days after the date of expiry of the tax liability. During the year, the Bank pays income taxes in monthly instalments, estimated on the basis of the tax return for the prior year.

Pursuant to the Law on Amendments and Supplements to the Corporate Income Tax Law (“RS Official Gazette”, no. 108/2013), starting from determining the income tax for 2014, the taxpayers are no longer able to use the tax incentive in the form of a tax credit for investment in fixed assets. A taxpayer who had qualified for the right to a tax incentive - tax credit by 31 December 2013 and presented details in the tax return for 2013 is entitled to use that right until the expiry of the deadline prescribed by the Law (not more than ten years).

The tax regulations in the Republic of Serbia do not provide for the possibility that any tax losses of the current period are used to recover taxes paid within a specific previous period. Losses recognised in the tax return in the current accounting period may be transferred to the account of profit determined in the annual tax return from the future accounting periods, but not longer than five ensuing years.

Deferred Income Tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

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.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on the official tax rates and regulations that have been enacted or substantively enacted as of the balance sheet date. The tax rate of 15% is used for calculation of deferred income tax (2022: 15%).

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 taxes are recognised as income or expense and are included in net profit/(loss) for the period. Deferred income taxes related to items that are recorded directly in equity are also recognised in equity.

All amounts are stated in RSD thousand, unless otherwise stated

b) Taxes, Contributions and Other Duties Not Related to Operating Result

Taxes, contributions and other duties that are not related to the Bank's operating result include employer contributions on salaries, and various other taxes and contributions paid pursuant to republic and municipal regulations. These taxes and contributions are included within other expenses (Note 14).

3.21. 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 32).

All amounts are stated in RSD thousand, unless otherwise stated

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

a) Impairment of Financial Assets

Starting from 1 January 2018, the Bank assesses at each reporting date the quality of receivables (other than those measured at fair value through profit or loss) in order to estimate expected credit losses in accordance with IFRS 9 "Financial Instruments".

Unlike impairment assessment in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" in effect until 31 December 2017, when impairment losses were recognized only if there was objective evidence of impairment as a result of one or more events that occurred subsequent to the initial recognition of the asset (loss event) and when the loss event affected the estimated future cash flows of a financial asset or group of financial assets that could be reliably estimated, in accordance with IFRS 9 on impairment of financial instruments an objective evidence of impairment is not required in order for the credit loss to be recognised. Expected credit losses are also recognised for unimpaired financial assets.

Expected credit losses are recalculated at each reporting date in order to reflect the change in the credit risk since the initial recognition of a financial instrument, which previously identifies the expected losses.

12-month ECLs are recognised for all exposures where there was no increase in credit risk from initial recognition of a financial asset (Level 1), while for exposures in which there was an increase in credit risk, the calculation of lifetime ECLs is performed (Level 2).

Level 3 includes financial assets where there is objective evidence of impairment at the reporting date, i.e., non-performing financial assets and lifetime ECLs are calculated for them.

When calculating ECLs, the Bank uses future information and macroeconomic factors, i.e., understandable and supportive information, including projections of future economic conditions in calculating ECLs, both on an individual and group basis. The provisioning levels for losses will increase as the projected economic conditions deteriorate, i.e. they will decrease as projected economic conditions become more favourable.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

All amounts are stated in RSD thousand, unless otherwise stated

b) Determination of Fair Value of Financial Instruments

The fair value of financial instruments traded in active markets as of the balance sheet date is based on their quoted market prices, without any deductions for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined using the appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which observable market prices exist and other relevant valuation models. When market inputs are not available, they are determined by estimates that include a certain degree of assumptions in the estimate of fair value (Note 35).

Valuation models reflect the current market conditions as of the measurement date and do not necessarily represent market conditions before or after the date of measurement. Consequently, all valuation techniques are revised periodically, in order to appropriately reflect the current market conditions.

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

Intangible assets and property, plant and equipment are amortised/depreciated over their estimated useful lives. The determination of the useful lives of intangible assets, property, plant and equipment is based on an estimate of the length of the period during which these assets will generate income. The Bank’s management makes periodic reviews and adequate changes are made, if needed, by the Bank’s management. Changes in estimates could lead to significant changes in the present value of the amounts recorded in the income statement in certain periods.

d) Impairment of Non-financial Assets

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

An impairment review requires management to make subjective judgments concerning the cash flows, growth rates and discount rates of the cash generating units under review.

e) Deferred Tax Assets

Deferred tax assets are recognised for all unused tax losses and/or tax credits to the extent to which taxable profit will be available against which the unused tax losses /credits can be utilised.

Significant estimate of the management is necessary to determine the amount of deferred tax assets which can be recognised, based on the period in which it was created and the amount of future taxable profits and the tax policy planning strategy (Note 15(c)).

All amounts are stated in RSD thousand, unless otherwise stated

f) Employee 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 the 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. Actuarial assumptions are disclosed in Note 3.17(b) to the financial statements.

g) Provisions for Litigation

The Bank is subject to a certain number of claims incidental to the normal conduct of its business, relating to and including commercial, contractual and employment matters, which are handled and defended in the ordinary course of business. The Bank routinely assesses the likelihood of any adverse outcomes to these matters as well as ranges of probable or reasonable estimated losses.

Reasonable estimates involve judgement made by the Bank's management after considering information including notifications, settlements, estimates performed the by Legal Department, available facts, identification of other potentially responsible parties and their ability to contribute, and prior experience.

A provision is recognised when it is probable that an obligation exists for which a reliable estimate can be made of the obligation after careful analysis of the individual matter (Note 38(b)). The required provision may change in the future due to new developments and as additional information becomes available.

Matters that are either possible obligations or do not meet the recognition criteria for a provision are disclosed, unless the possibility of transferring economic benefits is remote.

All amounts are stated in RSD thousand, unless otherwise stated

5. INTEREST INCOME AND EXPENSE

	2023	2022
Interest income		
Banks	262	60,161
National Bank of Serbia	207,892	28,202
Corporate customers	368,552	230,809
Retail customers	42,243	40,084
State institutions	1,594	10,022
Total	**620,543**	**369,277**
Interest expense		
Banks	-	(2,888)
Corporate customers	(28,303)	(21,425)
Retail customers	(74,341)	(56,806)
State institutions	-	-
Interest expense on leases in accordance with IFRS 16	(961)	(1,384)
Total	**(103,605)**	**82,504**
Net interest income	**516,938**	**286,773**

Interest income and expense by type of financial instruments are presented as follows:

	2023	2022
Interest income		
Loans and advancements to banks	262	60,161
Repo placements with the National Bank of Serbia	87,880	-
Obligatory reserve with the National Bank of Serbia	5,368	3,381
Other placements and deposits with the National Bank of Serbia	114,644	24,821
Loans to corporate customers	368,552	230,809
Loans to retail customers	42,243	40,084
Loans to state institutions	1,594	10,022
Total	**620,543**	**369,277**
Interest expense		
Subordinated loans	(10,922)	(14,600)
National Bank of Serbia	-	(2,859)
Other banks	-	(29)
Deposits from corporate customers	(17,382)	(6,826)
Deposits from retail customers	(74,341)	(56,806)
Deposits and borrowings from state institutions	-	-
Interest expense on leases in accordance with IFRS 16	(961)	(1,384)
Total	**(103,605)**	**(82,504)**
Net interest income	**516,938**	**286,773**

All amounts are stated in RSD thousand, unless otherwise stated

6. FEE AND COMMISSION INCOME AND EXPENSE

	2023	2022
Fee and commission income		
Domestic payment traffic operations	106,447	107,521
Credit activities	29,865	18,524
Other fees and commissions	806,983	335,239
Total	**943,294**	**461,284**
Fee and commission expense		
Domestic payment traffic operations	(85,098)	(29,820)
Foreign payment traffic operations	(32,560)	(46,962)
Total	**(117,658)**	**(76,782)**
Net fee and commission income	**825,636**	**384,502**

7. NET (LOSSES)/GAINS FROM HEDGING

	2023	2022
Gains from changes in value of derivatives intended for hedge accounting	0	-
Losses from changes in value of derivatives intended for hedge accounting	-	-
Net (losses)/gains	**-**	**-**

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

	2023	2022
Foreign exchange gains and positive effects of contracted foreign currency clause application	3,369,946	5,668,899
Foreign exchange losses and negative effects of contracted foreign currency clause	(2,983,118)	(5,162,616)
Net foreign exchange gains and effects of contracted foreign currency clause	**386,828**	**506,284**

All amounts are stated in RSD thousand, unless otherwise stated

9. OTHER OPERATING INCOME

	2023	2022
Rental income	188	2,256
Safes rentals	8,375	4,494
Other income	2,426	316
Total	**10,989**	**7,066**

10. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

a) Charged)/Credited to the Income Statement

	2023	2022
Impairment losses and provisions		
Impairment losses on financial assets:		
- loans and advances to banks	(1,516)	(4,266)
- loans and advance to customers	(593,981)	(541,961)
Provisions for credit risk-weighted off-balance sheet items	(449)	(1,576)
Total (Note 10(b))	**(595,947)**	**(547,803)**
Expenses from impairment of securities valued through other results	-	(7)
Expenses of write-offs and impairment of unpaid receivables from fees	-	(5,310)
Expenses of direct write-off of the placement of natural persons	(133)	(268)
Losses based on the modification of financial instruments - NPV effect	-	(2,239)
Total expenses	**(596,079)**	**(555,627)**
Reversal of impairment losses		
Reversal of impairment losses on financial assets		
- loans and advances to banks	228	16,348
- loans and advance to customers	462,871	311,669
Income from reversal of provisions for credit risk off-balance sheet items	714	3,215
Income from collected written-off receivables transferred to the valence records according to the Write-off Decision	19,529	4,679
Gains from financial modification	115	-
Reversal of impairment losses:	**483,458**	**335,911**
- securities valued through other results	-	1,039
- income from the cancellation of impairment of financial assets valued at fair value through other results	243	-
Total income (Note 10(b))	**483,701**	**336,950**
Net impairment loss	**(112,379)**	**(218,677)**

All amounts are stated in RSD thousand, unless otherwise stated

b) Movements in the Allowance for Impairment of Financial Assets and Provision for Credit Risk-weighted Off-balance Sheet Items

	Loans and advances to banks (Note 19)	Loans and advances to customers (Note 20)	Other assets (Note 24)	Impairment of paid advance for intangible assets (Note 24)	Total
Balance as of 1 January 2022	**1,124**	**520,471**	**17,508**	**-**	**539,103**
Charge for the year (Note 10 a)	4,266	98,756	-	-	103,022
Reversal of impairment losses and release of provision (Note 10(a))	5,568	(61,452)	-	-	(55,884)
Accounting write-off (Note 31(b))	-	(230,786)	-	-	(230,786)
Exchange rate differences and other changes	-	-	-	10,453	10,453
Balance as of 31 December 2022	**10,958**	**326,989**	**13,281**	**10,453**	**361,681**
Balance as of 1 January 2023	**10,958**	**326,989**	**13,281**	**10,453**	**361,681**
Charge for the year (Note 10 a)	(1,516)	(593,981)	-	-	(595,498)
Reversal of impairment losses and release of provision (Note 10(a))	228	461,051	-	-	461,279
Accounting write-off	-	19,396	-	-	19,396
Exchange rate differences and other changes	9,404	(31,834)	5,808	11,051	(5,572)
Unwinding		1,820			1,820
Balance as of 31 December 2023	**19,074**	**183,441**	**19,089**	**21,504**	**243,108**

All amounts are stated in RSD thousand, unless otherwise stated

11. SALARIES, COMPENSATIONS AND OTHER PERSONAL EXPENSES

	2023	2022
Gross salaries and compensations	(211,926)	(170,492)
Payroll taxes and contributions	(81,839)	(61,004)
Provisions for unused vacations	(10,302)	(11,205)
Other personal expenses	(25,391)	(45,641)
Provision for retirement benefits (Note 28(d))	(2,042)	(1,455)
Total	**(331,501)**	**(289,797)**

12. AMORTISATION AND DEPRECIATION EXPENSES

	2023	2022
Amortisation and depreciation expenses:		
- amortisation of intangible assets (Note 21)	(17,768)	(16,775)
- depreciation of property, plant and equipment (Note 22(a))	(14,231)	(14,440)
- depreciation of investment property	-	-
- lease in accordance with IFRS 16	(44,704)	(41,875)
Total	**(76,703)**	**(73,090)**

13. OTHER INCOME

	2023	2022
Reversal of provisions for holiday allowances	10,946	7,654
Reversal of provisions for bonuses	-	-
Derecognition of leases of assets in accordance with IFRS 16	-	162
Gains from sale of assets held for sale	-	693
Term deposits termination	1,376	2,502
Provisions for litigation (Note 28 (d))	2,480	4
Income from changes of investment property values	-	3,125
Other income	6,754	-
Total	**21,556**	**14,140**

All amounts are stated in RSD thousand, unless otherwise stated

14. OTHER EXPENSES

	2023	2022
Rental costs	(662)	(637)
Maintenance costs	(76,547)	(82,268)
Professional services	(17,437)	(41,354)
Advertising and representations costs	(6,514)	(4,779)
Donation and sponsorship costs	(1,136)	(704)
Postal and telecommunication costs	(6,797)	(7,105)
Insurance premiums	(31,418)	(34,033)
Tax duties	(11,354)	(13,749)
Contribution costs	(37,697)	(37,282)
Other compensations to employees	(7,258)	(7,209)
Material used	(12,319)	(8,766)
Provisions for litigations (Note 28(d))	(25,866)	(12,705)
Expenses from changes in value of assets held for sale (Note 23)	-	(85,766)
Other expenses	(36,171)	(20,431)
Total	**(271,175)**	**(356,788)**

15. INCOME TAX

a) Components of Income Tax

Total tax income of the period consists of the following taxes:

	2023	2022
Current income tax	35,136	-
Deferred tax income	(3,426)	170
Deferred tax expense	(4,664)	-
Total tax income of the period	**36,374**	**170**

b) Numerical Reconciliation of Income Tax Recognised in the Income Statement and Result for the Year Before Tax Multiplied by the Statutory Income Tax Rate

	2023	2022
Profit/(loss) before income tax	**970,133**	**264,306**
Income tax at statutory rate of 15%	145,520	39,646
Reconciliation of expenses/income	(130,967)	(39,476)
Total tax income reported in the income statement	**14,553**	**170**

All amounts stated in RSD thousand, unless otherwise stated

c) Deferred Tax Assets

Deferred tax assets as of the balance sheet date refers to the:

- temporary differences from provisions for retirement benefits in the amount of RSD 306 thousand (31.12.2022: RSD 1,898 thousand) due to the different period of recognition of provision costs for accounting and tax purposes;
- temporary differences between the book value of fixed assets and intangible assets and their tax basis in the amount of RSD 4,971 thousand (31.12.2022: RSD 8,896 thousand); and
- other temporary differences in the amount of RSD 3,427 thousand (31.12.2022: RSD 1,878 thousand).

Movements in deferred tax assets during the year were as follows:

	2023	2022
Balance as of 1 January	**12,680**	**8,787**
Effects of temporary differences arising from employee benefits credited to the income	306	1,898
Effects of temporary differences arising from different amortization/depreciation rates credited to the income statement	(4,971)	155
Other temporary differences	3,427	1,840
Balance as of 31 December	**11,443**	**12,680**

d) Deferred Tax Liabilities

Movements in deferred tax liabilities during the year are presented below:

	2023	2022
Balance as of 1 January	**853**	**1,022**
Effects of temporary differences arising from securities (credited)/debited to equity	(853)	(169)
Balance as of 31 December	**-**	**853**

e) Tax Losses and Tax Credits

The Bank has tax loss and tax credit carry forwards from previous years, which can be used in the following fiscal years as presented below.

Tax loss carry forwards:		
- up to one year	-	
- up to five years		-
Tax credit carry forwards:		
- over five years	-	

All amounts are stated in RSD thousand, unless otherwise stated

16. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit/(loss) attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the period.

Pursuant to the Serbian Business Registers Agency Decision no. BD 119077/2008 dated 11 July 2008, the Bank is a joint-stock company whose shares are not publicly traded, and therefore, it is not obliged to calculate and disclose the earnings per share as required by IAS 33 “Earnings per Share”.

17. CASH AND BALANCES WITH CENTRAL BANK

	2023	2022
In Dinars		
Current and gyro accounts	75,276	63,818
Deposited liquid funds	5,642,924	3,776,938
Petty cash	174,035	85,912
Accrued income on cash and balances with central banks	1,931	-
	5,894,166	**3,926,668**
In foreign currency		
Obligatory reserve	1,354,197	922,128
Petty cash	278,447	160,285
	1,632,644	**1,082,413**
Balance as of 31 December	**7,526,810**	**5,009,080**

The obligatory reserve in local currency - Dinars (RSD) represents the minimal reserve in foreign currency allocated in line with the Decision on Banks’ Required Reserves with the National Bank of Serbia (“RS Official Gazette”, no. 3/2011, 31/2012, 57/2012, 78/2012, 87/2012, 107/2012, 62/2013, 125/2014, 135/2014, 4/2015, 78/2015, 102/2015, 76/2018, 21/2019 and 77/2023).

The Bank calculates the obligatory reserve against liabilities in respect of dinar deposits, credits and securities, as well as other dinar liabilities, excluding dinar deposits received under transactions performed on behalf of and for the account of third parties that are not in excess of the amount of the Bank’s placements made from such deposits.

The Bank is required to calculate and allocate the obligatory reserves in RSD by applying 7% rate (2022: 5%) to the amount of the average daily balance of the dinar funds with the agreed maturity of up to two years, i.e. up to 730 days (0% rate on a portion of the dinar base with the agreed maturity of over two years, i.e., over 730 days) during the preceding calendar month to their gyro account with the National Bank of Serbia (foreign currency clause- indexed deposits in dinars are part of the foreign currency base of the obligatory reserve).

The calculated dinar obligatory reserve is the sum of calculated dinar obligatory reserve of 7% (up to 730 days), 2% (over 730 days), 46% of the dinar equivalent of calculated obligatory reserve in foreign currency and and 38% of the dinar equivalent of calculated reserve in foreign currency.

The Bank allocates the calculated dinar obligatory reserves to its gyro account in Dinars.

As of 31 December 2023, calculated obligatory reserve in RSD amounted to RSD RSD 820,345 thousand (31 December 2022: RSD 632,494 thousand).

All amounts are stated in RSD thousand, unless otherwise stated

Pursuant to Decision on obligatory reserve of banks with the National Bank of Serbia, the Bank calculates and allocates obligatory foreign exchange reserve at prescribed rates on the foreign exchange base which consists of average daily book balance of foreign currency liabilities and average daily book balance of dinar liabilities indexed by foreign exchange clause in the previous calendar month.

The Bank calculates the obligatory foreign currency reserve against liabilities in respect of foreign currency deposits, credits and securities and against other foreign currency liabilities, as well as deposits, credits and other foreign currency funds received from abroad under transactions performed on behalf and for the account of third parties.

In accordance with the above mentioned Decision, the Bank calculates and allocates the obligatory foreign currency reserve against foreign currency accounts of the National Bank of Serbia at a rate of 23% (2022: 20%) on the amount of the average daily balance of foreign currency funds in the preceding calendar months for the funds with the agreed maturity of up to two years, i.e., up to 730 days, and 16% (2022: 13%) on the portion of the foreign currency base with the agreed maturity of over 2 years, i.e., over 730 days.

The percentage of allocation of the obligatory foreign currency reserve amounts to 100% (2022:100%) to foreign currency clause-indexed liabilities arising from dinar deposits, loans, securities and other dinar liabilities. Out of the total calculated foreign currency reserve 54% is allocated in EUR, and the remaining portion in dinars, for funds with the agreed maturity of up to two years, i.e., up to 730 days, and 62% is allocated in EUR for foreign currency funds with the agreed maturity of over two years, i.e., over 730 days, while the remaining is allocated in dinars to the gyro account.

The dinar equivalent of the calculated obligatory reserve in Euros is determined by applying the official median exchange rate of RSD applicable on the day of calculation of the obligatory reserve, i.e. on the 17th day of the month.

The Bank calculates the obligatory reserve on the 17th day of the month and that reserve is valid from 18th day of the current month until 17th day of the following month (“accounting period”). The Bank is obligated to maintain for the accounting period the average daily balance of dinar obligatory reserve in the amount of calculated dinar obligatory reserve.

As of 31 December 2023, the Bank's required foreign currency reserve was in line with the aforementioned Decision of the National Bank of Serbia.

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

All amounts are stated in RSD thousand, unless otherwise stated

Overview of the differences between cash stated in the Statement of Cash Flows and Balance Sheet as of 31 December 2023 and 31 December 2022 is presented in the table below:

		2023	
	Balance sheet	**Cash flow statement**	**Difference**
In RSD			
Current and gyro accounts	75,276	710,829	710,829
Petty cash	174,035	174,035	174,035
Deposits of excess liquid assets	5,642,924	-	-
Accruals	1,931	-	-
	5,894,166	**884,864**	**884,864**
In foreign currency			
Obligatory reserve	1,354,197	-	-
Petty cash	278,447	278,447	278,447
	1,632,644	**278,447**	**278,447**
Less: Allowance for impairment of foreign currency accounts	-	-	-
Balance as of 31 December	**7,526,810**	**1,163,310**	**1,163,310**

		2022	
	Balance sheet	**Cash flow statement**	**Difference**
In RSD			
Current and gyro accounts	63,818	63,818	63,818
Petty cash	85,910	85,910	-
Deposits of excess liquid assets	3,776,938	-	85,912
Accruals	-	-	-
	3,926,666	**149,728**	**149,730**
In foreign currency			
Obligatory reserve	922,128	-	922,128
Petty cash	160,285	160,285	3,937,222
	1,082,414	**160,285**	**4,859,350**
Less: Allowance for impairment of foreign currency accounts	-	-	-
Balance as of 31 December	**5,009,080**	**1,911,166**	**5,009,080**

All amounts are stated in RSD thousand, unless otherwise stated

18. SECURITIES

	2023	2022
Government bonds:		
- in RSD	-	-
- in foreign currency	-	354,233
Balance as of 31 December	**-**	**354,233**

As of the balance sheet date, the Bank did not have securities in its portfolio. As of 31.12.2022, securities in the amount of RSD 354,233 thousand relate to bonds denominated in EUR, whose maturity dates are 18 April 2023.

19. LOANS AND ADVANCES TO BANKS AND OTHER FINANCIAL ORGANISATION

a) Summary per Type of Loans

	2023	2022
In dinars:		
Receivables from National Bank of Serbia for repo transactions	2,500,000	0
Other loans and advances	600,438	103
	3,100,438	**103**
In foreign currency:		
Fc accounts	635,553	1,601,152
Other loans and advances	1,769,691	1,150,233
	2,405,244	**2,751,385**
Gross loans and advances	**5,505,682**	**2,751,488**
Less: Allowance for impairment (Note 10(b))	(19,074)	(10,958)
Balance as of 31 December	**5,486,608**	**2,740,530**

As of 31 December 2023, the Bank had funds in the amount of RSD 2,500,000 thousand placed and REPO. Other placements include dinar loans placed in other banks for a period of one day (overnight).

As of 31 December 2022, the Bank had no funds placed in treasury bills of the National Bank of Serbia.

The balance of funds in foreign currency accounts includes balances on nostro accounts of correspondent banks.

All amounts are stated in RSD thousand, unless otherwise stated

b) Maturity Structure of Loans and Advances

The maturity structure of gross loans and advances to banks and other financial organizations, based on the remaining maturity period, outstanding as of 31 December 2023 and 2022, is as follows:

	2023	2022
Up to 180 days	5,486,608	2,734,825
Over a year	-	5,705
Balance as of 31 December	**5,486,608**	**2,740,530**

20. LOANS AND ADVANCES TO CUSTOMERS

a) Summary per Type of Customers

	2023	2022
Short-term loans in Dinars:		
- Corporate customers	276.220	317,255
- Retail customers	4.801	12,041
	281.021	**329,296**
Long-term loans in Dinars:		
- Corporate customers	4,082,858	898,428
- Retail customers	369,953	142,986
	4,452,811	**1,041,414**
Short-term loans in foreign currency:		
- Corporate customers	-	567,765
- Retail customers	-	-
	-	**567,765**
Long-term loans in foreign currency:		
- Corporate customers	50,601	3,099,352
- Retail customers	74,172	375,821
	124,773	**3,475,173**
Receivables for accrued interest:		
- Corporate customers	25,850	44,228
- Retail customers	4,470	4,513
	30,320	**48,741**
Deferred receivables for accrued interest:		
- Corporate customers	23,389	17,278
- Retail customers	2,730	2,835
	26,120	**20,113**
Deductible items in dinars - accruals:		
- Corporate customers	(5,187)	(4,612)
- Retail customers	(355)	(610)
	(5,542)	**(5,222)**
Gross loans and advances	**4,909,502**	**5,447,280**
Less: Allowance for impairment (Note 10(b))	(183,441)	(326,989)
Balance as of 31 December	**4,726,062**	**5,150,291**

As of 31 December 2023, gross loans in Dinars include loans with the contracted foreign currency clause in

All amounts are stated in RSD thousand, unless otherwise stated

the amount of RSD 4,909,502 thousand (31 December 2022: RSD 5,477,280 thousand).

Short-term loans have been granted to corporate customers for financing business activities in trading, processing industry and for other purposes, at the rates ranging from 4.40% to 8.95% per annum for loans with foreign currency clause, i.e. at rates ranging from 8.54% to 11.76% per annum for loans in Dinars.

The Interest rate on short-term retail loans in Dinars ranged from 12.00% to 14.00% per annum.

The interest rate on long-term retail loans ranged from 13.00% to 15.00% per annum (for cash and refinancing loans in Dinars).

b) Structure of Loan Portfolio by Loan Type

The structure of the gross loan portfolio by loan type, as of 31 December 2023 and 2022 is as follows:

	2023	**2022**
Overdraft on current accounts	4.956	26,145
Cash loans	109.435	148,054
Loans for working capital	2.844.698	2,686,238
Investment loans	165.167	254,612
Housing loans	334.690	375,770
Other loans	1.450.557	1,986,461
Balance as of 31 December	**4,909,502**	**5,477,280**

Other loans as of 31 December 2023 in the gross amount of RSD 1,450,557 thousand (31 December 2022: RSD 1,986,461 thousand) mostly relate to loans granted to corporate customers for funding their business activities.

c) Maturity Structure of Loan Portfolio

The maturity structure of the gross loan portfolio, based on the remaining maturity period, outstanding as of 31 December 2023 and 2022 is as follows:

	2023	**2022**
Up to 30 days	240,026	337,810
From 1 to 3 months	93,825	146,070
From 3 to 12 months	718,244	465,422
Over 1 year	3,857,408	4,527,978
Balance as of 31 December	**4,909,502**	**5,477,280**

All amounts are stated in RSD thousand, unless otherwise stated

21. INTANGIBLE ASSETS

	License and software	Total
COST		
Balance as of 1 January 2022	**264,297**	**264,297**
Additions during the year	23,052	23,052
Balance as of 31 December 2022	287,349	287,349
Addition during the years	23,458	23,458
Balance as of 31 December 2023	**310,807**	**310,807**
ACCUMULATED AMORTISATION		
Balance as of 1 January 2022	**224,970**	**224,970**
Amortisation charge (Note 12)	15,645	15,645
Balance as of 31 December 2022	**240,615**	**240,615**
Amortisation charge (Note 12)	17,768	15,645
Balance as of 31 December 2023	**258,383**	**256,260**
CARRYING VALUE AS OF:		
- as of 31 December 2023	**52,425**	**52,425**
- as of 31 December 2022	**46,734**	**46,734**

The carrying value of intangible assets as of 31 December 2023 relates to software in the amount of RSD 39,149 thousand (31 December 2022: RSD 33,991 thousand) and licenses in the amount of RSD 13,276 thousand (31 December 2022: RSD 12,743 thousand).

Based on the Bank's management estimate, intangible assets at 31 December 2023 are not impaired.

All amounts are stated in RSD thousand, unless otherwise stated

22. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

a) Property, Plant and Equipment

	Equipment	PP&E under construction	Leased PP&E	Leasehold improvements	Total
COST					
As of 1 January 2022	**161,238**	-	**158,949**	**39,390**	**359,577**
Additions during the year	**1,364**	-	**12,712**	**424**	**14,500**
Disposals	**(5,695)**	-	**(23,451)**	**0**	**(29,146)**
As of 31 December 2022	**156,907**	-	**148,210**	**39,814**	**344,931**
Additions during the year	4,534	-	21,971	2,077	**28,582**
Disposals	(2,768)	-	(1,992)	-	**(4,760)**
		-	-	-	
As of 31 December 2022	**158,673**	-	**168,189**	**41,891**	**368,753**
ACCUMULATED AMORTISATION					
As of 1 January 2022	**89,108**	-	**57,089**	**35,529**	**181,726**
Depreciation charge (Note 12)	**(3,874)**	-	**(9,770)**	**0**	**(13,644)**
Disposals	**14,440**	-	**41,874**	**1,129**	**57,443**
As of 31 December 2022	**99,674**	-	**89,193**	**36,658**	**225,525**
Depreciation charge (Note 12)	12,765	-	44,704	1,466	**58,935**
Disposals	(2,003)		(1,992)		(3,995)
As of 31 December 2023	**110,436**	**-**	**131,905**	**38,124**	**280,465**
CARRYING VALUE AS OF:					
- as of 31 December 2023	**48,237**	-	**36,284**	**3,767**	**88,287**
- as of 31 December 2022	**57,233**	-	**59,017**	**3,156**	**119,405**

The carrying value of equipment as of 31 December 2023 mostly relates to computer and telecommunication equipment and office furniture.

The most significant increase in property, plant and equipment relates to recognition of effects under IFRS 16- Lease.

Based on the Bank's management estimate, property, plant and equipment at 31 December 2023 are not impaired.

All amounts are stated in RSD thousand, unless otherwise stated

b) Investment Property

As of the balance sheet date the Bank does not have assets classified as investment property.

23. NON- CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

	2023	2022
Non-current assets held for sale	-	376,516
Impairment of non-current assets held for sale	-	(141,871)
Balance as of 31 December	**-**	**234,645**

Assets acquired pursuant to the Agreement on the Sale and Purchase of Immovable and Movable Assets concluded with the legal entity FSH “Komponenta” d.o.o. Cuprija - in bankruptcy arising from the granted loan due for payment, the Bank classified in accordance with the Decision of the Executive Board dated 12 April 2016 as non-current assets held for sale.

As of 31 January 2018, Bank purchased movable and immovable property in the amount of RSD 1,032 thousand pursuant to the Agreement on the Sale and Purchase of Immovable and Movable Assets concluded with the legal entity FSH “Komponenta” d.o.o. Cuprija - in bankruptcy, and in connection with transaction. In 2019, the Bank was registered as the owner of the property and thus increased value of fixed assets for sale.

The appraisal was performed on 31 December 2021. The estimated value is EUR 2,750,000.00.

The Bank reduced the carrying amount to its estimated value and reported an expense of RSD 85,766 thousand (Note 14).

The Bank sold the property on 02 February 2023 for EUR 2,000,000.00 payable in four equal instalments whereby maturity of the last (fourth instalment) was 31 July 2023.

All amounts are stated in RSD thousand, unless otherwise stated

24. OTHER ASSETS

	2023	2022
Other receivables		
Receivables from employees	3,213	3,223
Paid advances	77,501	68,487
Receivables for overpaid taxes	-	5
Other receivables	117,961	118,57
	198,675	**190,285**
Paid advances		
Prepaid expenses in RSD	7,360	6,969
	206,034	**197,254**
Gross other assets		
Less: Allowance for impairment (Note 10(b))	(19,089)	(13,281)
Less: Allowance for impairment of paid advances(Note 10(b))	(21,504)	(10,453)
Balance as of 31 December	**165,442**	**173,520**

25. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO BANKS, OTHER FINANCIAL ORGANISATIONS AND CENTRAL BANK

	2023	2022
In RSD		
Transaction accounts	43,641	4,638
Other deposits	-	-
Accrued interest liability	-	-
	43,641	**4,638**
In foreign currency		
Transaction accounts	16,979	275,366
Other deposits	280,760	-
Other liability	909	9,334
	298,648	**284,700**
Balance as of 31 December	**342,289**	**289,338**

Other deposits mostly pertain to Association of Serbian Insurers.

All amounts are stated in RSD thousand, unless otherwise stated

26. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO CUSTOMERS

	2023	2022
In Dinars		
Transaction accounts	2,572,686	2,670,295
Savings deposits	1,398,480	157,639
Special-purpose deposits	3,479	52,973
Other deposits	3,641,683	860,886
Interest payable on loans, deposits and other financial liabilities	22	22
Accrued interest liability	9,989	2,602
	7,626,339	**3,744,417**
In foreign currency		
Transaction accounts	3,273,149	3,920,272
Savings deposits	3,026,716	3,198,024
Special-purpose deposits	559	155,215
Other deposits	211,740	136,140
Borrowings	-	-
Other financial borrowings	380,774	73,296
Interest payable on loans, deposits and other financial liabilities	-	4
Accrued interest liability	18,171	5,571
	6,911,109	**7,488,522**
Balance as of 31 December	**14,537,448**	**11,232,939**

On fixed-term deposits in Dinars and foreign currency of customers, the Bank pays interest at rates ranging from 0.30% to 6.00% per annum, depending on the currency and the period the funds have been deposited for.

A vista saving deposits in RSD do not earn interest, as well as vista saving deposits in USD and vista saving deposits in EUR.

The interest rates on the short-term retail customers' deposits in Dinars range from 1.00% to 6.00% per annum, depending on the period the funds have been deposited for.

The interest rates on the short-term retail customers' deposits in foreign currency range from 0.3% to 4.00% per annum, depending on the currency and the period the funds have been deposited for.

Long-term deposits placed by retail customers in foreign currency earn interest at rates ranging from 4.10% to 4.25% per annum for deposits in EUR, depending on the period that the funds have been deposited for.

All amounts are stated in RSD thousand, unless otherwise stated

27. SUBORDINATED LIABILITIES

	2023	2022
Subordinated liabilities in a foreign currency	-	119,350
Balance as of 31 December	**-**	**119,350**

As of the balance sheet date the Bank does not have subordinated liabilities.

The outstanding balance of subordinated liabilities of RSD 119,350 thousand as of 31 December 2022 relates to the subordinated loan in the amount of RUB 78,000,000. The loan was initially obtained from the previous parent bank VTB Bank OAD, Saint Petersburg. The principal of the loan is to be repaid in full upon expiry of 7 years from the drawdown date. The contracted interest rate on this loan is 11.15% per annum (i.e. 12.38% per annum including withholding tax). The loan funds were withdrawn completely on 28 December 2017.

Pursuant to Annex no. 1 as of 26 June 2018 to the Subordinated Loan Agreement concluded on 27 December 2016, signed between VTB Bank OAD, Saint Petersburg and VTB Banka a.d. Belgrade, VTB Bank OAD, Saint Petersburg is entitled to assign or otherwise transfer its rights under the Agreement in accordance with the terms and conditions and the manner stipulated by the relevant regulations of Serbia.

Pursuant to the Agreement on the Assignment of Receivables concluded on 2 July 2018, VTB Bank OAD, Saint Petersburg assigned all its rights under the subordinated loan agreement to a new shareholder “AZRS INVEST” d.o.o. Belgrade, which became the sole owner of the Bank with a changed name - API Bank a.d. Belgrade, in the process of sale of VTB Banka a.d. Belgrade.

28. PROVISIONS

	2023	2022
Provision for credit risk- weighted off-balance sheet items (a)	297	563
Provision for retirement benefits (b)	14,695	12,653
Provision for litigation (c)	35,263	12,424
Balance as of 31 December	**50,255**	**25,640**

According to the Bank’s internal policy, the provision for commitments and other credit risk-weighted off-balance sheet items (guarantees, acceptances, undrawn credit facilities etc.) is established when it is probable that an outflow of resources will be required to settle the obligation arising from the Bank’s commitment, and when the objective evidence of such probability exists.

Evidence based on which the Bank performs the individual assessment of impairment are: payments effected on the Bank’s accounts with respect to commitments arising from guarantees, bills of guarantees, etc., and that the customer has been classified in accordance with the Bank’s classification criteria into the categories G and D. Individual assessment of impairment of off-balance sheet items is performed in the same manner as for the balance sheet assets.

All amounts are stated in RSD thousand, unless otherwise stated

Contingent liabilities for which the Bank does not expect any outflow of resources and/or it estimates that in the case of an outflow of resources all receivables will be fully collected are not provided for.

Furthermore, the Bank does not calculate the provision for risk-weighted off-balance sheet items (undrawn credit facilities) for all unfunded commitments subject to unconditional cancellation by the Bank due to deterioration in the borrower’s financial position.

Provisions for retirement benefits were established in accordance with independent actuary's report as of 31 December 2023, and are stated in the amount of the present value of the future defined benefit obligation.

When determining the present value of expected outflows, a discount rate of 6.2% was used, an assumption of average annual salary growth of 9.7% per year, employee turnover rate of 4.0% and a disability rate of 0.1% per year.

The Bank established a provision for legal costs in which it acted as a defendant and for which adverse outcome was expected according to the estimate of the Legal Department (Note 38(b)).

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

	2023	2022
Provision for credit risk weighted off-balance sheet items		
Balance as of 1 January	563	2,120
Provisions during the year	449	1,666
Release of provision	(714)	(3,223)
Exchange differences and other movements		-
	297	**563**
Provisions for retirement benefits		
Balance as of 1 January	12,653	11,614
Provisions during the year	2,042	1,455
Release of provision	(3,027)	(416)
	11,668	**12,653**
Provision for legal costs		
Balance as of 1 January	12,424	12,261
Provisions during the year	25,866	2,253
Release of provision – lost litigation	-	(2,090)
	38,289	**12,424**
Balance as of 31 December	**50,255**	**25,640**

All amounts are stated in RSD thousand, unless otherwise stated

29. OTHER LIABILITIES

	2023	2022
Trade payables	15,130	20,105
Liabilities for value added tax	1,948	-
Liabilities for other taxes and contributions	3,084	3,494
Accrued interest expense	5,761	5,828
Deferred other income	14,087	14,575
Liabilities to employees	31,985	11,485
Liabilities arising from the lease in accordance with IFRS 16	37,140	59,984
Other liabilities	51,256	57,675
Balance as of 31 December	**160,391**	**173,146**

Other liabilities in the amount of RSD 51,256 thousand as of 31 December 2023 mostly relate to accrued liabilities in RSD (for loan repayment by physical and legal entities).

30. EQUITY

	2023	2022
Share capital – ordinary shares	4,632,407	4,632,407
Reserves	-	2,053
Accumulated loss	(2,634,608)	(2,898,914)
Profit(loss) for the year	933,759	264,306
Balance as of 31 December	**2,931,558**	**1,999,852**

During 2018 the shareholders of the Bank changed. As disclosed in Note 1, the company registered in Serbia "AZRS INVEST" d.o.o. Belgrade became the Bank's owner and, accordingly, as of 31 December 2021, it is the sole shareholder participating with 100% in share capital of the Bank. The ultimate owner of "AZRS INVEST" d.o.o. Belgrade and the Bank respectively is a natural person - Andrey Zakharovich Shlyakhovoy.

As of 31 December 2023, subscribed and fully paid in share capital of the Bank consists of 9,264,813 ordinary shares (31 December 2022: 9,264,813 ordinary shares), with the nominal value per share of RSD 500.

All amounts are stated in RSD thousand, unless otherwise stated

31. OFF-BALANCE SHEET ITEMS

	2023	2022
Guarantees and other irrevocable commitments (a)	1,910,801	1,633,143
Other off-balance sheet items (b)	10,024,269	8,619,418
Balance as of 31 December	**11,935,070**	**10,252,561**

a) Guarantees and other irrevocable commitments

	2023	2022
Payable guarantees:		
- in dinars	308,580	364,763
- in foreign currency	-	123,377
	308,580	**488,140**
Performance guarantee:		
- in dinars	1,600,125	293,765
- in foreign currency	2,096	851,239
	1,602,220	**1,145,003**
Securities for securing obligations gave as a pledge to the NBS:		
- in dinars	-	-
	-	**-**
Total guaranties and assumed liabilities	**1,910,801**	**1,633,143**
Swap transactions and purchase of FC for dinars	-	-
Irrevocable liabilities	-	-
Balance as of 31 December	**1,910,801**	**1,633,143**

The Bank establishes a provision for potential losses from other credit risk-weighted off- balance sheet items in accordance with the accounting policy disclosed in Note 28(a) to the financial statements

As of 31 December 2023, the Bank had irrevocable commitments related to guarantee schedule of RS.

All amounts are stated in RSD thousand, unless otherwise stated

b) Other Off-balance Sheet Items

	2023	2022
In RSD		
Loro guarantees	29,195	150,665
Revocable commitments	619,867	798,943
Material collaterals, mortgages and pledges	4,640,406	5,063,074
Accounting write-off	2,055,480	1,961,783
Other off-balance sheet items	2,679,322	644,952
Balance as of 31 December	10,024,269	8,619,418

Revocable commitments amounting to RSD 619,867 thousand as of 31 December 2023 mostly relate to long-term credit lines in Dinars approved to corporate customers.

Within material collaterals, mortgages, the Bank presents all collaterals based on the loans granted (and not only first-ranking mortgages).

Pursuant to the National Bank of Serbia’s Decision on Accounting Write-off of Bank Balance Sheet Assets issued on 10 August 2017 in effect since 30 September 2017, on 31 December 2023 the Bank transferred all the NPLs, in cases where the allowance for impairment equalled 100% of their gross book value, from balance sheet assets to off- balance sheet items in the amount of RSD 19,369 thousand (31 December 2022: RSD 230,786 thousand (Note 10(b)).

In 2023, the Bank recorded the remaining portion of immovable property based on the Factoring Agreement signed with Erste Bank a.d. Novi Sad within other off-balance sheet items.

All amounts are stated in RSD thousand, unless otherwise stated

32. RELATED PARTY DISCLOSURES

A number of banking transactions are entered into with the shareholder and other related parties in the ordinary course of business which is presented in the following tables. These transactions were carried out at commercial terms and conditions and at the market rates.

Related parties of the Bank until 26 July 2018 were members of the Group to which the Bank belonged - VTB Group, and onwards from that date, the Bank's related party is "AZRS INVEST" d.o.o. Belgrade.

On 26 July 2018 the Central Securities Depository and Clearing House changed the ownership of the 100% of the shares of VTB Banka a.d. Belgrade and the sole owner of Bank's shares became company "AZRS INVEST" d.o.o. Belgrade, with registration number 20988592. The ownership change was made on the basis of the previously obtained approval from the National Bank of Serbia in accordance with the Decision G 2182 dated 22 March 2018. A new business name - API Bank a.d. Belgrade - was established according to amendments to the Articles of Association, Memorandum of Association and a Decision adopted by the General Assembly dated 24 September 2018.

Parties related with the Bank are persons who can have a significant impact on making financial and business decisions of the Bank. Parties related with the Bank are management of the Bank, the Board of Directors and the Executive Board members, their close relatives and legal entities in their ownership or under their control, as well as legal entities whose financial or business decisions are influenced by these persons.

a) Outstanding balance of receivables and payables as of 31 December 2023 and 2022 resulting from transactions with shareholders and other Bank's related parties are presented in the following table:

	2023	2022
Placements with banks:		
Nostro accounts	-	-
Other placements	-	-
Loans:	-	-
Loans approved to the Bank's management	-	-
Less: Allowance for impairment	-	-
	-	-
Total	**-**	**-**
Deposits and borrowings:		
Transaction deposits of shareholders	363	9,947
Subordinated loans from shareholders	-	119,350
Deposits of individuals related to the Bank in the sense of the Law that governs banks' operations	-	-
Balance as of 31 December	**363**	**129,297**

All amounts are stated in RSD thousand, unless otherwise stated

b) Summary of transactions with related party “AZRS INVEST” d.o.o. Belgrade in 2023 and 2022 is presented in the following table

	2023	**2022**
Income	1,157	306,460
Expenses	10,967	329,042
Receivables	-	-
Liabilities	-	-
Equity	4,632,407	4,632,407

c) Salaries and other benefits of the Executive Board members and other key management personnel of the Bank (stated in the gross amount) in 2022 and 2021 are presented in the following table:

	2023	**2022**
Members of the Executive Board	33,102	36,519
Members of the Board of Directors	32,699	37,442
Directors of Departments	53,925	44,532
Member of Audit Committee	1,737	1,762
Balance as of 31 December	**121,463**	**120,255**

All amounts are stated in RSD thousand, unless otherwise stated

33. RISK MANAGEMENT

Risk is inherent in banking activities, but it is managed through a process of ongoing identification, measurement and monitoring, establishing risk limits and applying other controls.

Owing to the nature of its activities, the Bank is exposed to the following major risks: credit risk, liquidity risk, interest rate risk and market risk (which includes the currency risk and other market risks).

The Bank is also subject to operational risks (including the legal risk, risks arising from the introduction of new products, activities, processes and systems, as well as the risk of entrusting activities to third parties, i.e. outsourcing and the information system risk), interest risk in the banking book, exposure risk to one entity or a group of related parties, risk of the Bank's investments in other legal entities and property, plant and equipment, as well as the impact of risk related to the country of origin of the entity to which the Bank is exposed and the risk of early repayment, which the Bank continuously monitors.

The Board of Directors and the Executive Board are ultimately responsible for the overall approach to risk management, as well as approval of the strategy and principles of risk management. In addition, the Bank has established separate independent bodies for managing and monitoring risks.

The Bank's bodies, authorized for risk management, constantly monitor changes in the legislation, while analysing their influence on the level of risks at the level of the Bank. They undertake necessary measures to bring the Bank's business activities and procedures in line with new procedures within the scope of controlled risk.

Risk Management Sector

In order to establish an integrated system of risk management and enable functional and organizational segregation of risk management activity and regular operating activities, the Bank has established the Risk Management Sector.

Liquidity risk management, as well as management of interest rate risk in the banking book, foreign exchange and other market risks, managing the risk of the Bank's exposure to a single entity or a group of related parties, management of investments in other legal entities and in fixed assets, management of the risk of exposure towards the country of a client's origin, operational risk and development of internal methodology for the evaluation, measurement and management of the risks that the Bank is exposed to, are included in the scope of activities of this Sector.

Credit risk management and providing recommendations for the Bank's exposures that are under the influence of credit risk, as well as monitoring and collection of the non- performing assets, i.e. bad assets within the department for operations with non- standard assets are also included in the scope of this Sector's activities.

Treasury and Liquidity Sector and Assets and Liabilities Managing Committee (Asset-Liability Committees (ALCOs)

The Treasury and Liquidity Sector is responsible for managing assets and liabilities and the overall financial structure of the Bank. Furthermore, it is responsible for the funding and liquidity of the Bank. The Assets and Liabilities Managing Committee (Asset-Liability Committees (ALCOs) is responsible for monitoring and managing liquidity risk.

All amounts are stated in RSD thousand, unless otherwise stated

Internal Audit

Risk management processes throughout the Bank are audited at least annually by the internal audit function, which examines both the adequacy of the procedures and the Bank's compliance with the adopted procedures. Internal audit discusses the results of own assessments with the Bank's management and reports its findings and recommendations to the Audit Committee.

Risk Management and Reporting Systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the current economic environment. The Bank also runs worst case scenarios that would arise in the event of the extreme events, which are unlikely to occur.

Monitoring and control of the risks is primarily based on establishing limits. The limits reflect the business strategy and market environment of the Bank, as well as the level of risks the Bank is willing to accept. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information collected from all operating activities is examined and processed in order to identify, analyse and control early risks. This information is presented and explained to the Board of Directors, Executive Board, Risk Management Sector and heads of all business units. The reports contain the total credit exposure, investment forecasts, departure from established limits, market risk measurement, liquidity ratios and changes in risk profiles.

The Bank's management assesses the adequacy of impairment of placements on quarterly basis. The Bank quarterly presents to the Audit Committee an extensive report that includes all the relevant information needed to estimate the risks the Bank is exposed to.

Special reports on risk management are prepared for each level in the Bank to ensure that all organizational units have access to comprehensive, necessary and updated information.

33.1. Credit Risk

Credit risk is the risk from occurrence of adverse effects to the financial performance and equity of the Bank due to inability of credit beneficiaries to fulfil contractual obligations to the Bank.

The Bank's credit risk is caused by the debtor's credit capacity, good credit history, as well as quality of collaterals, and is being identified, measured, estimated and monitored in accordance with the internal by-laws for credit risk management, as well as in accordance with decisions that regulate the classification of the balance sheet assets and off-balance sheet items, i.e. capital adequacy of the Bank.

Risk management policy, the procedures for managing credit risk and procedures for granting, effecting and collecting the placements, the process of credit risk management of individual placements and risks at the portfolio level, i.e., the procedures of identification, measurement and monitoring (control) of placements, especially those with increased risk levels, have been defined. In accordance with the aforementioned procedures, the Bank engages in activities with customers who have the appropriate creditworthiness and the risk levels estimated as acceptable, considering the ratio and connection of the categories of risk and profitability.

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, as well as by monitoring exposures in relation to these risks. Exposure to credit risk is continuously monitored by periodical assessments of the credit beneficiaries' abilities to settle their liabilities to the Bank and other creditors.

All amounts are stated in RSD thousand, unless otherwise stated

The Bank has established a credit quality review process to ensure early identification of possible changes in the creditworthiness of counterparties, including regular collateral review and revision.

Counterparty limits are established by the use of a credit risk classification system, which classifies every counterparty according to certain credit rank as well as according to the internal methodology, which defines the level of exposure that the Bank is willing to accept toward an individual customer or the group of related parties. The classification of counterparties is subject to regular reviews. The credit quality review process allows the Bank to assess the potential loss as a result of the risk to which it is exposed and take corrective actions.

According to the Bank's policy, making decisions on exposure to credit risk is centralized and concentrated in the Credit Committee for corporate and retail customers. Decisions of the Credit Committee are made upon consideration of proposals provided by competent sectors included in the process of granting loans and the Risk Management Sector.

The terms for approval of each corporate loan are determined individually depending on client type, loan's purpose, estimated creditworthiness, offered collateral and current market situation. Type of collateral that accompanies each loan is also determined according to the client creditworthiness analysis, type of credit risk exposure, term of the placement as well as the amount of a particular loan. All of the Bank's placements are based on relevant approvals, which determine the terms and other conditions for their implementation.

Reporting on credit risk is based on permanent monitoring at the level of the total portfolio of the Bank as well as at the individual client level. In accordance with the shareholder's request, credit risk is reported on monthly basis, when the overview of portfolio, defaults, movements in provisions and equity of the Bank is presented.

The Bank assesses impairment of financial assets as described in Note 2.1(a) IFRS 9 "Financial Instruments": Impairment - Financial Assets and Contract Assets.

Credit-related Risks

The Bank issues guarantees and letters of credit to its customers, and, consequently, it has a contingent liability to perform payments in favour of third parties. Thus, the Bank is exposed to credit-related risks, which can be mitigated by control processes and procedures used for mitigating credit risks.

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Derivative Financial Instruments

Credit risk arising from derivative financial instruments is, at any time, limited to the instruments with positive fair value, as recorded in the balance sheet. Such credit risk is limited by determining the maximum fair value of the total derivatives' portfolio, as well as determination of the maximum positive fair value of each individual transaction. The Bank is not exposed to this risk, since it does not have significant derivative financial instruments.

All amounts are stated in RSD thousand, unless otherwise stated

a) Maximum Exposure to Credit Risk by Balance Sheet Assets and Off-balance Sheet Items

The table below represents the maximum credit risk exposure as of 31 December 2023 and 2023, presented in the gross amount, without taking into account collaterals:

	31 December 2023	31 December 2022
	Gross maximum exposure	Gross maximum exposure
The exposure related to balance sheet assets		
Securities *	-	354,233
Loans and advances to banks and other financial institutions	5,505,682	2,751,488
Loans and advances to customers	4,909,502	5,477,280
Other assets	203,125	197,254
Total balance sheet assets	**10,618,309**	**8,780,255**
The exposure related to off-balance sheet items		
Payment guarantees	308,547	488,140
Performance bonds	1,601,956	1,145,003
Uncovered letters of credit	-	-
Irrevocable commitments	619,867	798,943
Total off-balance sheet items	**2,530,370**	**2,432,086**
Total	**12,908,482**	**11,212,341**

As presented in the table above, as of 31 December 2023, 36.61% % of the maximum exposure to credit risk relates to loans and advances to customers (31 December 2022: 48.85%), 4.80% to irrevocable commitments (31 December 2022: 7.13%) and 42.50% to loans and advances to banks and other financial institutions (31 December 2022: 24.54%).

All amounts are stated in RSD thousand, unless otherwise stated

The table below shows balance and off-balance sheet items classified under credit risk levels - 1, 2 and 3

	31 December 2023		
	Gross exposure	Allowance for impairment and provisions	Net exposures
Loans and advances to banks and other financial organisations	**5,505,682**	**(19,074)**	**5,486,608**
Level 1	5,505,682	(19,074)	5,486,608
Loans and advances to customers and other assets			
Regular placements	**4,865,973**	**(107,982)**	**4,757,991**
Level 1	4,139,364	(73,734)	4,065,629
Level 2	726,609	(34,248)	692,361
Non-performing placements - Level 3	**246,654**	**(113,141)**	**133,513**
Estimated at group level	22,586	(9,085)	13,501
Individually estimated	224,068	(104,057)	120,011
Inventory count	2,910	(2,910)	0
Securities – Level 1*	-	-	-
Total balance sheet exposures	**10,621,219**	**(243,107)**	**10,378,112**
Off-balance sheet exposures			
Regular placements	**2,529,556**	**(297)**	**2,529,259**
Level 1	2,474,076	(296)	2,473,780
Level 2	55,480	(1)	55,479
Default placements - Level 3	**1,111**	**-**	**1,111**
Estimated at group level	1,111	-	1,111
Individually estimated	-	-	-
Total off-balance sheet exposures	**2,530,667**	**(297)**	**2,530,370**

Concentration of risk is managed by setting the limits by customer/counterparty, by geographical region and by industry sector. In order to avoid excessive risk concentration, the Bank's policies and procedures contain specific guidelines for the development and preservation of diversified portfolio. Accordingly, the Bank controls and manages identified concentrations of credit risks.

The analysis of the Bank's credit risk exposure by industry sectors with the balance as of 31 December 2023 and 2022 is presented in Note 20(d).

All amounts are stated in RSD thousand, unless otherwise stated

The structure of the Bank's credit risk exposure stated at the gross book value of the total risky placements as of 31 December 2023, grouped by geographical sectors, is presented in the table below:

	Serbia	Europe	Other	Total
Loans and advances:				
- Banks and financial institutions	3,190,264	7	2,315,411	5,505,682
- Corporate customers	4,399,037	54,672	23	4,453,732
- Retail customers	379,991	17,672	58,108	455,771
- Entrepreneurs	-	-	-	-
Guarantees and other irrevocable commitments	2,530,668	-	-	2,530,668
Balance as of 31 December 2023	**10,499,959**	**72,351**	**2,373,541**	**12,945,852**
Balance as of 31 December 2022	**8,442,692**	**196,048**	**1,683,605**	**10,322,345**

All amounts are stated in RSD thousand, unless otherwise stated

(a) Maximum Exposure to Credit Risk by Balance Sheet Assets and Off-balance Sheet Items (Continued)

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

	Gross maximum exposure 2023	Net maximum exposure 2023	Gross maximum exposure 2022	Net max. exposure 2022
Processing industry	3,107,451	2,996,268	3,054,258	2,832,626
Transportation and warehousing	394,251	386,659	352,648	343,873
Trade	874,978	865,444	1,167,444	1,148,090
Finance	5,505,682	5,486,608	2,751,488	2,740,530
Retail customers	455,771	435,648	537,587	522,041
Entrepreneurs	-	-	3	3
Other	77,050	42,042	365,340	303,658
Total	**10,415,185**	**10,212,670**	**8,228,768**	**7,890,821**

b) Portfolio Quality

The Bank manages portfolio quality using the internal classification of placements.

The following tables present the quality of portfolio (gross placements and off-balance sheet exposure) as of 31 December 2023 and 2022, which is based on the Bank's grading system.

The structure of allowances for impairment and provisions, established in accordance with the Bank's internal methodology, was as follows as of 31 December 2023 and 2022:

	Customer placements			Bank placements			Total 2023	Total 2022
Category	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**	**Placements to customers and banks**	**Placement sto customers and banks**
A	3,373,165	162,298	2	4,023,680	-	-	7,559,144	5,558,984
B	2,607,211	230,820	1,925	1,285,261	-	-	4,125,217	2,938,989
V	420,349	57,251	-	196,742	-	-	674,341	1,000,695
G	12,444	331,401	31,406	-	-	-	375,251	547,894
D	502		211,396	-	-	-	211,899	275,783
Total	**6,413,672**	**781,770**	**244,728**	**5,505,682**	**-**	**-**	**12,945,852**	**10,322,345**

All amounts are stated in RSD thousand, unless otherwise stated

The structure of allowances for impairment and provisions, established in accordance with the Bank's internal methodology, was as follows as of 31 December 2023 and 2022:

	Allowances for impairment and provisions for customers			Allowances for impairment and provisions for banks			Total 2023	Total 2022
Category	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**	**Placement to custome and banl**	**Placement to customers and banks**
A	18,225	2,541	2	6,261	-	-	27,028	23,747
B	19,209	648	-	10,497	-	-	30,354	24,832
V	1,713	6,509	-	2,316	-	-	10,538	14,714
G	94	24,532	3,107	-	-	-	27,733	14,711
D	26	0	107,132	-	-	-	107,158	260,506
Total	**39,267**	**34,230**	**110,240**	**19,074**	**-**	**-**	**202,812**	338,509

(b) aging structure of non-impaired loans and placements to customers due but not impaired and presentation of non-mature and non-impaired placements as of 31 December 2023 and December 2022, are shown in the following tables:

	Placements to customers and banks			Total 2023	Total 2022
	Level 1	**Level 2**	**Level 3**		
Non-defaulted receivables	9,366,311	675,321	2,598	10,044,230	7,394,283
Defaulted receivables:					
- 1-30 days					
- 31-60 days	20,778	21	114	20,913	6,000
- 61-90 days	-	4,844	9,100	13,943	49,397
- over 90 days	-	12,018	10,417	22,436	221,866
Total	-	-	111,148	111,148	219,275

All amounts are stated in RSD thousand, unless otherwise stated

The structure of the risky balance sheet assets and off-balance sheet items and allowances for impairment/provision, determined in accordance with the Bank's internal methodology, as of 31 December 2023 and 2022, is as follows.

	Individual assessment		Group assessment		Total 2023	
	Balance sheet assets	Allowance for impairment	Balance sheet assets	Allowance for impairment	Balance sheet assets	Allowance for impairment
Retail customers	-	-	455,771	(20,122)	455,771	(20,122)
Banks and other corporate customers	223,857	(103,972)	9,735,557	(78,420)	9,959,414	(182,392)
Entrepreneurs	-	-	-	-		
Total	**223,857**	**(103,972)**	**10,191,328**	**(98,542)**	**10,415,185**	**(202,515)**

	Individual assessment		Group assessment		Total 2023	
	Off-Balance sheet assets	Allowance for impairment	Off-Balance sheet assets	Allowance for impairment	Off-Balance sheet assets	Allowance for impairment
Retail customers	-	-	4,756	-	4,756	-
Banks and other corporate customers	-	-	2,525,619	(297)	2,525,912	(297)
Entrepreneurs	-	-	-	-	-	-
Total	**223,8570**	**(103,972)**	**12,721,995**	**(98,839)**	**12,945,852**	**(202,812)**

	Individual assessment		Group assessment		Total 2022	
	Balance sheet assets	Allowance for impairment	Balance sheet assets	Allowance for impairment	Balance sheet assets	Allowance for impairment
Retail customers	17,641	(13,231)	541,010	(15,579)	558,651	(28,810)
Banks and other corporate customers	520,456	(260,946)	7,346,814	(71,926)	7,867,271	(332,872)
Entrepreneurs	-	-	101	-	101	-
	538,097	**(274,177)**	**7,887,925**	**(87,505)**	**8,426,022**	**(361,682)**

	Individual assessment		Group assessment		Total 2022	
	Off-Balance sheet assets	Allowance for impairment	Off-Balance sheet assets	Allowance for impairment	Off-Balance sheet assets	Allowance for impairment
Retail customers			4,890	-	4,890	-
Banks and other corporate customers			2,427,196	-	2,427,196	-
Entrepreneurs						-
			2,432,086	-	2,432,086	-
Total	**538,097**	**(274,177)**	**10,320,011**	**(87,505)**	**10,858,108**	**(361,682)**

All amounts are stated in RSD thousand, unless otherwise stated

An allowance for impairment on a group and individual level is calculated according to the National Bank of Serbia Decision on Classification of Balance Sheet Assets and Off- balance Sheet Items, IFRS 9 “Financial Instruments” and the Bank’s methodology for calculating allowance for impairment of financial assets on the basis of the internal procedure for calculating allowance for impairment.

The impairment assessment is performed on group and individual levels. The group assessment is performed for Level 1 and 2 placements, whereas the individual assessment is carried out when there is objective evidence of impairment of placements, i.e. for Level 3 placements.

The amount of the impairment loss is individually assessed as the difference between the carrying amount and the present value of estimated future cash flows, determined by discounting the expected cash inflow, using the latest effective interest rate, except for loans to private individuals for which the impairment is determined based on experience.

The major factors considered in the individual assessment of impairment of financial assets are default in servicing the debt principal or interests overdue for more than 90 days for material receivables, observed deterioration of the client’s financial position, downgrade, breach of the original terms of the loan contract, amended terms of loan repayment or evidence of bankruptcy likelihood.

Impairment of materially less significant placements are assessed collectively for each segment separately (groups: corporate loans, corporate off-balance sheet items, retail loans, retail cards and overdraft, state and financial institutions), due to their similar characteristics in terms of credit risk based on statistical analysis of historical patterns of cash flows of that part of the portfolio. Elements of group calculation are: PD (probability of default - classification based on the creditworthiness adjusted for default in settlement of liabilities on the assessment date and for forward looking information), LGD, discount factor, collateral and calculation of exposure (EAD).

The amount of impairment of balance sheet assets is determined as the difference between the carrying amount and the present value of expected future cash flows regarding this claim. Impairment of loans, which reduces the value of placements, is recorded in the allowance account in the balance sheet, while the impairment of financial assets measured at fair value through other comprehensive income is recorded under reserves (equity) and recognised as an expense in the income statement.

All amounts are stated in RSD thousand, unless otherwise stated

Rescheduled and Restructured Loans

In order to protect against the risk of default in operations with debtors, the Bank takes the following measures to regulate receivables: rescheduling, restructuring, taking over properties in order to collect receivables, initiating court proceedings and other measures. The Bank grants rescheduling and restructuring to debtors with problems in operations in accordance with the conditions from the Decision on classification of balance sheet assets and off-balance sheet.

As of 31 December 2023, the Bank had 4 rescheduled of corporate customers and 11 restructured of retail customers.

As at 31 December 2022, the Bank had 9 restructured corporate loans, and 14 restructured retail loans.

31 December 2023	**Restructured**		**Rescheduled**	
	Gross	**Net**	**Gross**	**Net**
Corporate customers	-	-	137,487	102,673
Retail customers	-	-	2,838	1,647
Total	**-**	**-**	**140,325**	**104,320**

31 December 2022	**Restructured**		**Rescheduled**	
	Gross	**Net**	**Gross**	**Net**
Corporate customers			370,163	173,182
Retail customers			4,880	2,758
Total			**375,043**	**175,940**

Collaterals and Other Credit Enhancements

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

Using its internal methodology, the Bank determines the types of collaterals and the parameters of their valuation. Standard collaterals accepted by the Bank are as follows:

- For corporate loans - real estate mortgages, pledges over inventories and receivables, and
- For retail customers - promissory notes, joint and several guarantee, attachment of salary and authorization for account debit.

The Bank's management monitors the movements in the fair value of collaterals, demands additional collaterals in accordance with the relevant contracts, and monitors the fair value of collateral arrived at by considering the adequacy of the allowance for impairment.

The fair value of collaterals in the form of mortgages as of 31 December 2023 amounts to RSD 2,981,820 thousand (31 December 2022: RSD 4,201,612 thousand), in the form of pledges on inventory and receivables RSD 158,373 thousand (31 December 2022: RSD 135,847 thousand), while the fair value of other forms of collaterals amounted to RSD 735,347 thousand (31 December 2022: RSD 591,912 thousand).

During 2023, the Bank granted housing loans to retail customers. The fair value of collateral in the form of mortgages is RSD 326,611 thousand.

All amounts are stated in RSD thousand, unless otherwise stated

c) Default Receivables

The Bank pays special attention to default receivables by monitoring total outstanding balance and the trend of these loans and receivables. Corporate customers' loans get default status when they get NPL status. Retail customers' loans get default status in case of delay in payment of more than 90 days.

Default receivables are monitored at the Bank level, and in accordance with the product criteria (for retail customers) and the industrial sector the customers belongs to, as well as the maturity structure (for corporate clients and entrepreneurs).

In accordance with regulations, default receivables of corporate clients and entrepreneurs are monitored at the client level, and default receivables of retail customers are monitored at the individual level.

	Gross exposure	Default receivables
Corporate sector	4,453,732	214,420
Retail sector	455,771	5,281
Entrepreneurs' sector	-	-
Finance and insurance sector	5,505,682	-
Total as of 31 December 2023	**10,415,185**	**219,701**
Total as of 31 December 2022	**8,228,768**	**514,530**

33.2 Liquidity Risk

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

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

The main objective of liquidity risk management is to maintain the level of liquid assets in order to settle the outstanding liabilities arising with respect to the balance sheet and off-balance sheet activities at the Bank level in a proper and timely manner.

Liquidity risk management involves the management of all assets and liabilities of the Bank which may affect the Bank's inability to meet its outstanding liabilities.

In order to decrease or limit this risk, the Bank's management strives to arrange diversified funding sources in addition to its core deposit base, to manage balance sheet assets from the liquidity standpoint, and to monitor future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows, and the availability of high grade collaterals which could be used to secure additional funding, if required.

The Bank has established a unique process of liquidity risk management that identifies and assesses the impact of the Bank's activities on its exposure to liquidity risk, i.e., identifies and assesses their impact on the Bank's performance and equity.

All amounts are stated in RSD thousand, unless otherwise stated

The Bank's liquidity risk management involves an integrated process that includes:

1. Identifying the liquidity risk;
2. Measurement or liquidity risk assessment;
3. Mitigation of liquidity risk;
4. Monitoring and control of liquidity risk; and
5. Reporting on liquidity risk

Identification of causes or early warning signals of liquidity crisis identification is implemented by the Treasury and Liquidity Sector, in cooperation with the Risk Management Sector and the Financing and Planning Sector, based on the information provided by the organizational units responsible for cooperation with corporate and retail clients, as well as by bodies responsible for liquidity risk management (the Board of Directors and/or Executive Board) and the members of the Assets&Liabilities Committee (the "ALCO Committee").

Measurement or liquidity risk assessment is a quantitative and/or a qualitative assessment of the identified liquidity risk and it is the responsibility of the Risk Management Sector. Measurement and liquidity risk assessment involve the application of the GAP analysis, ratio analysis and stress testing.

Mitigation of liquidity risk implies determining measures and rules for mitigating risks by establishing a system of limits, i.e., maintaining the acceptable level of risk for the Bank's risk profile. The acceptable level of the Bank's risk exposure depends on: structure of assets and their ability to be converted into liquid assets, concentration of the funding sources, as well as the currency structure of assets and sources of funding, based on which limiting the adverse effects to the financial result and the capital of the Bank is enabled, i.e. the sufficient level of liquid funds to meet the outstanding liabilities and to finance the increase in assets is provided.
Mitigation of liquidity risk involves defining:

1. The limits of exposure to liquidity risk (basic and additional limits); and
2. Safeguards against liquidity risk.

Monitoring of liquidity risk defines the process of analysis of the status, changes and trends in liquidity risk exposure. The Risk Management Sector manages the liquidity risk by using defined internal limits within regulatory limits and prescribed measures for protection from critically low liquidity level, i.e. monitors compliance with the defined limits.

The Treasury and Liquidity Sector, in cooperation with other organizational units, carries out the measures for reducing/mitigating the liquidity risk and notifies the Risk Management Sector and ALCO Committee. The ALCO Committee decides whether and up to what extent the proposed measures will be carried out, i.e., whether the liquidity risk exposure is acceptable, considering the effects on the Bank's risk profile indicators - liquidity appetite.

The method of handling and resolving temporary and long-term liquidity crises is defined in more details by the Liquidity Crisis Plan and recovery options, further described through the Bank's Recovery Plan for 2020.

For the purpose of managing the Bank's short-term liquidity the analyses of the maturity of inflows and outflows on the basis of different items of assets and liabilities are used. Managing medium-term and long-term liquidity is performed by projections of the balance sheet structure based on the planned operating activities and the Strategy of the Bank.

All amounts are stated in RSD thousand, unless otherwise stated

The ALCO Committee is responsible for liquidity risk management, establishing the control mechanisms for monitoring liquidity risk exposure, as well as for adopting relevant conclusions for minimizing risk exposure, adopting draft decisions for decision- making of the Bank's Executive Board - especially the matters regarding liquidity policy and raising funds, as well as other matters related to managing the Bank's assets and liabilities, which are significant for the financial stability of the Bank.

The Bank manages its assets and liabilities in such a way that it can fulfil its due obligations at all times, as well as to have customers disposing with their pecuniary assets in the Bank in accordance with the agreed deadlines.

Main liquidity parameters are monitored daily by the Treasury and Liquidity Sector in order to coordinate inflows and outflows of pecuniary assets, so that daily liquidity parameters remain within the limits prescribed by the National Bank of Serbia.

The coordination of maturity of placements with their sources is the basis for adequate management and provision of necessary liquidity level. The decision-making process on maturity of placements is based on the information on the maturity of deposits, especially on the one referring to the movement in the deposits of important clients, particularly their short-term needs. When deciding, the Bank is making sure that pecuniary assets from short-term sources of funding are not used for long-term placements.

The level of the Bank's liquidity is presented by the liquidity ratio, the narrow liquidity ratio and the liquidity coverage ratio (LCR).

The liquidity ratio is the ratio of the sum of the first and second degree of the Bank's liquid assets (cash, assets on accounts with other banks, deposits with the National Bank of Serbia, cheques and other monetary receivables in the process of realization, irrevocable credit lines approved to the Bank, quoted financial instruments and other receivables due within a month from the date of calculating liquidity radios), on one hand, and the sum of the Bank's sight liabilities or liabilities without determined maturity and liabilities with fixed maturity up to one month from the date of calculation of the liquidity ratio, on the other hand.

The narrow liquidity ratio of the Bank is the ratio between the sum of the Bank's liquid first-degree receivables, on one hand, and the sum of the Bank's sight liabilities or liabilities without determined maturity and the Bank's liabilities with maturity within one month from the date of liquidity ratio calculation, on the other hand.

The liquidity coverage ratio (LCR) is the ratio between the protective layer of the Bank's liquidity and net outflows of liquid assets that would occur within the ensuing 30 days from the day of calculating this ratio under the assumed stress conditions, in aggregate in all the currencies and it is maintained at the level not lower than 100%.

The liquidity ratios in 2023 and 2022 were as follows:

	2023	2022
Average during the period	4.29	3.47
Highest	5.20	4.66
Lowest	2.26	2.25
As of 31 December	2.60	3.32

As of 31 December 2023, the narrow liquidity ratio amounted to 1.47, while LCR amounted to 936.43% and it was above the prescribed limit.

During 2023 and 2022 the Bank maintained its liquidity level above the minimal prescribed limits established by the National Bank of Serbia.

Sources of financing are permanently monitored in order to maintain the diversification of sources of financing by currency, geographical origin, the source provider, products and maturity.

All amounts are stated in RSD thousand, unless otherwise stated

The table below presents Bank's financial liabilities based on expected cash flows.

31 December 2023	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Deposits and other financial liabilities to banks, other financial organizations and central bank	62,074	280,171	-	-	-	**342,245**
Deposits and other financial liabilities to customers	9,875,471	410,100	3,212,956	894,893	144,074	**14,418,144**
Subordinated liabilities	-	--	-	-	-	**-**
Other liabilities	160,389	-	-	-	-	**160,389**
Total	**10,097,934**	**690,271**	**3,212,956**	**894,893**	**144,074**	**15,040,128**
31 December 2022						
Deposits and other financial liabilities to banks, other financial organizations and central bank	17,148	272,191	-	-	-	**289,339**
Deposits and other financial liabilities to customers	7,975,339	364,553	1,809,776	1,024,141	59,131	**11,232,940**
Subordinated liabilities	-	-	119,350	-	-	**119,350**
Other liabilities	175,663	-	-	-	-	**175,663**
Total	**8,168,150**	**636,744**	**1,929,126**	**1,024,141**	**59,131**	**11,817,292**

The Bank has short-term limits approved by domestic banks that operate in the banking sector of the Republic of Serbia in the amount of EUR 3,000,000.

The maturity structure of commitments for undrawn loans and limits, received guarantees and letters of credit based on the remaining contractual maturity dates as of 31 December 2023 and 2022 is presented in the table below:

	Up to 1 year	From 1 to 5 years	Total
31 December 2023			
Guarantees	759,011	1,151,791	1,910,802
Commitments for undrawn loans andlimits	60,000	559,867	619,867
Total	**819.011**	**1.711.658**	**2.530.669**
31 December 2022			
Guarantees	762,095	593,013	1,355,108
Commitments for undrawn loans andlimits	350,526	304,834	655,360
Total	**1,112,621**	**897,847**	**2,010,468**

The Bank does not expect that all of the irrevocable commitments will be withdrawn before they expire.

The table below provides an analysis of maturities of assets and liabilities based on the agreed terms of payment. The contractual maturities of assets and liabilities are determined based on the remaining period at the balance sheet date to the contractual maturity date.

All amounts are stated in RSD thousand, unless otherwise stated

33.2. Liquidity Risk (Continued)

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
ASSETS						
Cash and balances with central bank	7,526,810	-	-	-	-	7,526,810
Securities	-	-		-	-	-
Loans and advances to banks and other financial organisations	5,399,759	81,070	5,779	-	-	5,486,608
Loans and advances to customers	164,944	93,336	707,770	3,316,161	443,852	4,726,062
Intangible assets	-	-	-	-	52,425	52,425
Property, plant and equipment	-	-	-	-	88,287	88,287
Investment property	-	-	-	-	11,443	11,443
Deferred tax assets	-	-	-	-	-	-
Non-current assets held for sale	-	-	-	-	-	320,411
Other assets	164,733	-	2	707	-	165,442
Total assets	**13,256,245**	**174,406**	**713,551**	**3,469,023**	**443,852**	**18,057,077**
LIABILITIES						
Deposits and other financial liabilities to banks, other financial organisations and central bank	63,027	279,262	-	-	-	342,289
Deposits and other financial liabilities to customers	9,903,957	420,305	3,179,719	947,692	85,776	14,537,448
Subordinated liabilities	-	-	-	-	-	-
Provisions	50,255	-	-	-	-	50,255
Current tax liabilities	35,136	-	-	-	-	35,136
Deferred tax liabilities	-	-	-	-	-	-
Other liabilities	160,391	-	-	-	-	160,391
Total liabilities	**10,212,766**	**699,567**	**3,179,719**	**947,692**	**85,776**	**10,602,653**
Equity	**-**	**-**	**-**	**-**	**2,931,558**	**2,931,558**
Total liabilities and equity	**10,212,766**	**699,567**	**3,179,719**	**947,692**	**3,017,334**	**18,057,077**
Maturity mismatch as of:						
- 31 December 2023	**3,043,480**	**(525,161)**	**(2,466,168)**	**2,521,330**	**(2,573,481)**	
- 31 December 2022	**(2,465,088)**	**(207)**	**(985)**	**(6,286,681)**	**(2,103,210)**	

All amounts are stated in RSD thousand, unless otherwise stated

33.3. Interest Rate Risk

Interest rate risk is defined as the risk of the possible occurrence of adverse effects to the financial result and equity of the Bank based on the items in the banking book due to the changes in interest rates.

The subjects of the interest rate risk management are all items in the banking book which may cause an adverse effect to the result and capital of the Bank due to the change in interest rates.

The Bank controls interest risk by monitoring the relation between interest-bearing assets/liabilities and their participation in the total assets/liabilities. The Assets and Liabilities Managing Committee monitors the risk of changes in interest rates on all interest-bearing items of assets, liabilities and off-balance sheet items, interest rates' ranges and impact of changes in interest rates on the Bank's revenue, expenses and capital.

By entering into floating interest rates' agreements, the Bank largely impacts on the decrease in risk of changes of interest rates. In practice, the Bank's exposure to interest risk is limited, due to the possibility of harmonizing rates of the loans and deposits, upon the written agreement of retail customers for changing the obligatory agreement elements.

The Bank has established a unique process of interest rate risk management that identifies and assesses the impact of the Bank's activities on its interest rate risk exposure, i.e. identifies and assesses their impact on the Bank's performance and equity.

The Bank's interest rate risk management implies an integrated process that includes:

1. Identifying the interest rate risk;
2. Measurement or interest rate risk assessment;
3. Mitigation of interest rate risk;
4. Monitoring and control of interest rate risk; and
5. Reporting on interest rate risk.

Identification of the interest rate risk comprehensively identifies causes that lead to the occurrence of the interest rate risk/factors in a timely manner, which involves the determination of the current exposure to interest rate risk (interest-bearing assets and liabilities) and optional risk and exposure to interest rate risk on the bases of new business products and activities, on positions carried in the banking book.

Identification of the interest rate risk causes/factors is performed by the Treasury and Liquidity Sector in cooperation with the Risk Management Sector and the Finance and Planning Sector.

Measurement of interest rate risk is a quantitative and a qualitative assessment of the interest risk exposure using the GAP analysis, ratio analysis, Black-Scholes model (for risk options) and stress testing, which are conducted at least on a monthly basis in the ordinary course of business and are the responsibility of the Risk Management Sector.

The Risk Management Sector analyses the impact of changes in interest rates or interest rate repricing pursuant to the Methodology for interest sensitive asset and liability items on a monthly basis and measures the effects of a standard interest rate shock of 200bp on the economic value of the Bank in relation to the Basel limit of 20% of regulatory capital (Tier 1 + Tier 2), which at the same time represents the maximal limit of the acceptable risk by the Bank.

All amounts are stated in RSD thousand, unless otherwise stated

Mitigation of interest rate risk represents the determination of measures and policies to mitigate interest rate risk, i.e., maintaining the risk at acceptable level for the Bank's risk profile.

By monitoring the interest rate risk the process of current status, changes and trends in risk exposure is defined. The Risk Management Sector monitors compliance with the defined limits.

In 2023, the Bank continued the control activities and measuring the interest rate risk applying the standard interest rate shock of 200bp to the items in the banking book on the major currencies individually and for all other currencies on a group basis; the results are presented in the table below.

The Bank's exposure to risk of changes in interest rate (Repricing Gap Report) as of 31 December 2023 with comparative presentation of effects for 2022 is presented in the table below.

Change in economic value in the banking book - total (in aggregate)

Period of time	Marginal gap		Ponder	Effect on economic value in the banking book	
	Total in RSD 000	Total in EUR 000		Total in RSD 000	Total in EUR 000
Do 1 m	4,906,711	41,876	0.08%	3,925	34
1 - 3 m	(529,008)	(4,515)	0.32%	(1,693)	(14)
3 - 6 m	(798,449)	(6,814)	0.72%	(5,749)	(49)
6 - 12 m	(2,120,965)	(18,101)	1.43%	(30,330)	(259)
1 - 2 y	(161,381)	(1,377)	2.77%	(4,470)	(38)
2 - 3 y	39,405	336	4.49%	1,769	15
3 - 4 y	31,552	269	6.14%	1,937	17
4 - 5 y	19,928	170	7.71%	1,536	13
5 - 7 y	-	-	10.15%	-	-
7 - 10 y	-		-		
10 - 15 y	-	-	-	-	-
Total	**1,387,793**	**11,844**		**(33,073)**	**(282)**

All amounts are stated in RSD thousand, unless otherwise stated

Result of test stressing as of 31 December 2023		
Capital requirement as of 31 December 2023:	1,945,374	16,602
The effects of a standard interest rate shock of 200bp	**-1.70%**	**-1.70%**

Result of test stressing as of 31 December 2022		
Capital requirement as of 31 December 2022	1,712,392	14,596
The effects of a standard interest rate shock of 200bp	**0.62%**	**0.62%**

Standard interest rate shock of 200bp on the banking book positions of all major currencies individually (EUR and RSD) and for other currencies in total (USD, CHF, GBP, and RUB) was applied for calculation of the Bank's exposure to interest rate risk.

Interest sensitive positions of the banking book are positioned in time zones in a way presented in the following tables while weighting factors used are based on estimated interest rate rise of 200bp and estimated modified duration for each time zone taken from Basel documents named *"Principles for the Management and Supervision of Interest Rate Risk"*.

Positions with fixed interest rate are placed in time zones according to a time to maturity, while positions with variable interest rate are placed in time zones according to date of next interest rate change (repricing).

All amounts are stated in RSD thousand, unless otherwise stated

The Risk Management Sector conducts at least monthly the stress testing of materially significant risks, including the effects of changes in interest rates, in accordance with the nature and level of risks the Bank is exposed to, on income and economic value of the Bank, i.e., the impact on the regulatory capital and capital adequacy, using the interest rate repricing analysis, as presented in the table below:

In RSD thousand

Scenario	Change in market interest rates	Interest rate risk 2023
1	1%	159
2	2%	317
3	-1%	-159
4	-2%	-317

Scenario	**Change in market interest rates**	**Interest rate risk 2022**
1	1%	825
2	2%	1,651
3	-1%	(825)
4	-2%	(1,651)

According to the results of stress testing changes the economic value of the banking book for 200 bp, i.e. for standard shock as defined by the Basel Committee, at the end of the year would be as follows:

1. According to the impact of the standard shock on the economic value individually by more important currencies (materially significant), would have a positive effect of 0.22% in relation to regulatory capital for a change of 200 bp

2. According to the impact of the standard shock on the economic value individually by more important currencies (materially significant), would have a positive effect of 0.11% compared to regulatory capital for a change of 100 bp.

33.4. Market Risks

Market risk is the possibility of adverse effects to the financial result and capital of the Bank arising from changes in the value of balance sheet and off-balance sheet items of the Bank due to fluctuations in market prices.

Market risks include: foreign currency risk, price risk (on debt and equity securities) and commodity risk.

The Bank is not exposed to the risk of changes in equity instruments price and the price of goods. Except for the concentration of foreign currency risk, the Bank has no significant concentration of market risk for other items.

All amounts are stated in RSD thousand, unless otherwise stated

33.4.1. Foreign Currency Risk

Foreign currency risk is the risk of adverse effects to the financial result and capital of the Bank due to changes in foreign exchange rates. The Bank is exposed to the foreign currency risk based on the items recorded in the banking and trading books.

The ALCO Committee has established the limits for foreign currency position for each materially significant foreign currency. The positions are monitored on a daily basis to ensure positions are maintained within the established limits.

In accordance with the National Bank of Serbia's requirements, the Bank regularly maintains its foreign currency position - foreign currency risk indicator within maximal regulatory limits, determined in relation to the regulatory capital. The foreign currency risk indicator is the ratio between the total open net foreign currency position (including the absolute value of the net open position in gold) and the Bank's capital, which are calculated in accordance with the decision regulating the Bank's capital adequacy.

The Bank maintains the relation between assets and liabilities in such a manner that its total net open foreign currency position (including the absolute value of the net open position in gold) at the end of each working day does not exceed 20% of the capital.

During 2023 the Bank strictly paid attention to reconcile the foreign currency risk indicator with the prescribed limit, where this indicator was mostly at the level below the limit for the whole period during the year.

The objective of foreign currency risk management is to ensure the safe operations of the Bank, by minimizing the adverse effects of the exchange rates fluctuations to the financial result and capital of the Bank, for the positions maintained in the banking and trading books.

The Bank has established a unified process of currency risk management which identifies and assesses the impact of the Bank's activities on its exposure to foreign exchange risk, i.e. identifies and assesses their impact on the result and equity.

The Bank's foreign currency risk management involves an integrated process that includes:

1. Identifying the foreign currency risk;
2. Measurement or foreign currency risk assessment;
3. Mitigation of foreign currency risk;
4. Monitoring and control of foreign currency risk; and
5. Reporting on foreign currency risk.

By identifying foreign currency risk, the Bank in a comprehensive and timely manner identifies the causes/factors that lead to emergence of foreign currency risk, which includes determining the current exposure and currency risk exposure arising from new business products and activities. This activity is the responsibility of the Risk Management Sector, in cooperation with the Financing and Planning Sector and the Treasury and Liquidity Sector.

Measurement of the foreign currency risk represents a quantitative and qualitative assessment of the Bank's exposure to foreign currency risk using the GAP analysis (currency structure), ratio analysis, VaR methodologies of the Group, Black-Scholes model (delta-weighted position) and stress testing. The Risk Management Sector applies on a daily basis the measurement techniques for foreign currency risk indicators and OCP exposures and the stress testing is performed at least quarterly.

All amounts are stated in RSD thousand, unless otherwise stated

The Risk Management Sector performs the stress testing of the sensitivity of the Bank's positions to changes in foreign currency rates at least quarterly, and informs the Bank's Executive Board, ALCO Committee, Audit Committee, Board of Directors and the shareholder "AZRS INVEST" d.o.o. Belgrade.

The following tables present the currencies in which the Bank has significant exposure of its non-trading monetary assets and liabilities to foreign currency risk as of 31 December 2023 and 2022.

The analysis presented calculates the effect of the reasonable changes in the exchange rates in relation to RSD, with other variables held constant. Negative values refer to potential decreases in the result of operations (profit/loss) or equity, while the positive values refer to their increase.

Currency	**Changes in exchange rate (%) 2023**	**Effect to result before tax 2023**
EUR	-20%	(310)
CHF	-20%	(13,417)
USD	-20%	(19,547)
RUB	-20%	(40,547)

Currency	Changes in exchange rate (%) **2022**	Effect to result before tax **2022**
EUR	-20%	(6,672)
CHF	-20%	(44)
USD	-20%	(470)
RUB	-20%	(162)

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Foreign Currency Risk (Continued)

The following table presents the Bank's exposure to foreign currency risk (including a foreign currency clause) as of 31 December 2023.

The table includes assets and liabilities at their carrying amounts.

ASSETS	EUR	USD	CHF	RUB	Other currencies	Total sub-balance sensitive to changes in foreign exch. rate	Sub- balance not sensitive to changes in foreign exchange rate	Total
Cash and balances with central bank	1,553,351	63,540	3,758	11,994		1,632,644	5,894,166	**7,526,810**
Pledged financial assets								
Securities	-			-		-		**-**
Loans and advances to banks and other financial organizations	741,716	163,317	1,961	1,426,600	53,947	2,387,542	3,099,067	**5,486,608**
Loans and advances to customers	1,182,363	-	-	-	-	1,182,363	3,543,698	**4,726,062**
Intangible assets						-	52,425	52,425
Property, plant and equipment						-	88,287	88,287
Investment property						-	-	-
Deferred tax assets						-	11,443	11,443
Non-current assets held for sale						-	-	-
Other assets	-	-		-	-	-	165,442	165,442
Total assets	**3,477,431**	**226,857**	**5,720**	**1,438,594**	**53,947**	**5,202,549**	**12,854,528**	**18,057,077**
Off-balance sheet items - purchase EUR for RSD, sale EUR for RUB	**-**	**-**	**-**	**-**	**-**	**-**		

All amounts are stated in RSD thousand, unless otherwise stated

EQUITY AND LIABILITIES	EUR	USD	CHF	RUB	Other currencies	Total sub-balance sensitive to changes in foreign exch. rate	Sub- balance not sensitive to changes in foreign exchange rate	Total
Deposits and other financial liabilities to banks, other financial organisations and central bank	297,261			1,387		298,648	43,641	**342,289**
Deposits and other financial liabilities to customers	5,193,563	221,811	5,507	1,436,664	53,565	6,911,109	7,626,339	**14,537,448**
Changes in the fair value of items that are hedged								
Subordinated liabilities								
Provisions						-	50,255	**50,255**
Current tax liabilities						-	35,136	**35,136**
Deferred tax liabilities								
Other liabilities	19,201	2,841	78	137	416	22,673	137,718	**160,391**
Total liabilities	**5,510,025**	**224,652**	**5,585**	**1,438,188**	**53,981**	**7,232,430**	**7,893,089**	**15,125,519**
Equity	**-**	**-**	**-**			**-**	**2,931,558**	**2,931,558**
Total liabilities and equity	**5,510,025**	**224,652**	**5,585**	**1,438,188**	**53,981**	**7,232,430**	**10,824,647**	**18,057,077**
Off-balance sheet items - purchase EUR for RSD, sale EUR for RUB	-	-	-	-	-	-		
Net foreign exchange position as of	-	-	-		-	-		
-31 December 2023	(2,032,594)	2,205	135	406	(34)	(2,029,882)		
-31 December 2022	152,903	7,078	642	2,483	4,728	167,834		

All amounts are stated in RSD thousand, unless otherwise stated

33.5. Exposure Risk (Concentration Risk)

Concentration risk is the risk that directly or indirectly arises from the Bank's exposure to the same or a similar source of risk, i.e., the same or similar type of risk.

The concentration risk relates to:

- Large exposures;
- Exposure group with the same or similar risk factors, such as economic sectors, geographic regions, product types and the like; and
- Credit protection instruments, including the maturity and currency mismatch between the large exposures and credit protection instruments of these exposures.

Monitoring the Bank's exposure risk to a single party or a group of related parties falls within the competence of an organizational unit responsible for approving the placements. Monitoring the Bank's exposure to this risk is a compulsory part of the procedures in the phase of granting loans in the sense that the committee approving the Bank's placements has the information regarding the total amount of the Bank's exposure to a single party or a group of related parties in relation to the Bank's capital.

Control of concentration risk is done by establishing appropriate exposure limits that allow diversification of the loan portfolio. In addition to the regulatory-defined method of measuring concentration risk (over the limit), the Bank uses two commonly used measures of concentration: the concentration ratio and the *Herfindahl-Hirschman Index (HHI)*.

The concentration ratio - CR5 (a measure of the concentration of the five largest exposures for which applies: low concentrations of 0-50%, the middle concentration of 50-80% and a high concentration of 80-100%) represents the sum of number of the largest percentage shares of exposure in regulatory capital, while the *Herfindahl- Hirschman* index is the sum of the squares of all percentage shares of exposure in regulatory capital. For both measures the following relations apply: the more diversified the credit portfolio is (lower concentration), the lower are the values of these measures.

Mitigation of concentration of risks is conducted by the Bank by active management of the credit portfolio, as well as by adapting the established limits.

In 2023 the Bank maintained the exposure risk indicators within the prescribed values. By implementing appropriate activities anticipated by the relevant procedures and decisions on credit approval, the Bank has strived to ensure the scope and the structure of its operations and risky placements to be reconciled with the performance indicators prescribed by the National Bank of Serbia.

In accordance with the Risk management policies and regulations, the Board of Directors approves the exposures and limits, i.e. the loan concentration on certain legal entities or a group of related parties, and persons related to the Bank.

Additional supervision of the exposure risk indicators is performed in the Risk Management Sector, which reports to the Bank's management. The procedures of exposure risk management are subject to controls of the internal audit and compliance function.

The Risk Management Sector is in the process of implementation of the Methodology of the manner of determination, revision and abolishing of the internal limits to banks and other financial institutions (counterparty risk).

All amounts are stated in RSD thousand, unless otherwise stated

Counterparty risk is monitored through the process of managing credit risk and market risks. The Risk Management Sector monitors the exposure to financial institutions in terms of internal and regulatory limits on concentration risk. The movement reports are presented to the Treasury and Liquidity Sector and the ALCO Committee.

The Risk Management Sector creates quarterly reports on the concentration of receivables in relation to individual borrowers, groups of related borrowers, industries, countries or geographical areas and in relation to other parameters of importance for managing credit risk, on which it regularly reports to the Bank's Executive Board in the prescribed form.

33.6. Investment Risk

The Bank's investment risks include equity investments of the Bank in the other legal entities' capital and in property, plant and equipment.

In accordance with the National Bank of Serbia legislation, the Bank monitors its permanent investments and their relation to the regulatory capital. The Bank also ensures that the investment of the Bank in a single non-financial sector entity does not exceed 10% of its capital, while the total investments of the Bank in non-financial entities and in property, plant and equipment cannot exceed 60% of its capital.

Exposure to the risk of investments into other legal entities and property, plant and equipment is monitored by the organizational unit or the Bank's body competent for procurement of tangible assets and investing in legal entities familiar with the current exposure and the amount of capital for the purposes of acting in timely manner in accordance with the prescribed limits.

Additional supervision of the exposure risk indicators is performed in the Risk Management Sector, which reports to the Bank's management on the matter. The procedures of investment risk management are subject to controls of the internal audit and compliance function.

In 2023 the Bank maintained the permanent investments indicator within the prescribed limits and ensured that investments were reconciled with the ratios prescribed by the National Bank of Serbia.

As of 31 December 2023, the Bank did not have investments into non-financial sector entities, while the indicator of investments into property, plant and equipment amounted to 9.02% of the Bank's regulatory capital.

33.7. Country Risk

The risk related to the Bank's exposure to counterparty's country of origin includes adverse effects which may influence financial result and capital of the Bank, as the Bank might not be able to collect receivables from this counterparty, as a result of political, economic or social situation in the country of origin.

Country risk includes the following risks:

- ***Political and economic risk***, which means the probability of loss due to the inability to collect Bank's receivables due to the limitations established by acts of government or other authority in the country of origin of the debtor, as well as general and systemic conditions in that country; and
- ***Transfer risk***, which implies the possibility of realizing a loss due to the inability to collect receivables denominated in a currency that is not the official currency of the debtor's country of origin. This may result from imposed limitations on payment of obligations to foreign creditors in a particular currency which is determined by the acts of government and other debtors of the country of origin.

The Risk Management Sector is responsible for managing the Bank's exposure to country risk.

All amounts are stated in RSD thousand, unless otherwise stated

The Bank's limits of exposure to the country risk are determined individually by debtors' country of origin. In case of a concentration of exposures by geographic regions, limits are established on a regional basis.

In determining the level of the allowance for impairment and provision for risks per states, the Bank takes into account the country risk.

The Bank conducts the major part of its business operations and in particular granting activities on the territory of the Republic of Serbia and to the local customers, while it is exposed to the country risk in the portion of assets it keeps on the accounts with foreign banks.

The Bank has implemented the policy of the country risk management in such a way that it constantly monitors its exposure to this type of the risk compared to adopted limits which are determined based on the rating of countries determined by competent institutions (OECD), regularly informing the management on such exposures.

The Bank also mitigates the country risk by deploying the policy of placing funds abroad, primarily by depositing funds on a short-term basis with the first-class foreign banks.

33.8. Operational Risk

Operational risk is the risk of adverse effects to the financial result and capital of the Bank due to failures in performance of operating activities (unintentional and intentional) in the work of employees, inadequate internal procedures and processes, inadequate management of the information and other systems in the Bank, as well as due to unforeseen external events. This definition includes legal risk, but excludes strategic and reputation risk.

Operational risk also includes: legal risk, risks from introduction of new products, activities, processes and systems, as well as the risk of entrusting activities to third parties (externalization - outsourcing) and information system risk.

Furthermore, operational risk includes regulatory (compliance) risk, as a part of the unique procedure of the Risk Management Sector and Department for Operations Compliance Control and AML, according to their competencies, in the sense of creating a joint base of operational and regulatory risks, monitoring unique limits of risk appetite, as well as management and reporting on risks the Bank is exposed to in its operations.

The operational risk management process assumes the involvement of the Board of Directors, Executive Board, Operational Risks Management Committee, Audit Committee and all other organizational units of the Bank.

The Bank has established a unified process of operational and regulatory risk management, which identifies and assesses the impact of the Bank's activities on its exposure to the above mentioned risks, i.e., identifies and assesses their impact on the result and equity of the Bank.

The Bank's operational and regulatory risk management involves an integrated process that includes:

1. Identifying the risk;
2. Measurement or risk assessment;
3. Mitigation of the risk;
4. Monitoring and control of the risk; and
5. Reporting on the risk.

All amounts are stated in RSD thousand, unless otherwise stated

By identifying the operational and regulatory risk, the Bank identifies the causes/factors that lead to the arising of the risk in a comprehensive and timely manner, further implementing risk classification for data collection on operational and regulatory risks and losses (OR base), which involves determining the current exposure and the exposure to the risk of introducing the products/services of the Bank and/or outsourcing of activities/services to third parties.

The database containing the information on events based on which losses occurred or may have occurred, in accordance with the prescribed limit, as a consequence of operational or regulatory risk by categories determined in accordance with the loss sources and other criteria for description and classification of events, is loaded with data entry based on the identified risks by types of activities, by the employees responsible for certain operational processes in the Bank by reporting on the risks to the Risk Management Sector for further processing.

The Bank identifies the operational risk retroactively (through entries in the data base on events) and proactively through the periodical self-assessments of the operational risk.

Measurement and assessment of operational risk exposure represents the quantitative and/or qualitative assessment of risk identified by the Risk Management Sector, through the application of the methodology for self-assessment of the risks, analysis of the impact on business operations and exposure indicators using the basic indicator - at least annually, as well as by the frequency of movement of key risk indicators (KRI) and stress testing on a quarterly basis.

On assuming the operational risk the Bank is guided by the following principles:

- The analysis of key risk indicators that lead to the occurrence of the operational risk events; and
- The current exposure to operational risk is measured and exposure is assessed based on the introduction of new products and activities and entrusting the activities/services to third parties for the purposes of minimizing the operational risk event.

By the process of mitigating the operational risk, the Bank determines the measures for mitigating the operational risk, which include the following:

- Defining exposure limits;
- Defining key indicators for monitoring and control of exposure; and
- Application of mechanism for transfer of risk.

The Bank has defined and adopted the Policy on Business Continuity and revised Business Continuity Plan (BCP), which also includes Disaster Recovery Plan (DRP), that, along with the accompanying appendices enable smooth and continuous operations of all relevant systems and processes of the Bank, as well as limiting the loss in emergency situations. These plans were adequately tested during 2023.

The process of monitoring and reporting on the effects of the realization of implemented measures and techniques for mitigating the operational risk is performed by the Risk Management Sector through regular reporting to the Operational and Compliance Risk Management Committee and the Executive Board. The Department for Operations Compliance Control and AML performs identification, monitoring and reporting on the effects of realisation of the applied measures and regulatory (compliance) risk mitigation techniques.

The system of reporting on operational risk includes the timely reporting on operational risk events by type of event and lines of business, causes and sources of events, importance of events, exposure trend, measures intended to be undertaken or have been undertaken in order to mitigate and limit the consequences of the events and activities the Bank entrusted to third parties, as well as limits for the new products.

All amounts are stated in RSD thousand, unless otherwise stated

Decision on outsourcing or the change of the provider of a service and introduction of a new product, and procedures for its change is in the hands of the Executive Board of the Bank, based on the Operational and Compliance Risk Management Committee proposal.

Measurement and management of the process of outsourcing is based on the identification and assessment of all the risks associated with the activities of the assignment of activities to third parties (externalization), which may have an impact on: the continuity of operations of the Bank; costs, financial results, liquidity, solvency and capital; the Bank's risk profile; service quality and reputation of the Bank. The introduction of new products/services is treated in an analogous way.

During 2023 the Risk Management Sector reported to the Executive Board of the Bank by submitting periodical reports on the recorded operational events that may have adverse effects to the capital and capital adequacy with the proposal of measures to be undertaken for their elimination/mitigation.

On a quarterly basis, data on capital requirement for operational risk under the BIA approach with data on exposure indicator that enters into the basis for calculation are submitted to the National Bank of Serbia. In addition, at the request of the National Bank of Serbia, the data about the Base of operational events and the Minutes of meetings of the Operational and Compliance Risk Management Committee are submitted.

In 2023, operational risk events were recorded in the Base of operational losses.

33.9. Risk of Early Repayment

The risk of early repayment is the risk that the Bank will realize a financial loss if customers repay their obligations to the Bank or require repayment before or after the expected deadline.

The effect on the net interest income, i.e., annual profit/(loss) before income tax and equity, assuming that 10% of the financial instruments are to be prepaid at the beginning of the year, with other variables held constant, is as follows:

Currency	Effect to the net interest income 2023	Effect to the net interest income 2022
EUR	(2,334)	(628)
Other currencies	(4,202)	(886)

All amounts are stated in RSD thousand, unless otherwise stated

34. INFORMATION SYSTEM RISK

The information system (IS) risk, as a component of the operational risk, is the possibility of adverse effects on the financial performance and capital, achieving the business results, business operations in accordance with the regulations and reputation of the Bank due to inadequate management of the information system or any other system weakness that adversely affects the functionality or safety of the system and/or jeopardizes business continuity.

The Bank manages IS risks through an integrated process of Bank's operational risk and business continuity management, which defines the identification, assessment, analysis and monitoring of operational risks and the associated risks - the IS risk, as well as measures for their mitigation, prevention and control in accordance with the legal regulations and internal documents.

The information system risk assessment is carried out at least once a year as part of a comprehensive self-assessment of operational risks in the Bank on processes that contain an information component and according to the dynamics of the assessment of the Business Impact Analysis, which includes a procedure in which the Bank's organizational units in cooperation with the Risk Management Department review the information risk register system and state the extent to which they are exposed to certain types of information system risks.

IS risk assessment allows process owners to timely identify and assess the risks that affect the processes for which they are responsible. After the completion of the regular risk assessment of IS, the Risk Management Sector creates the IS risk assessment report as an integral part of self-assessment of operational risk in the Bank, which is submitted to the Bank's bodies for review and approval.

All amounts are stated in RSD thousand, unless otherwise stated

35. FAIR VALUE MEASUREMENT

The fair value presented in financial statements is the amount for which an asset may be exchanged, or a liability settled, between informed, willing parties in an arm's length transaction. Fair value is calculated using market information available as at the reporting date as well as the individual assessment methods of the Bank.

The fair value of a financial instrument presented at nominal value is approximately equal to its carrying value. This includes cash as well as liabilities and receivables without defined maturity or fixed interest rate.

For other liabilities and receivables the expected future cash flows are discounted up to their present value by means of current interest rate. Considering that the variable interest rates are contracted for the majority of Bank assets and liabilities, changes in the current interest rates lead to changes in the contracted interest rates.

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

Fair value of irrevocable commitments and contingent liabilities equals their carrying value.

Measurement of Financial Instruments

The Bank measures fair value by means of the following fair value hierarchy reflecting the importance of the inputs used in measurement:

- Level 1: Quoted market prices (uncorrected) in active markets for identical instrument.
- Level 2: Assessment techniques based on the observable inputs that are not the quoted prices from the level 1, whether directly (as prices) or indirectly (derived from prices). This category includes instruments valued through their use: quoted prices in active markets for similar instruments; stated prices for same or similar instruments in the markets considered as less active; or other assessment techniques in which all important inputs are directly or indirectly observable from the market data.
- Level 3: Assessment techniques used for non-observable inputs. This category includes all instruments relative to which the valuation techniques include inputs not based on observable data and non-observable inputs that have a significant effect on the valuation of the instruments. This category includes instruments valued on the basis of quoted prices of similar instruments with significant non-observable adjustments or assumptions necessary to maintain the difference between the instruments.

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

Assessment techniques include net present value and discounted cash flow models, comparisons with similar instruments for which there is an observable market price and other assessment models. Assumptions and inputs used in assessment techniques include risk free and benchmark interest rates, loan margins and other premiums used in assessment of discount rate, bond and share prices, foreign currency exchange rates, capital and capital indexed prices and expected oscillations of the prices and correlations.

All amounts are stated in RSD thousand, unless otherwise stated

The aim of assessment techniques is to determine the fair value which reflects the price of a financial instrument as at the reporting date that would be defined by market participants in free transactions carried out at an arm's length.

The Bank uses widely accepted assessment models in determining the fair value of common and simpler financial instruments such as interest rates and currency swaps which make use only of observable market data and require little judgement and assessment by the management. Quoted prices and model inputs are usually (relatively) available in the market for quoted debt and proprietary securities, trading derivatives and simple derivatives such as interest rate swaps.

The availability of the observable market prices and model inputs decreases the need for assessment by management and reduces the uncertainty arising from determining the fair value. The availability of the observable market data and inputs varies based on the product and market and is prone to change due to particular occurrences and general condition of the future markets.

The following table presents the fair value of financial instruments not measured at fair value and analyses them according to the fair value hierarchy within which the fair value measurement takes place:

	31 December 2023		31 December 2022	
	Carrying value	Fair value	Carrying value	Fair value
Financial (monetary) assets				
Cash and balances with central bank	7,526,810	7,526,810	5,009,080	5,009,080
Securities	-	-	354,233	354,233
Loans and advances to banks and other financial organisations	5,486,608	5,486,608	2,740,530	2,740,530
Loans and advances to customers	4,726,062	4,104,541	5,150,291	4,484,622
Other assets	165,442	165,442	173,520	173,520
Total	**17,904,922**	**17,283,401**	**13,427,654**	**12,761,985**
Financial (monetary) liabilities				
Deposits and other financial liabilities to banks and other financial organisations	342,289	342,289	289,338	289,338
Deposits and other financial liabilities to customers	14,537,448	14,537,448	11,232,939	11,232,939
Subordinated liabilities	-	-	119,350	119,350
Other liabilities	160,391	160,391	173,146	173,146
Total	**15,040,128**	**15,040,128**	**11,814,773**	**11,814,773**

All amounts are stated in RSD thousand, unless otherwise stated

Fair Value Hierarchy Analysis

	Fair value			
31 December 2023	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Financial assets at fair value through other comprehensive income				
Loans and advances to banks and other financial organizations	5,486,608			5,486,608
Loans and advances to customers	3,413,648	603,133	87,760	4,104,541
Total	**8,900,256**	**603,133**	**87,760**	**9,591,149**
Liabilities				
Deposits and other financial liabilities to banks and other financial organisations	342,289			342,289
Deposits and other financial liabilities to customers	14,537,448			14,537,448
Subordinated liabilities	-			-
Total	**14,879,737**			**14,879,737**

	Fair value			
31 December 2022	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Financial assets at fair value through other comprehensive income	354,233			**354,233**
Loans and advances to banks and other financial organizations	2,740,530			**2,740,530**
Loans and advances to customers	4,172,920	299,746	11,956	**4,484,622**
Total	**7,267,683**	**299,746**	**11,956**	**7,579,385**
Liabilities				
Deposits and other financial liabilities to banks and other financial organisations	289,338			**289,338**
Deposits and other financial liabilities to customers	11,232,939			**11,232,939**
Subordinated liabilities	119,350			**119,350**
Total	**11,641,627**			**11,641,627**

All amounts are stated in RSD thousand, unless otherwise stated

Where possible, fair value of loans and advances is based on the observable market transactions. If observable market transactions are not available, fair value is assessed by means of assessment models such as cash flow discount techniques.

Assessment technique inputs include the expected credit losses over the course of loan duration, interest rates, advances, and source data or secondary market data. For collateral dependant reduced (impaired) loans, fair value is measured based on the value of the related collateral. Model inputs may include data by third party brokers based on the OTC trading activity, and information obtained from other market participants which include observable primary and secondary transactions.

In order to improve the accuracy of assessment of retail loans and smaller commercial loans, homogenous loans are grouped into portfolios according to similar characteristics such as origin, LTV ratios, quality of collateral, type of product and debtor, advances and non-performance rates, and standard probability.

Fair value of clients and banks' deposits is determined by using discounted cash flows technique by applying rates offered for deposits of similar maturity and conditions. Fair value of a vista deposits is the amount for payment as at the reporting date.

Table below presents Bank classification for each class of financial assets and liabilities at carrying value and their fair value as of 31 December 2023:

	Measured at fair value	FVOCI securities	Amortised cost	Total carrying value	Fair value
Cash and balances with central bank	7,526,810			7,526,810	7,526,810
Financial assets at fair value through other comprehensive income		-		-	-
Loans and advances to banks and other financial organizations			5,486,608	5,486,608	5,486,608
Loans and advances to customers			4,726,062	4,726,062	4,104,541
Other assets			165,442	165,442	165,442
Total assets	**7,526,810**	**-**	**10,378,112**	**17,904,922**	**17,283,401**
Deposits and other financial liabilities to banks and other financial organisations			342,289	342,289	342,289
Deposits and other financial liabilities to customers			14,537,448	14,537,448	14,537,448
Subordinated liabilities			-	-	-
Other liabilities			160,391	160,391	160,391
Total liabilities			**15,040,128**	**15,040,128**	**15,040,128**

All amounts are stated in RSD thousand, unless otherwise stated

Table below presents Bank classification for each class of financial assets and liabilities at carrying value and their fair value as of 31 December 2022:

	Measured at fair value	FVOCI securities	Amortised cost	Total carrying value	Fair value
Cash and balances with central bank	5,009,080			5,009,080	5,009,080
Financial assets at fair value through other comprehensive income		354,233		354,233	354,233
Loans and advances to banks and other financial organizations			2,740,530	2,740,530	2,740,530
Loans and advances to customers			5,150,291	5,150,291	4,484,622
Other assets			173,520	173,520	173,520
Total assets	**5,009,080**	**354,233**	**8,064,341**	**13,427,654**	**12,761,985**
Deposits and other financial liabilities to banks and other financial organisations			289,338	289,338	289,338
Deposits and other financial liabilities to customers			11,232,939	11,232,939	11,232,939
Subordinated liabilities			119,350	119,350	119,350
Other liabilities			173,146	173,146	173,146
Total liabilities			**11,814,773**	**11,814,773**	**11,814,773**

Methodology and assumptions used in determining fair value of those financial instruments not yet recorded at fair value in the financial statements are described below.

Assets whose Fair Value Approximates their Carrying Value

For financial assets and liabilities that are liquid or have short term maturity (less than one year), the assumption is that their carrying value approximates their fair value. This assumption is also applied to a vista deposits, non-term savings accounts, and financial instruments with variable rate.

Financial Instruments with Fixed Rate

Fair value of financial assets and liabilities with fixed rate recorded at amortised value is assessed by comparison with market interest rates at initial recognition based on the current market rates offered for similar financial instruments.

The assessed fair value of deposits with fixed interest rate is based on the discount of cash flows by applying the prevailing interest rates to money market debt with similar risk and maturity.

All amounts are stated in RSD thousand, unless otherwise stated

36. INTERNAL ASSESSMENT OF CAPITAL ADEQUACY

Internal assessment of capital adequacy is the process of assessment of all significant risks to which the Bank is or might be exposed in its operations. The process of internal assessment of capital adequacy includes the following phases:

1. Identification of the material significance of the risk;
2. Calculation of the amount of internal capital requirements for individual risks;
3. Determining total internal capital requirements; and
4. Comparison of the following elements:
   - The amount of capital calculated in accordance with the National Bank of Serbia's Decision governing the banks capital adequacy and available internal capital;
   - Minimum capital requirements calculated in accordance with the National Bank of Serbia's Decision governing the banks capital adequacy and internal capital requirements for individual risks; and
   - Sum of minimal capital requirements calculated in accordance with the National Bank of Serbia's Decision governing the banks capital adequacy and total internal capital requirements.

The analysis of the risk profile of the Bank identified the risks for which the Bank will calculate capital requirements in the process of internal capital adequacy assessment, such as: credit risk, market risk, operational risk, liquidity risk, interest rate risk in the banking book, concentration risk, strategic risk, credit and foreign exchange risk and other material risks.

For other types of risks the Bank is exposed to in its operations, the Bank will calculate capital requirements if they are identified as material, by applying adequate linear percentage on the basis of the subjective assessment of the management of the Bank. The Bank manages the above mentioned risks using the techniques for mitigation/risk transfer and has set forth certain procedures for risk management and other internal regulations.

Determination of the total internal capital available for risk coverage is performed by adding up capital requirements for individual materially significant risks.

Comparison of the amount of the required internal capital to the amount of capital calculated in accordance with the National Bank of Serbia's Decision governing the capital adequacy is performed quarterly, through the preparation and analysis of reports regarding the process of internal assessment of capital adequacy. The report is prepared by the Risk Management Sector.

The Risk Management Sector informs the Executive Board, the Assets and Liabilities Management Committee, the Audit Committee and the Bank's Board of Directors on the calculated internal assessment of capital adequacy.

All amounts are stated in RSD thousand, unless otherwise stated

37. CAPITAL MANAGEMENT

a) Regulatory Capital

The Bank permanently manages its capital, which is a broader concept than “equity” stated in the balance sheet, in order to:

- Comply with the capital requirements set by the National Bank of Serbia;
- Ensure the ability to continue as a going concern on a long-term basis, together with providing a profit to shareholders and benefits to other stakeholders; and
- Maintain an adequate capital base to support the development of its business

The Bank’s management monitors regularly the Bank’s capital adequacy ratios and other performance indicators established by the National Bank of Serbia and delivers to the National Bank of Serbia quarterly reports on achieved (realised) indicators.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristic of its activities. The Bank's capital management strategy defines the relationship to capital in a way that ensures capital management on an ongoing and long-term basis.

The aim of the strategy of capital management is to ensure by its implementation the forming and maintenance of an adequate level and structure of internal capital, as well as strengthening the capital base of the Bank. The Bank's capital management strategy remained unchanged compared to the previous year.

The National Bank of Serbia has defined the following capital limits:

- The minimum amount of the regulatory capital of EUR 10 million in dinar counter value at the official middle exchange rate; and
- The capital adequacy ratio of at least 8%.

In accordance with the Decision on Capital Adequacy of Banks (“RS Official Gazette”, no. 113/2016, 103/2018, 88/2019, 67/2020, 98/2020, 137/2020 and 59/2021) the method of calculating capital adequacy ratios has been determined. The capital adequacy ratio of the Bank equals to the ratio between the Bank’s capital and the sum of risk-weighted assets of the Bank. The Bank’s equity consists of the aggregate of basic capital and supplementary capital, net of deductible items defined by the above decision.

Risk-weighted assets represent the sum total of credit risk-weighted balance sheet assets and capital requirement for market risks and capital requirement for operational risk determined in the manner prescribed by the aforementioned decision, multiplied by the reciprocal value of the capital adequacy ratio.

For the calculation of the credit and market (foreign currency) risk-weighted assets the Bank uses the standarised approach (SA), while for the calculation of the exposure indicators (operating risk) it uses the method of basic indicators (BIA). Credit risk- weighted assets of the Bank are the sum of credit risk-weighted balance sheet assets and credit risk-weighted off-balance sheet items.

All amounts are stated in RSD thousand, unless otherwise stated

a) Regulatory Capital (Continued)

Risk-weighted balance sheet items of the Bank, in terms of credit risk exposure, represent the sum total of gross carrying values of the Bank's balance sheet items less allowances for impairment and the required reserve for estimated losses. Risk-weighted off-balance sheet items of the Bank, in terms of credit risk exposure, represent the sum total of gross carrying values of the Bank's off-balance sheet items less provision for losses on off-balance sheet items and the required reserve for estimated losses, multiplied by the appropriate credit conversion factors.

In accordance with the Decision on Capital Adequacy of Banks, the Bank is obliged to, in addition to the minimum amount of capital of EUR 10 million, maintain at all times its capital at the level sufficient to cover all risks the Bank is exposed to or may be exposed to in its operations, at least in the amount of the of the following capital requirements:

- Capital requirement for credit risk, capital requirement risk of the decrease of the value of purchased receivables and capital requirement for counterparty risk for all the Bank's transactions and capital requirement for settlement/delivery risk for activities from the trading book;
- Capital requirement for price risk for activities from the trading book;
- Capital requirement for foreign exchange risk and commodity risk for all transactions of the Bank;
- Capital requirement for credit valuation adjustment risk for all the operations of the Bank (CVA); and
- Capital requirement for operational risk for all activities of the Bank.

For the purposes of determining the regulatory capital and the capital adequacy ratio, the Bank's core (basic) capital at the reporting date 31 December 2023 includes the paid-in share capital, while supplementary capital comprises subordinated liabilities. Deductions from capital are accumulated losses, loss for year, intangible assets and gross amount of receivables from a debtor – physical body (other than a farmer) originated from consumer, cash or other loans recorded on accounts 102, 107 and 108 where the debt before the loan was approved was higher than the percentage determined in accordance with the decision governing the classification of the bank's balance sheet assets and off-balance sheet items, or this percentage will be higher due to the loan approval, this deduction being applied regardless of whether after the loan approval the borrower's credit level has become lower than that percentage.

All amounts are stated in RSD thousand, unless otherwise stated

The table below summarizes the structure of the Bank's regulatory capital as of 31 December 2023 and 2022, as well as the capital adequacy ratio:

	31 December 2023	31 December 2022
Regulatory capital		
Core capital		
Share capital	4,632,406	4,632,407
Accumulated losses	(2,634,608)	(2,898,913)
Profit/Loss for the year	933,759	264,307
Revaluation reserves	-	2,053
Intangible assets	(52,424)	(46,734)
	1,945,374	**1,688,812**
Supplementary capital - subordinated liabilities	**-**	**23,581**
Total core and supplementary capital	**1,945,374**	**1,712,393**
Deductible items from capital:		
Gross amount of receivables from natural persons		-
Required reserve for estimated losses on balance sheet assets and off-balance sheet items		-
Total capital (1)	**1,712,393**	**1,712,393**
Risk assets - risk-weighted exposure		
Credit risk exposure	5,127,054	5,274,547
Operational risk exposure	1,201,159	801,269
Market risk exposure	116,479	113,729
Adjustment risk exposure		-
Total (2)	**6,44,692**	**6,189,545**
Capital adequacy ratio - Basic share capital	***30.19%***	***27.28%***
Capital adequacy ratio - Basic core capital	***30.19%***	***27.28%***
Capital adequacy ratio (1/2 x 100)	***30.19%***	***27.67%***

All amounts are stated in RSD thousand, unless otherwise stated

As of 31 December 2023, the Bank's regulatory capital amounted to RSD 1,945,374 thousand, or EUR 6,602 thousand translated at the official middle exchange rate ruling at the balance sheet date (31 December 2022: RSD 1,712,393 thousand, or EUR 14,596). The Bank's capital adequacy ratio of 30.19% is higher than the prescribed minimum of 8% (i.e. 15.20% acc. to NBS supervisory letter dated 31 August 2023).

Tier 1 Leverage Ratio representing the ratio of core capital and the amount of the Bank's exposure as of 31 December 2023 amounted to 9.14%.

Pursuant to the National Bank of Serbia's Official Letter on the Bank's Supervision Assessment and Accompanying Recommendations, the Bank is recommended to maintain the regulatory capital adequacy ratio at the individual level at the level of 8.53% share capital adequacy ratio at the level of 11.40% and capital adequacy ratio at the level of 15.20%, which represents the total supervisory capital requirement that should be increased by calculated combined capital tier on that date.

As of 31 December 2023, the overall capital requirement amounted to 19.11% of the risky assets, calculated as the sum of the total supervision capital requirements and combined protection capital tier on that day.

Pursuant to the Decision of the National Bank of Serbia on Bank Capital Adequacy, as of 31 December 2023 the Bank had sufficient level of capital to meet the minimum requirements of the National Bank of Serbia.

All amounts are stated in RSD thousand, unless otherwise stated

a) Performance Indicators - Compliance with Legal Requirements

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

The Bank's performance indicators as of 31 December 2023 were as follows:

Business indicators	Prescribed	Realised
1. Regulatory capital	Minimum EUR 10 million	16,602 thousand
2. Capital adequacy indicator	Minimum 8%	30.19%
1. Core share capital adequacy indicator	Minimum 4.5%	30.19%
2. Core capital adequacy indicator	Minimum 6%	30.19%
5. Investments of the Bank	Maximum 60% equity	9.02%
6. Exposure to one person or to a group of related persons	Maximum 25% equity	23.63%
7. Sum of all large exposures in relation to capital	Maximum 400%	225.95%
8. Liquidity indicators as of:		
- in the first month of last quarter of 2021	Minimum 1	4.08
- in the second month of last quarter of 2021	Minimum 1	3.40
- in the third month of last quarter of 2021	Minimum 1	2.60
9. Narrower liquidity indicator	Minimum 0.5	1.47
10. Liquid asset coverage indicator (LCR)	Minimum 100%	936.43%
11. Currency risk indicator	Maximum 20% equity	5.85%

As of 31 December 2023, the Bank complied all its performance indicators with the prescribed ones.

All amounts are stated in RSD thousand, unless otherwise stated

38. COMMITMENTS AND CONTINGENT LIABILITIES

a) Litigations

As of 31 December 2023, the Bank acts as a defendant in 186 litigations. The total estimated amount of the related claims equals RSD 37,377 thousand.

According to the estimate of the Legal Department and the legal advisers of the Bank positive outcome is expected for certain number of the litigations, while uncertain outcome is expected for certain number of the litigations. As disclosed in the Note 28 to the financial statements, as of 31 December 2023, the Bank established the provision for potential losses that may arise from the above litigations in the total amount of RSD 35,263 thousand.

The Bank's management believes that no material losses shall arise based on the outcome of the remaining litigations in progress in excess of the amount for which the provisions were made.

b) Tax Risks

Tax system in the Republic of Serbia is undergoing continuous amendments. Tax period in the Republic of Serbia is considered to be open for the five-year period. In different circumstances, tax authorities could have different approach to some problems, and could detect additional tax liabilities together with related penalty interest and fines. The Bank's management believes that tax liabilities recognised in the accompanying financial statements are fairly presented.

39. RECONCILIATION OF OUTSTANDING BALANCES WITH COUNTERPARTIES

In accordance with Article 18 of the Law on Accounting, the Bank is obliged to perform reconciliation of receivables and payables with its debtors and customers as of 31 October 2022, and it maintains credible documentation on the circularization process.

The Bank submitted 1,013 confirmations (IOS forms) to its debtors and customers with the outstanding balance of receivables/payables as of 31 October 2023, of which 247 IOS forms were returned and according to which non-confirmed receivables amounted to RSD 100,263 thousand, liabilities RSD 4,770 thousand and the ones were reconciled with creditors and suppliers by the end of 2023.

Since there was a clause in the IOS forma that "if the recipient of the statement does not return the statement within a certain period, it is considered that the balance of liabilities and receivables has been reconciled", the Bank considers that the balances of those statements that have not been returned are also reconciled

All amounts are stated in RSD thousand, unless otherwise stated

40. EXCHANGE RATES

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

In RSD	**2023**	**2022**
EUR	117.1737	117.3224
USD	105.8671	110.1515
CHF	125.5343	119.2543
RUB	1.1764	1.5292

41. EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the Balance Sheet date.

Belgrade, 29 March 2024

Nataša Đoković	Valentina Keiša	Radomir Stevanović
Responsible for financial statements preparation	President of Executive Board	Member of Executive Board